

STONERIDGE INC  
Form 10-Q  
August 03, 2015

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, 2015

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 44484**

*(Address of principal executive offices) (Zip Code)*

**(330) 856-2443**

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant 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).

☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

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

The number of Common Shares, without par value, outstanding as of July 24, 2015 was 27,913,194.

**STONERIDGE, INC. AND SUBSIDIARIES**

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101 **XBRL Exhibits:**  
101.INS XBRL Instance Document  
101.SCH XBRL Schema Document  
101.CAL XBRL Calculation Linkbase Document  
101.DEF XBRL Definition Linkbase Document  
101.LAB XBRL Labels Linkbase Document  
101.PRE XBRL Presentation Linkbase Document



**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****CONDENSED CONSOLIDATED BALANCE SHEETS**

| (in thousands)                                                            | June 30,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|---------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>ASSETS</b>                                                             |                                 |                      |
| Current assets:                                                           |                                 |                      |
| Cash and cash equivalents                                                 | \$ 22,860                       | \$ 43,021            |
| Accounts receivable, less reserves of \$1,464 and \$2,017, respectively   | 114,456                         | 105,102              |
| Inventories, net                                                          | 82,117                          | 71,253               |
| Prepaid expenses and other current assets                                 | 26,924                          | 26,135               |
| Total current assets                                                      | 246,357                         | 245,511              |
| Long-term assets:                                                         |                                 |                      |
| Property, plant and equipment, net                                        | 86,930                          | 85,311               |
| Other assets:                                                             |                                 |                      |
| Intangible assets, net                                                    | 46,697                          | 56,637               |
| Goodwill                                                                  | 1,003                           | 1,078                |
| Investments and other long-term assets, net                               | 10,511                          | 10,214               |
| Total long-term assets                                                    | 145,141                         | 153,240              |
| Total assets                                                              | \$ 391,498                      | \$ 398,751           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                               |                                 |                      |
| Current liabilities:                                                      |                                 |                      |
| Current portion of debt                                                   | \$ 20,618                       | \$ 19,655            |
| Accounts payable                                                          | 66,682                          | 58,593               |
| Accrued expenses and other current liabilities                            | 39,832                          | 42,066               |
| Total current liabilities                                                 | 127,132                         | 120,314              |
| Long-term liabilities:                                                    |                                 |                      |
| Revolving credit facility                                                 | 100,000                         | 100,000              |
| Long-term debt, net                                                       | 7,014                           | 10,651               |
| Deferred income taxes                                                     | 45,157                          | 50,006               |
| Other long-term liabilities                                               | 3,741                           | 3,974                |
| Total long-term liabilities                                               | 155,912                         | 164,631              |
| Shareholders' equity:                                                     |                                 |                      |
| Preferred Shares, without par value, 5,000 shares authorized, none issued | -                               | -                    |

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|                                                                                                                                                                                                                 |            |            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Common Shares, without par value, 60,000 shares authorized, 28,900 and 28,853 shares issued and 27,913 and 28,221 shares outstanding at June 30, 2015 and December 31, 2014, respectively, with no stated value | -          | -          |
| Additional paid-in capital                                                                                                                                                                                      | 197,042    | 192,892    |
| Common Shares held in treasury, 987 and 632 shares at June 30, 2015 and December 31, 2014, respectively, at cost                                                                                                | (4,134 )   | (1,284 )   |
| Accumulated deficit                                                                                                                                                                                             | (45,556 )  | (54,879 )  |
| Accumulated other comprehensive loss                                                                                                                                                                            | (57,251 )  | (45,473 )  |
| Total Stoneridge Inc. shareholders' equity                                                                                                                                                                      | 90,101     | 91,256     |
| Noncontrolling interest                                                                                                                                                                                         | 18,353     | 22,550     |
| Total shareholders' equity                                                                                                                                                                                      | 108,454    | 113,806    |
| Total liabilities and shareholders' equity                                                                                                                                                                      | \$ 391,498 | \$ 398,751 |

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<br>June 30, |              | Six months ended<br>June 30, |              |
|----------------------------------------------------------------------------------------|--------------------------------|--------------|------------------------------|--------------|
|                                                                                        | 2015                           | 2014         | 2015                         | 2014         |
| Net sales                                                                              | \$ 165,289                     | \$ 162,099   | \$ 328,114                   | \$ 323,430   |
| Costs and expenses:                                                                    |                                |              |                              |              |
| Cost of goods sold                                                                     | 119,343                        | 113,814      | 238,520                      | 227,007      |
| Selling, general and administrative                                                    | 28,482                         | 31,617       | 59,224                       | 62,383       |
| Design and development                                                                 | 10,049                         | 10,589       | 19,829                       | 21,527       |
| Goodwill impairment                                                                    | -                              | 29,300       | -                            | 29,300       |
| Operating income (loss)                                                                | 7,415                          | (23,221 )    | 10,541                       | (16,787 )    |
| Interest expense, net                                                                  | 1,658                          | 5,072        | 2,936                        | 10,001       |
| Equity in earnings of investee                                                         | (143 )                         | (144 )       | (332 )                       | (382 )       |
| Other (income) expense, net                                                            | (47 )                          | 330          | (260 )                       | 2,246        |
| Income (loss) before income taxes from continuing operations                           | 5,947                          | (28,479 )    | 8,197                        | (28,652 )    |
| Provision (benefit) for income taxes from continuing operations                        | (381 )                         | 90           | (234 )                       | 385          |
| Income (loss) from continuing operations                                               | 6,328                          | (28,569 )    | 8,431                        | (29,037 )    |
| Discontinued operations:                                                               |                                |              |                              |              |
| Income from discontinued operations, net of tax                                        | -                              | 594          | -                            | 1,647        |
| Gain (loss) on disposal, net of tax                                                    | 55                             | (1,138 )     | (113 )                       | (1,233 )     |
| Income (loss) from discontinued operations                                             | 55                             | (544 )       | (113 )                       | 414          |
| Net income (loss)                                                                      | 6,383                          | (29,113 )    | 8,318                        | (28,623 )    |
| Net loss attributable to noncontrolling interest                                       | (596 )                         | (7,221 )     | (1,005 )                     | (8,199 )     |
| Net income (loss) attributable to Stoneridge, Inc.                                     | \$ 6,979                       | \$ (21,892 ) | \$ 9,323                     | \$ (20,424 ) |
| Earnings (loss) per share from continuing operations attributable to Stoneridge, Inc.: |                                |              |                              |              |
| Basic                                                                                  | \$ 0.26                        | \$ (0.79 )   | \$ 0.35                      | \$ (0.78 )   |
| Diluted                                                                                | \$ 0.25                        | \$ (0.79 )   | \$ 0.34                      | \$ (0.78 )   |
| Earnings (loss) per share attributable to discontinued operations:                     |                                |              |                              |              |

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|                                                             |        |         |          |           |
|-------------------------------------------------------------|--------|---------|----------|-----------|
| Basic                                                       | \$0.00 | \$(0.02 | ) \$0.00 | \$0.02    |
| Diluted                                                     | \$0.00 | \$(0.02 | ) \$0.00 | \$0.02    |
| Earnings (loss) per share attributable to Stoneridge, Inc.: |        |         |          |           |
| Basic                                                       | \$0.26 | \$(0.81 | ) \$0.35 | \$(0.76 ) |
| Diluted                                                     | \$0.25 | \$(0.81 | ) \$0.34 | \$(0.76 ) |
| Weighted-average shares outstanding:                        |        |         |          |           |
| Basic                                                       | 27,308 | 26,934  | 27,227   | 26,894    |
| Diluted                                                     | 27,945 | 26,934  | 27,863   | 26,894    |

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

| (in thousands)                                                                  | Three months ended |            | Six months ended |            |
|---------------------------------------------------------------------------------|--------------------|------------|------------------|------------|
|                                                                                 | June 30, 2015      | 2014       | June 30, 2015    | 2014       |
| Net income (loss)                                                               | \$6,383            | \$(29,113) | \$8,318          | \$(28,623) |
| Less: Loss attributable to noncontrolling interest                              | (596 )             | (7,221 )   | (1,005 )         | (8,199 )   |
| Net income (loss) attributable to Stoneridge, Inc.                              | 6,979              | (21,892)   | 9,323            | (20,424)   |
| Other comprehensive income (loss), net of tax attributable to Stoneridge, Inc.: |                    |            |                  |            |
| Foreign currency translation                                                    | 3,022              | 2,186      | (11,940)         | 6,364      |
| Benefit plan liability adjustment                                               | -                  | -          | (45 )            | -          |
| Unrealized gain (loss) on derivatives                                           | (728 )             | 238        | 207              | 95         |
| Other comprehensive income (loss), net of tax attributable to Stoneridge, Inc.  | 2,294              | 2,424      | (11,778)         | 6,459      |
| Comprehensive income (loss) attributable to Stoneridge, Inc.                    | \$9,273            | \$(19,468) | \$(2,455 )       | \$(13,965) |

The Company has combined comprehensive income (loss) from continuing operations and comprehensive income (loss) from discontinued operations herein.

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                                                                            | 2015     | 2014       |
|-----------------------------------------------------------------------------------------------------|----------|------------|
| <b>OPERATING ACTIVITIES:</b>                                                                        |          |            |
| Net income (loss)                                                                                   | \$8,318  | \$(28,623) |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: |          |            |
| Depreciation                                                                                        | 9,998    | 13,322     |
| Amortization, including accretion of debt discount                                                  | 2,101    | 2,958      |
| Deferred income taxes                                                                               | (1,355 ) | 572        |
| Earnings of equity method investee                                                                  | (332 )   | (382 )     |
| Loss on sale of fixed assets                                                                        | 59       | 18         |
| Share-based compensation expense                                                                    | 4,482    | 2,300      |
| Goodwill impairment                                                                                 | -        | 29,300     |
| Loss on disposal of Wiring business                                                                 | 113      | -          |
| Wiring business asset group write-down                                                              | -        | 1,000      |
| Changes in operating assets and liabilities, net of effect of business acquisition:                 |          |            |
| Accounts receivable, net                                                                            | (14,637) | (10,626)   |
| Inventories, net                                                                                    | (16,920) | (15,253)   |
| Prepaid expenses and other                                                                          | (2,920 ) | (3,433 )   |
| Accounts payable                                                                                    | 12,935   | 3,931      |
| Accrued expenses and other                                                                          | (210 )   | (2,143 )   |
| Net cash provided by (used for) operating activities                                                | 1,632    | (7,059 )   |
| <b>INVESTING ACTIVITIES:</b>                                                                        |          |            |
| Capital expenditures                                                                                | (15,229) | (12,605)   |
| Proceeds from sale of fixed assets                                                                  | 36       | 73         |
| Payment for working capital adjustment related to Wiring sale                                       | (1,230 ) | -          |
| Business acquisitions                                                                               | (469 )   | (1,022 )   |
| Net cash used for investing activities                                                              | (16,892) | (13,554)   |
| <b>FINANCING ACTIVITIES:</b>                                                                        |          |            |
| Proceeds from issuance of debt                                                                      | 12,088   | 13,067     |
| Repayments of debt                                                                                  | (14,206) | (7,465 )   |
| Noncontrolling interest shareholder distribution                                                    | -        | (1,083 )   |
| Other financing costs                                                                               | (49 )    | -          |
| Repurchase of Common Shares to satisfy employee tax withholding                                     | (1,181 ) | (664 )     |
| Net cash (used for) provided by financing activities                                                | (3,348 ) | 3,855      |
| Effect of exchange rate changes on cash and cash equivalents                                        | (1,553 ) | (310 )     |
| Net change in cash and cash equivalents                                                             | (20,161) | (17,068)   |
| Cash and cash equivalents at beginning of period                                                    | 43,021   | 62,825     |

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|                                                                         |          |          |
|-------------------------------------------------------------------------|----------|----------|
| Cash and cash equivalents at end of period                              | \$22,860 | \$45,757 |
| Supplemental disclosure of cash flow information:                       |          |          |
| Cash paid for interest                                                  | \$2,867  | \$9,656  |
| Cash paid for income taxes, net                                         | \$1,185  | \$1,123  |
| Supplemental disclosure of non-cash operating and financing activities: |          |          |
| Change in fair value of interest rate swap                              | \$-      | \$106    |
| Bank payment of vendor payables under short-term debt obligations       | \$2,955  | \$-      |

The Company has combined cash flows from continuing operations and cash flows from discontinued operations within the operating, investing and financing categories.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except 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 “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 SEC's rules and regulations. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year.

While 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 2014 Form 10-K.

The Company entered into an asset purchase agreement to divest its Wiring business including substantially all of its assets and liabilities during the second quarter of 2014. The sale was completed on August 1, 2014. The Wiring business has been classified as discontinued operations for all periods presented in the condensed consolidated financial statements. Accordingly, the Wiring business is excluded from both continuing operations and segment results for all periods presented. The Wiring business designed and manufactured wiring harness products and assembled instruments panels for sale principally to the commercial, agricultural and off-highway vehicle markets.

### (2) Recently Issued Accounting Standards

#### *Accounting Standards Not Yet Adopted*

In April 2015, the Financial Accounting Standards Board (“FASB”) issued accounting standards update (“ASU”) 2015 – 03, “Simplifying the Presentation of Debt Issuance Costs,” which amends the current presentation of debt issuance costs

in the balance sheet. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, instead of as an asset. The recognition and measurement of debt issuance costs are not affected by the amendments in this ASU. The amendment is to be applied retrospectively and is effective for public companies for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. As the Company currently presents deferred financing costs, which had a balance of \$1,622 at June 30, 2015, within long-term assets, the adoption of the new guidance is expected to result in the reclassification of debt issuance costs into long-term debt in the Company's condensed consolidated balance sheets.

In January 2015, the FASB issued ASU 2015 – 01 “Income Statement – Extraordinary and Unusual Items,” that eliminates the concept of extraordinary items and their segregation from the results of ordinary operations and expands presentation and disclosure guidance to include items that are both unusual in nature and occur infrequently. The new accounting standard is effective for fiscal years beginning after December 15, 2015. The Company will adopt this standard as of January 1, 2016 which is not expected to have a material impact on the Company's condensed consolidated financial statements or disclosures.

In June 2014, the FASB issued ASU 2014 – 12 “Stock Compensation - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period,” that requires performance targets that could be achieved after the requisite service period be treated as performance conditions that affect the vesting of the award. The new accounting standard is effective for fiscal years beginning after December 15, 2015. The Company will adopt this standard as of January 1, 2016 which is not expected to have an impact on its condensed consolidated financial statements or financial statement disclosures.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers,” which is the new comprehensive revenue recognition standard that will supersede existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. To achieve this principle, an entity identifies the contract with a customer, identifies the separate performance obligations in the contract, determines the transaction price, allocates the transaction price to the separate performance obligations and recognizes revenue when each separate performance obligation is satisfied. This ASU allows for both retrospective and prospective methods of adoption. In July 2015, the FASB approved a one-year deferral of the effective date of the standard. As such, the new standard will become effective for annual and interim periods beginning after December 15, 2017 with early adoption on the original effective date permitted. The Company is currently evaluating the impact of adopting this standard on its condensed consolidated financial statements.

### *Accounting Standards Adopted*

In April 2014, the FASB issued ASU No. 2014-08 “Presentation of Financial Statements and Property, Plant, and Equipment,” which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The new standard changes the definition of a discontinued operation and requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity’s operations or financial results. This ASU was effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. Early adoption was permitted. The Company adopted this ASU in May 2014 and applied it prospectively to new disposals and new classifications of disposal groups as held for sale including the sale of the Wiring business.

### **(3) Discontinued Operations**

#### **Wiring Business**

On May 26, 2014, the Company entered into an asset purchase agreement to sell substantially all of the assets and liabilities of the former Wiring segment to Motherson Sumi Systems Ltd., an India-based manufacturer of diversified products for the global automotive industry and a limited company incorporated under the laws of the Republic of India, and MSSL (GB) LIMITED, a limited company incorporated under the laws of the United Kingdom (collectively, "Motherson"), for \$65,700 in cash and the assumption of certain related liabilities of the Wiring business.

On August 1, 2014, the Company completed the sale of substantially all of the assets and liabilities of its Wiring business to Motherson for \$71,386 in cash that consisted of the stated purchase price and estimated working capital on the closing date. The final purchase price was subject to post-closing working capital and other adjustments. Upon the final resolution of the working capital and other adjustments in the second quarter of 2015, the Company returned \$1,230 in cash to Motherson.

The Company also entered into short-term transition services agreements with Motherson substantially all of which concluded in the second quarter of 2015 associated with information systems, accounting, administrative, occupancy and support services as well as contract manufacturing and production support in Estonia.

The Company had post-disposition sales to the Wiring business acquired by Motherson of \$7,047 and \$14,275 for the three and six months ended June 30, 2015, respectively. Post-disposition purchases by the Company from the Wiring business acquired by Motherson were \$173 and \$341 for the three and six months ended June 30, 2015, respectively.

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

The following tables display summarized activity in our condensed consolidated statements of operations for discontinued operations related to the Wiring business:

|                                                                                                     | Three months ended |          | Six months ended |           |
|-----------------------------------------------------------------------------------------------------|--------------------|----------|------------------|-----------|
|                                                                                                     | June 30,           |          | June 30,         |           |
|                                                                                                     | 2015               | 2014     | 2015             | 2014      |
| Net sales                                                                                           | \$-                | \$71,234 | \$-              | \$146,293 |
| Cost of goods sold <sup>(B)</sup>                                                                   | -                  | 64,711   | -                | 133,118   |
| Selling, general and administrative <sup>(B)</sup>                                                  | -                  | 5,228    | -                | 10,597    |
| Interest expense, net                                                                               | -                  | 15       | -                | 26        |
| Other expense, net                                                                                  | -                  | 58       | -                | 89        |
| Income from operations of discontinued operations before income taxes <sup>(A)</sup> <sup>(B)</sup> | -                  | 1,222    | -                | 2,463     |
| Income tax provision on discontinued operations                                                     | -                  | (628 )   | -                | (816 )    |
| Income from discontinued operations, net of tax <sup>(C)</sup>                                      | -                  | 594      | -                | 1,647     |
| Gain (loss) on disposal <sup>(C)</sup>                                                              | 67                 | (1,750 ) | (112)            | (1,897 )  |
| Income tax (provision) benefit on gain (loss) on disposal                                           | (12)               | 612      | (1 )             | 664       |
| Gain (loss) on disposal, net of tax                                                                 | 55                 | (1,138 ) | (113)            | (1,233 )  |
| Income (loss) from discontinued operations                                                          | \$55               | \$(544 ) | \$(113)          | \$414     |

(A) The operations of the Wiring business were included only for the three and six months ended June 30, 2014 as the sale was completed on August 1, 2014.

(B) The assets and liabilities of the Wiring business were reclassified to held for sale effective May 26, 2014. Accordingly, depreciation and amortization for the Wiring assets were not recorded after that date.

Included in gain (loss) on disposal for the three months ended June 30, 2015 and 2014 were transaction costs of \$51 and \$750, respectively, and \$98 and \$897 for the six months ended June 30, 2015 and 2014, respectively. The (C) gain (loss) on disposal also includes a working capital and other adjustments of \$(118) and \$14 for the three and six months ended June 30, 2015, respectively, as well as a \$1,000 charge to adjust the carrying value of the Wiring assets to their estimated fair value less cost to sell for the three and six months ended June 30, 2014.

Three months      Six months

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|                               | ended June 30,<br>2014 | ended June 30,<br>2014 |
|-------------------------------|------------------------|------------------------|
| Depreciation and amortization | \$ 856                 | \$ 2,111               |
| Capital expenditures          | 362                    | 841                    |

Intercompany sales to the Wiring business were \$7,510 and \$15,290 for the three and six months ended June 30, 2014, respectively.

Intercompany purchases from the Wiring business were \$1,669 and \$3,544 for the three and six months ended June 30, 2014, respectively.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

### (4) Goodwill

The Company conducts its annual goodwill impairment test for its majority owned subsidiary, PST Eletrônica Ltda. ("PST") on October 1. During the second quarter of 2014, however, indicators of potential impairment required the Company to conduct an interim impairment test. Those indicators included a decline in recent operating results and lower growth expectations primarily due to the weakening of the Brazilian economy and automotive market.

In accordance with ASC 350, the Company completed "step one" of the impairment analysis and concluded that, as of June 30, 2014, the fair value of the PST reportable segment was below its carrying value, including goodwill. In "step one" the Company used an income approach to estimate the fair value of PST. The income approach utilized a discounted cash flow valuation technique which incorporates the Company's projected future estimates of after-tax cash flows attributable to its future growth rates, terminal value amounts and the weighted average cost of capital. As a result, "step two" of the impairment test was initiated in accordance with ASC 350. Due to its time intensive nature, the "step two" analysis was not completed until the third quarter ended September 30, 2014. In accordance with ASC 350, the Company recorded its best estimate of \$29,300 as a non-cash goodwill impairment charge (of which \$6,436 was attributable to noncontrolling interest) as of June 30, 2014 which was included in the Company's condensed consolidated statements of operations.

As a result of the Company's annual goodwill impairment testing in the fourth quarter of 2014, the remaining PST goodwill balance was written-off due to significantly lower sales and earnings growth expectations which were primarily a result of lower forecasted growth in the Brazilian economy and automotive market.

The fair value measurement of the reporting unit under the "step one" analysis and the "step two" analysis (a non-recurring fair value measure) in their entirety are classified as Level 3 inputs. The estimates and assumptions underlying the fair value calculations used in the Company's impairment test are uncertain by their nature and can vary significantly from actual results. Factors that management must estimate include, but are not limited to, industry and market conditions, sales volume and pricing, raw material costs, capital expenditures, working capital changes, cost of capital, debt-equity mix and tax rates. The estimates and assumptions that most significantly affect the fair value calculation are sales volume and the associated cash flow assumptions, market growth and weighted average cost of capital. The estimates and assumptions used in the estimate of fair value were consistent with those the Company uses in its internal planning.

The carrying amount of goodwill related to our Electronics segment decreased by \$75 for the six months ended June 30, 2015 due to foreign currency translation.

The change in the carrying amount of goodwill for the six months ended June 30, 2014 was as follows:

|                            | Electronics | PST      | Total    |
|----------------------------|-------------|----------|----------|
| Balance at January 1, 2014 | \$ 604      | \$53,744 | \$54,348 |
| Acquisition of business    | 641         | -        | 641      |
| Goodwill impairment charge | -           | (29,300) | (29,300) |
| Currency translation       | (23 )       | 2,985    | 2,962    |
| Balance at June 30, 2014   | \$ 1,222    | \$27,429 | \$28,651 |

#### **(5) Inventories**

Inventories are valued at the lower of cost (using either the first-in, first-out (“FIFO”) or average cost methods) or market. The Company evaluates and adjusts as necessary its excess and obsolescence reserve at a minimum 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:

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

|                        | June 30,<br>2015 | December 31,<br>2014 |
|------------------------|------------------|----------------------|
| Raw materials          | \$46,407         | \$ 41,767            |
| Work-in-progress       | 10,335           | 8,779                |
| Finished goods         | 25,375           | 20,707               |
| Total inventories, net | \$82,117         | \$ 71,253            |

Inventory valued using the FIFO method was \$41,430 and \$34,636 at June 30, 2015 and December 31, 2014, respectively. Inventory valued using the average cost method was \$40,687 and \$36,617 at June 30, 2015 and December 31, 2014, respectively.

**(6) Financial Instruments and Fair Value Measurements****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.

**Derivative Instruments and Hedging Activities**

On June 30, 2015, the Company had open foreign currency forward contracts which are used solely 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.

***Foreign Currency Exchange Rate Risk***

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 manage its exposure to fluctuations in foreign currency exchange rates by reducing the effect of such fluctuations on foreign currency denominated intercompany transactions, inventory purchases and other foreign currency exposures. The currencies hedged by the Company during 2015 and 2014 include the U.S. dollar, euro and Mexican peso.

These forward contracts were executed to hedge forecasted transactions and were accounted for as cash flow hedges. As such, the effective portion of the unrealized gain or loss was deferred and reported in the Company's condensed consolidated balance sheets as a component of accumulated other comprehensive loss. The cash flow hedges were highly effective. The effectiveness of the transactions has been and will be measured on an ongoing basis using regression analysis and forecasted future purchases of the U.S. dollar and Mexican peso.

In certain instances, the foreign currency forward contracts do not qualify for hedge accounting or are not designated as hedges, and therefore are marked-to-market with gains and losses recognized in the Company's condensed consolidated statement of operations as a component of other (income) expense, net.

The Company's foreign currency forward contracts offset a portion of the gains and losses on the underlying foreign currency denominated transactions as follows:

*Euro-denominated Foreign Currency Forward Contract*

As of June 30, 2015 and December 31, 2014, the Company held a foreign currency forward contract with underlying notional amounts of \$1,693 and \$3,523, respectively, to reduce the exposure related to the Company's euro-denominated intercompany loans. This contract expires in September 2015. The euro-denominated foreign currency forward contract was not designated as a hedging instrument. The Company recognized a loss of \$72 and a gain of \$86 for the three months ended June 30, 2015 and 2014, respectively, in the condensed consolidated statements of operations as a component of other (income) expense, net related to the euro-denominated contracts. For the six months ended June 30, 2015 and 2014, the Company recognized a gain of \$316 and \$25, respectively, related to this contract.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

### *U.S. dollar-denominated Foreign Currency Forward Contracts – Cash Flow Hedge*

The Company entered into on behalf of one of its European Electronics subsidiaries whose functional currency is the euro, U.S. dollar-denominated currency contracts with a notional amount at June 30, 2015 of \$2,104 which expire ratably on a monthly basis from July 2015 through December 2015, compared to \$4,266 at December 31, 2014.

The Company entered into on behalf of one of its European Electronics subsidiaries whose functional currency is the Swedish krona, U.S. dollar-denominated currency contracts with a notional amount at June 30, 2015 of \$5,780 which expire ratably on a monthly basis from July 2015 through December 2015, compared to \$11,718 at December 31, 2014.

### *Mexican peso-denominated Foreign Currency Forward Contracts – Cash Flow Hedge*

The Company holds Mexican peso-denominated foreign currency forward contracts with notional amounts at June 30, 2015 of \$5,438 which expire ratably on a monthly basis from July 2015 through December 2015, compared to \$10,282 at December 31, 2014.

The Company evaluated the effectiveness of the Mexican peso-denominated foreign currency forward contracts as of June 30, 2014. As a result of the sale of the Wiring business, the Company forecasted that it would purchase Mexican pesos to fulfill only two of the five contracts for the period August 2014 through December 2014. As the purchase of Mexican pesos related to three of the five contracts was not probable, these three contracts attributed to the Wiring business were de-designated at June 30, 2014 and the associated unrecognized \$320 gain at that date was recorded in discontinued operations in the Company's condensed consolidated statements of operations for the three and six months ended June 30, 2014. The previous unrecognized gains on the de-designated hedge contracts have been reclassified from accumulated other comprehensive loss and recorded in discontinued operations in the Company's condensed consolidated statements of operations in the quarter and year of de-designation.

### *Commodity Price Risk - Cash Flow Hedge*

To mitigate the risk of future price volatility and, consequently, fluctuations in gross margins, the Company at times enters into fixed price commodity contracts with a financial institution to fix the cost of a portion of the Company's copper purchases. Copper is a raw material used in a number of the Company's products.

The Company did not have any fixed price commodity contracts at June 30, 2015 compared to an aggregate notional amount of 317 pounds at December 31, 2014.

The unrealized gain or loss for the effective portion of the hedges were deferred and reported in the Company's condensed consolidated balance sheets as a component of accumulated other comprehensive loss while the ineffective portion, if any, was reported in the condensed consolidated statements of operations. The effectiveness of the transactions is measured on an ongoing basis using regression analysis and forecasted future copper purchases.

The Company evaluated the effectiveness of the copper fixed price commodity contracts as of June 30, 2014. As a result of the sale of the Wiring business, the Company forecasted that it would not purchase the quantities of copper to fulfill the two contracts for the period August 2014 through March 2015. As the purchase of copper quantities related to these contracts was not probable, the contracts primarily associated with the Wiring segment not expected to be fulfilled were de-designated at June 30, 2014 and the associated unrecognized \$77 gain at that date was recorded in discontinued operations in the Company's condensed consolidated statements of operations for the three and six months ended June 30, 2014. The previous unrecognized gains were reclassified from accumulated other comprehensive loss and recorded in discontinued operations in the Company's condensed consolidated statements of operations in the quarter and year of de-designation.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except per share data, unless otherwise indicated)****(Unaudited)*****Interest Rate Risk - Fair Value Hedge***

The Company had 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 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 notes due October 15, 2017. Under the Swap, the Company paid a variable interest rate equal to the six-month London Interbank Offered Rate (“LIBOR”) plus 7.2% and it received a fixed interest rate of 9.5%. The difference between amounts received and paid under the Swap was recognized as a component of interest expense, net on the condensed consolidated statements of operations.

In connection with the Company's notice of redemption issued on September 15, 2014 to redeem all remaining outstanding senior notes, the interest rate fair value hedge was de-designated on that date. On October 23, 2014, the Company terminated the interest rate swap.

The Swap reduced interest expense by \$206 and \$431 for the three and six months ended June 30, 2014, respectively.

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

|                                                  | Notional<br><b>Amounts</b> <sup>(A)</sup> |                         | Prepaid expenses<br>and other current assets /<br>other long-term assets |                         | Accrued expenses and<br>other current liabilities |                         |
|--------------------------------------------------|-------------------------------------------|-------------------------|--------------------------------------------------------------------------|-------------------------|---------------------------------------------------|-------------------------|
|                                                  | June 30,<br>2015                          | December<br>31,<br>2014 | June 30,<br>2015                                                         | December<br>31,<br>2014 | June 30,<br>2015                                  | December<br>31,<br>2014 |
| Derivatives designated as hedging<br>instruments |                                           |                         |                                                                          |                         |                                                   |                         |
| Cash Flow Hedges:                                |                                           |                         |                                                                          |                         |                                                   |                         |
| Forward currency contracts                       | \$13,322                                  | \$ 26,266               | \$ 730                                                                   | \$ 479                  | \$ 522                                            | \$ 478                  |

Derivatives not designated as hedging instruments

|                                 |         |          |   |   |      |       |
|---------------------------------|---------|----------|---|---|------|-------|
| Forward currency contracts      | \$1,693 | \$ 3,523 | - | - | \$ 4 | \$ 13 |
| Fixed price commodity contracts | -       | 317      | - | - | -    | \$ 69 |

(A) Notional amounts represent the gross contract / notional amount of the derivatives outstanding. The fixed price commodity contract notional amounts are in pounds.

Amounts recorded for the cash flow hedges in other comprehensive income (loss) and in net income (loss) for the three months ended June 30 are as follows:

|                                                  | Gain (loss) recorded in other comprehensive income (loss) |        | Gain (loss) reclassified from other comprehensive income (loss) into net income |        |
|--------------------------------------------------|-----------------------------------------------------------|--------|---------------------------------------------------------------------------------|--------|
|                                                  | 2015                                                      | 2014   | 2015                                                                            | 2014   |
| Derivatives designated as cash flow hedges:      |                                                           |        |                                                                                 |        |
| Forward currency contracts                       | \$ (900 )                                                 | \$ 416 | \$ (172 )                                                                       | \$ 423 |
| Fixed price commodity contracts                  | -                                                         | 154    | -                                                                               | (91 )  |
| Total derivatives designated as cash flow hedges | \$ (900 )                                                 | \$ 570 | \$ (172 )                                                                       | \$ 332 |

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

Amounts recorded for the cash flow hedges in other comprehensive income (loss) and in net income (loss) for the six months ended June 30 are as follows:

|                                                  | Gain (loss) recorded in other<br>comprehensive income (loss) |        | Gain (loss) reclassified from<br>other comprehensive income<br>(loss) into net income |        |
|--------------------------------------------------|--------------------------------------------------------------|--------|---------------------------------------------------------------------------------------|--------|
|                                                  | 2015                                                         | 2014   | 2015                                                                                  | 2014   |
| Derivatives designated as cash flow hedges:      |                                                              |        |                                                                                       |        |
| Forward currency contracts                       | \$ (103 )                                                    | \$ 534 | \$ (310 )                                                                             | \$ 242 |
| Fixed price commodity contracts                  | -                                                            | (318 ) | -                                                                                     | (121 ) |
| Total derivatives designated as cash flow hedges | \$ (103 )                                                    | \$ 216 | \$ (310 )                                                                             | \$ 121 |

Gains and losses reclassified from other comprehensive income (loss) into net income (loss) were recognized in cost of goods sold in the Company's condensed consolidated statements of operations.

The net deferred gain of \$208 on the cash flow hedge derivatives will be reclassified from other comprehensive income (loss) to the condensed consolidated statements of operations in 2015. The Company has measured the ineffectiveness of the forward currency and commodity contracts and any amounts recognized in the condensed consolidated financial statements were immaterial for the three and six months ended June 30, 2015 and 2014.

***Fair Value Measurements***

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

| June 30,<br>2015            |         |         | December 31,<br>2014 |  |  |
|-----------------------------|---------|---------|----------------------|--|--|
| Fair values estimated using |         |         |                      |  |  |
| Level 1                     | Level 2 | Level 3 |                      |  |  |

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|                                                   | Fair value | inputs (A) | inputs (B) | inputs (C) | Fair value |
|---------------------------------------------------|------------|------------|------------|------------|------------|
| Financial assets carried at fair value:           |            |            |            |            |            |
| Interest rate swap contract                       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       |
| Forward currency contracts                        | \$ 730     | \$ -       | \$ 730     | \$ -       | \$ 479     |
| Total financial assets carried at fair value      | \$ 730     | \$ -       | \$ 730     | \$ -       | \$ 479     |
| Financial liabilities carried at fair value:      |            |            |            |            |            |
| Forward currency contracts                        | \$ 526     | \$ -       | \$ 526     | \$ -       | \$ 491     |
| Fixed price commodity contracts                   | -          | -          | -          | -          | 69         |
| Total financial liabilities carried at fair value | \$ 526     | \$ -       | \$ 526     | \$ -       | \$ 560     |

Fair values estimated using Level 1 inputs, which consist of quoted prices in active markets for identical assets or (A) liabilities that the Company has the ability to access at the measurement date. The Company did not have any recurring fair value estimates using Level 1 inputs at June 30, 2015 or December 31, 2014.

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

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

(C) Fair values estimated using Level 3 inputs consist of significant unobservable inputs. The Company did not have any recurring fair value estimates using Level 3 inputs at June 30, 2015 or December 31, 2014.

The Company recorded a non-recurring fair value adjustment of \$29,300 related to PST goodwill during the six months ended June 30, 2014. The Company utilized Level 3 inputs to estimate the fair value adjustment for nonfinancial assets. For additional information, see the discussion of Goodwill in Note 4. No non-recurring fair value adjustments were required for nonfinancial assets for the six months ended June 30, 2015.

**(7) Share-Based Compensation**

Compensation expense for share-based compensation arrangements, which is recognized in the condensed consolidated statements of operations as a component of selling, general and administrative expenses, was \$1,157 and \$1,137 for the three months ended June 30, 2015 and 2014, respectively. For the six months ended June 30, 2015 total share-based compensation was \$4,482, including \$2,225 from the accelerated vesting in connection with the retirement of the Company's former President and Chief Executive Officer, and \$2,300 for the six months ended June 30, 2014.

**(8) Debt**

Debt consisted of the following at June 30, 2015 and December 31, 2014:

|                            | June 30,<br>2015 | December 31,<br>2014 | Interest rates at<br>June 30,<br>2015 | Maturity              |
|----------------------------|------------------|----------------------|---------------------------------------|-----------------------|
| Revolving Credit Facility  |                  |                      |                                       |                       |
| Credit facility            | \$ 100,000       | \$ 100,000           | 1.84%                                 | September - 2019      |
| Debt                       |                  |                      |                                       |                       |
| PST short-term obligations | 15,124           | 11,249               | 14.4% - 19.2%                         | Various 2015 and 2016 |

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|                           |           |           |              |             |
|---------------------------|-----------|-----------|--------------|-------------|
| PST long-term notes       | 11,977    | 16,770    | 5.50% - 8.0% | 2016 - 2021 |
| Suzhou note               | -         | 1,450     | N/A          | April 2015  |
| Other                     | 531       | 837       |              |             |
| Total debt                | 27,632    | 30,306    |              |             |
| Less: current portion     | (20,618 ) | (19,655 ) |              |             |
| Total long-term debt, net | \$7,014   | \$ 10,651 |              |             |

***Revolving Credit Facility***

On November 2, 2007, the Company entered into an asset-based credit facility, which permits borrowing up to a maximum level of \$100,000. The Company entered into an Amended and Restated Credit and Security Agreement and a Second Amended and Restated Credit and Security Agreement on September 20, 2010 and December 1, 2011, respectively.

On September 12, 2014, the Company entered into a Third Amended and Restated Credit Agreement (the “Amended Agreement” or “Credit Facility”). The Amended Agreement provides for a \$300,000 revolving credit facility, which replaced the Company’s existing \$100,000 asset-based credit facility and includes a letter of credit subfacility, swing line subfacility and multicurrency subfacility. The Amended Agreement also has an accordion feature which allows the Company to increase the availability by up to \$80,000 upon the satisfaction of certain conditions. The Amended Agreement extended the termination date to September 12, 2019 from December 1, 2016. On March 26, 2015, the Company entered into Amendment No. 1 (the “Amendment”) to the Amended Agreement which modified the definition of Consolidated EBITDA to allow for the add back of cash premiums and other non-cash charges related to the amendment and restatement of the Amended Agreement and the early extinguishment of the Company’s 9.5% Senior Secured Notes totaling \$10,507 both of which occurred in second half of 2014. Consolidated EBITDA is used in computing the Company’s leverage ratio and interest coverage ratio which are covenants within the Amended Agreement.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

Borrowings under the Amended Agreement will bear interest at either the Base Rate, as defined, or the LIBOR Rate, at the Company's option, plus the applicable margin as set forth in the Amended Agreement. The Company is also subject to a commitment fee ranging from 0.20% to 0.35% based on the Company's leverage ratio. The agreement governing our Credit Facility requires the Company to maintain a maximum leverage ratio of 3.00 to 1.00, and a minimum interest coverage ratio of 3.50 to 1.00 and places a maximum annual limit on capital expenditures. The Amended Agreement also contains other affirmative and negative covenants and events of default that are customary for credit arrangements of this type including covenants which place restrictions and/or limitations on the Company's ability to borrow money, make capital expenditures and pay dividends.

The Company was in compliance with all credit facility covenants at June 30, 2015 and December 31, 2014.

### *Debt*

On October 4, 2010, the Company issued \$175,000 of senior secured notes which bore interest at an annual rate of 9.5% and were scheduled to mature on October 15, 2017. On September 2, 2014, the Company redeemed \$17,500, or 10.0%, of its senior secured notes at a price of 103.0% of the principal amount. On October 15, 2014, the Company redeemed the remaining \$157,500 of its senior secured notes at a price of 104.75% of the principal amount discharging the corresponding senior notes indenture.

As a result of the redemption, the Company recognized a loss on extinguishment of debt of \$10,507 in the second half of 2014, which included a premium of \$8,006 and the acceleration of the remaining deferred financing costs of \$597, original issue discount of \$2,252 and de-designation date unrecognized gain on the interest rate swap of \$348.

PST maintains several short-term obligations and long-term notes used for working capital purposes, which have fixed annual interest rates. PST's other short-term obligations and long-term notes also have fixed interest rates. The weighted-average interest rates of short-term and long-term debt of PST at June 30, 2015 were 16.9% and 7.0%, respectively. Depending on the specific note, interest is payable either monthly or annually. Principal payments on PST debt at June 30, 2015 are as follows: \$20,087 from July 2015 through June 2016, \$1,768 from July 2016 through December 2016, \$2,020 in 2017, \$1,214 in both 2018 and 2019, \$416 in 2020 and \$382 in 2021.

On February 25, 2014, the Company's wholly-owned subsidiary located in Suzhou, China entered into a term loan for 9,000 Chinese yuan (the "Suzhou note") which matured in August 2014. On October 17, 2014, this subsidiary entered into a new term loan for 9,000 Chinese yuan (the "Suzhou note") which matured and was repaid in April 2015. The U.S. dollar equivalent outstanding loan balance was \$1,450 at December 31, 2014, under these term loan agreements. The Suzhou note was included in the condensed consolidated balance sheets as a component of current portion of long-term debt. Interest was payable quarterly at 120.0% of the one-year lending rate published by The People's Bank of China.

The Company was in compliance with all note covenants at June 30, 2015 and December 31, 2014.

The Company's wholly-owned subsidiary located in Stockholm, Sweden, has an overdraft credit line which allows overdrafts on the subsidiary's bank account up to a maximum level of 20,000 Swedish krona, or \$2,413 and \$2,562, at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015 and December 31, 2014, there was no balance outstanding on this bank account.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except per share data, unless otherwise indicated)****(Unaudited)****(9) Earnings (Loss) Per Share**

Basic earnings (loss) per share was computed by dividing net income (loss) by the weighted-average number of Common Shares outstanding for each respective period. Diluted earnings (loss) per share was calculated by dividing net income (loss) by the weighted-average of all potentially dilutive Common Shares that were outstanding during the periods presented.

Weighted-average Common Shares outstanding used in calculating basic and diluted earnings (loss) per share were as follows:

|                                                    | Three months ended<br>June 30, |            | Six months ended<br>June 30, |            |
|----------------------------------------------------|--------------------------------|------------|------------------------------|------------|
|                                                    | 2015                           | 2014       | 2015                         | 2014       |
| Basic weighted-average Common Shares outstanding   | 27,307,864                     | 26,934,027 | 27,226,868                   | 26,894,022 |
| Effect of dilutive shares                          | 637,060                        | -          | 635,703                      | -          |
| Diluted weighted-average Common Shares outstanding | 27,944,924                     | 26,934,027 | 27,862,571                   | 26,894,022 |

There were no options outstanding at June 30, 2015 or December 31, 2014.

There were 134,250 and 466,650 performance-based restricted Common Shares outstanding at June 30, 2015 and 2014, respectively. There were also 573,885 and 374,400 performance-based right to receive Common Shares outstanding at June 30, 2015 and 2014, respectively. These performance-based restricted and right to receive Common Shares are included in the computation of diluted earnings per share based on the number of Common Shares that would be issuable if the end of the quarter were the end of the contingency period.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except per share data, unless otherwise indicated)****(Unaudited)****(10) Changes in Accumulated Other Comprehensive Loss by Component**

Changes in accumulated other comprehensive loss for the three months ended June 30, 2015 and 2014 were as follows:

|                                                                | Foreign<br>currency<br>translation | Unrealized<br>gain (loss)<br>on derivatives | Benefit<br>plan<br>liability | Total      |
|----------------------------------------------------------------|------------------------------------|---------------------------------------------|------------------------------|------------|
| Balance at April 1, 2015                                       | \$ (60,565 )                       | \$ 936                                      | \$ 84                        | \$(59,545) |
| Other comprehensive income (loss) before reclassifications     | 3,022                              | (900 )                                      | -                            | 2,122      |
| Amounts reclassified from accumulated other comprehensive loss | -                                  | 172                                         | -                            | 172        |
| Net other comprehensive income (loss), net of tax              | 3,022                              | (728 )                                      | -                            | 2,294      |
| Balance at June 30, 2015                                       | \$ (57,543 )                       | \$ 208                                      | \$ 84                        | \$(57,251) |
| Balance at April 1, 2014                                       | \$ (26,157 )                       | \$ (254 )                                   | \$ (12 )                     | \$(26,423) |
| Other comprehensive income before reclassifications            | 2,186                              | 570                                         | -                            | 2,756      |
| Amounts reclassified from accumulated other comprehensive loss | -                                  | (332 )                                      | -                            | (332 )     |
| Net other comprehensive income, net of tax                     | 2,186                              | 238                                         | -                            | 2,424      |
| Balance at June 30, 2014                                       | \$ (23,971 )                       | \$ (16 )                                    | \$ (12 )                     | \$(23,999) |

Changes in accumulated other comprehensive loss for the six months ended June 30, 2015 and 2014 were as follows:

|                                                                | Foreign<br>currency<br>translation | Unrealized<br>gain (loss)<br>on derivatives | Benefit<br>plan<br>liability | Total      |
|----------------------------------------------------------------|------------------------------------|---------------------------------------------|------------------------------|------------|
| Balance at January 1, 2015                                     | \$ (45,603 )                       | \$ 1                                        | \$ 129                       | \$(45,473) |
| Other comprehensive loss before reclassifications              | (11,940 )                          | (103 )                                      | (45 )                        | (12,088)   |
| Amounts reclassified from accumulated other comprehensive loss | -                                  | 310                                         | -                            | 310        |

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|                                                                |              |           |          |            |
|----------------------------------------------------------------|--------------|-----------|----------|------------|
| Net other comprehensive income (loss), net of tax              | (11,940 )    | 207       | (45 )    | (11,778)   |
| Balance at June 30, 2015                                       | \$ (57,543 ) | \$ 208    | \$ 84    | \$(57,251) |
| Balance at January 1, 2014                                     | \$ (30,335 ) | \$ (111 ) | \$ (12 ) | \$(30,458) |
| Other comprehensive income before reclassifications            | 6,364        | 216       | -        | 6,580      |
| Amounts reclassified from accumulated other comprehensive loss | -            | (121 )    | -        | (121 )     |
| Net other comprehensive income, net of tax                     | 6,364        | 95        | -        | 6,459      |
| Balance at June 30, 2014                                       | \$ (23,971 ) | \$ (16 )  | \$ (12 ) | \$(23,999) |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

### (11) Commitments and Contingencies

In the ordinary course of business, the Company is subject to a broad range of claims and legal proceedings that relate to contractual allegations, tax audits, patent infringement, product liability, employment-related matters and environmental matters. Although it is not possible to predict with certainty the outcome of these matters, the Company is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on its consolidated results of operations or financial position.

As a result of environmental studies performed at the Company's former facility located in Sarasota, Florida, the Company became aware of soil and groundwater contamination at the site. The Company engaged an environmental engineering consultant to assess the level of contamination and to develop a remediation and monitoring plan for the site. Soil remediation at the site was completed during the year ended December 31, 2010. As the remedial action plan has been approved by the Florida Department of Environmental Protection, ground water remediation is expected begin in the third quarter of 2015 once all property access approvals have been received. Environmental remediation costs incurred were \$155 for the three and six months ended June 30, 2015 while they were immaterial for the three and six months ended June 30, 2014. At June 30, 2015 and December 31, 2014, the Company had accrued an undiscounted liability of \$715 and \$876, respectively, related to future remediation. At June 30, 2015 and December 31, 2014, \$651 and \$813, respectively, was recorded as a component of accrued expenses and other current liabilities on the condensed consolidated balance sheets while the remaining amount was recorded as a component of other long-term liabilities. A majority of the costs associated with the recorded liability will be incurred at the start of the groundwater remediation, with the balance relating to monitoring costs to be incurred over multiple years. Although the Company sold the Sarasota facility and related property in December 2011, the liability to remediate the site contamination remains the responsibility of the Company. Due to the ongoing site remediation, the closing terms of the sale agreement included a requirement for the Company to maintain a \$2,000 letter of credit for the benefit of the buyer.

In September 2013, a legal proceeding was initiated by Actia Automotive ("Actia") in a French court (the tribunal de grande instance de Paris) alleging infringement of its patents by the Company's Electronics segment. The euro ("€") and U.S. dollar equivalent ("\$\$") that Actia is seeking is €14,000 (\$15,600) for injunctive relief and monetary damages resulting from such alleged infringement. The Company believes that its products did not infringe on any of the patents claimed by Actia, and the claim is without merit. The Company is vigorously defending itself against these allegations, and it has challenged certain Actia patents in the European Patent Office. The Company believes the likelihood of loss is not probable between its defenses and challenges to Actia's patents. As such, no liability has been recorded for this claim. There have been no significant changes to the facts and circumstances related to this claim for

the three or six months ended June 30, 2015.

On May 24, 2013, the State Revenue Services of São Paulo issued a tax deficiency notice against PST claiming that the vehicle tracking and monitoring services it provides should be classified as communication services, and therefore subject to the State Value Added Tax – ICMS. The State Revenue Services assessment imposed the 25.0% ICMS tax on all revenues of PST related to the vehicle tracking and monitoring services rendered during the period from January 2009 through December 2010. The Brazilian real (“R\$”) and U.S. dollar equivalent (“\$”) of the aggregate tax assessment is approximately R\$92,500 (\$29,800) which is comprised of Value Added Tax – ICMS of R\$13,200 (\$4,200), interest of R\$11,400 (\$3,700) and penalties of R\$67,900 (\$21,900).

The Company believes that the vehicle tracking and monitoring services are non-communication services, as defined under Brazilian tax law, subject to the municipal ISS tax, not communication services subject to state ICMS tax as claimed by the State Revenue Services of São Paulo. PST has, and will continue to collect the municipal ISS tax on the vehicle tracking and monitoring services in compliance with Brazilian tax law and will defend its tax position. PST has received a legal opinion that the merits of the case are favorable to PST, determining among other things that the imposition on the subsidiary of the State ICMS by the State Revenue Services of São Paulo is not in accordance with the Brazilian tax code. In April 2015, the Tribunal of Taxes and Imposts of the State of São Paulo ruled in favor of PST that its tracking and monitoring services are not subject to state ICMS tax, which is subject to appeal by the State Revenue Services of São Paulo to a higher court. Management believes, based on the legal opinion of the Company’s Brazilian legal counsel, the recent favorable legal ruling in favor of PST and the results of the Brazil Administrative Court’s binding ruling in favor of another vehicle tracking and monitoring company related to the tax deficiency notice it received, the likelihood of loss is not probable although it may take years to resolve. As a result of the above, as of June 30, 2015 and December 31, 2014, no accrual has been recorded with respect to the tax assessment. An unfavorable judgment on this issue for the years assessed and for subsequent years could result in significant costs to PST and adversely affect its results of operations.

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

In addition, PST has civil, labor and other tax contingencies for which the likelihood of loss is deemed to be reasonably possible, but not probable, by the Company's legal advisors in Brazil. As a result, no provision has been recorded with respect to these contingencies, which amounted to R\$22,194 (\$7,200) and R\$37,237 (\$14,000) at June 30, 2015 and December 31, 2014, respectively. An unfavorable outcome on these contingencies could result in significant cost to PST and adversely affect its results of operations.

***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. The current portion of product warranty and recall is included as a component of accrued expenses and other current liabilities in the condensed consolidated balance sheets. Product warranty and recall included \$924 and \$1,204 of a long-term liability at June 30, 2015 and December 31, 2014, respectively, which is included as a component of other long-term liabilities in the condensed consolidated balance sheets.

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

| Six months ended June 30                                                | 2015    | 2014    |
|-------------------------------------------------------------------------|---------|---------|
| Product warranty and recall at beginning of period                      | \$7,601 | \$6,414 |
| Accruals for products shipped during period                             | 1,699   | 2,217   |
| Aggregate changes in pre-existing liabilities due to claim developments | (115 )  | 244     |
| Settlements made during the period                                      | (3,154) | (1,534) |
| Product warranty and recall at end of period                            | \$6,031 | \$7,341 |

**(12) Income Taxes**

The Company computes its consolidated income tax provision each quarter based on a projected annual effective tax rate, as required. The Company is required to reduce deferred tax assets by a valuation allowance if, based on all available evidence, it is considered more likely than not that some portion or all of the benefit of the deferred tax assets will not be realized in future periods.

When the Company maintains a valuation allowance in a particular jurisdiction, no net tax expense will typically be provided on the income for that jurisdiction. Jurisdictions with projected income that maintain a valuation allowance typically will form part of the projected annual effective tax rate calculation discussed above. However, jurisdictions with a projected loss for the year that maintain a valuation allowance are excluded from the projected annual effective income tax rate calculation. Instead, the income tax for these jurisdictions is computed separately.

The Company also records the income tax impact of certain discrete, unusual or infrequently occurring items including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur.

As a result, the Company's actual effective income tax rate during a particular quarter can vary significantly based upon the jurisdictional mix and timing of actual earnings compared to projected annual earnings, permanent items, earnings for those jurisdictions that maintain a valuation allowance, tax associated with jurisdictions excluded from the projected annual effective income tax rate calculation and discrete items.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

The Company recognized an income tax provision (benefit) of \$(381) and \$90 from continuing operations for federal, state and foreign income taxes for the three months ended June 30, 2015 and 2014, respectively. The effective tax rate decreased to (6.4)% in the second quarter of 2015 from 0.3% in the second quarter of 2014. The decrease in the income tax expense and the effective tax rate for the three months ended June 30, 2015 compared to the same period for 2014 was primarily due to the improved earnings of the U.S. operations and reduced earnings of the European operations, which were partially offset by the smaller operating loss of PST.

The Company recognized a provision (benefit) for income taxes of \$(234) and \$385 for federal, state and foreign income taxes for the six months ended June 30, 2015 and 2014, respectively. The effective tax rate decreased to (2.8)% in the second half of 2015 from 1.3% in the second half of 2014. The decrease in the tax expense and the effective tax rate for the six months ended June 30, 2015 compared to the same period for 2014 was primarily due to the improved earnings of the U.S. operations and reduced earnings of the European operations, which was partially offset by the smaller operating loss of PST. In addition, the Company recognized a discrete tax expense related to certain foreign operations during the first half of 2014 which did not recur in the first half of 2015.

### (13) 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 chief executive officer.

During the third quarter of 2014 the Company sold its Wiring business segment, which designed and manufactured wiring harness products and assembled instrument panels for sale principally to the commercial, agricultural and off-highway vehicle markets. As such, for all periods presented the Company reported this business as discontinued operations in the Company's condensed consolidated financial statements and therefore excluded it from the segment disclosures herein. See Note 3 for additional details.

The Company has three reportable segments, Control Devices, Electronics and PST, which also represent its operating segments. The Control Devices reportable segment produces sensors, switches, valves and actuators. The Electronics reportable segment produces electronic instrument clusters, electronic control units and driver information systems.

The PST reportable segment designs and manufactures electronic vehicle security alarms, convenience accessories, vehicle tracking devices and monitoring services and in-vehicle audio and video devices.

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 2014 Form 10-K. The Company's management evaluates the performance of its reportable segments based primarily on revenues from external customers, capital expenditures and operating income. Inter-segment sales are accounted for on terms similar to those to third parties and are eliminated upon consolidation.

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

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

|                                                    | Three months ended<br>June 30, |             | Six months ended<br>June 30, |             |
|----------------------------------------------------|--------------------------------|-------------|------------------------------|-------------|
|                                                    | 2015                           | 2014        | 2015                         | 2014        |
| Net Sales:                                         |                                |             |                              |             |
| Control Devices                                    | \$84,398                       | \$76,413    | \$164,269                    | \$153,737   |
| Inter-segment sales                                | 643                            | 742         | 1,331                        | 1,493       |
| Control Devices net sales                          | 85,041                         | 77,155      | 165,600                      | 155,230     |
| Electronics                                        | 57,895                         | 52,766      | 114,327                      | 102,857     |
| Inter-segment sales                                | 6,119                          | 11,573      | 11,085                       | 23,330      |
| Electronics net sales                              | 64,014                         | 64,339      | 125,412                      | 126,187     |
| PST                                                | 22,996                         | 32,920      | 49,518                       | 66,836      |
| Inter-segment sales                                | -                              | -           | -                            | -           |
| PST net sales                                      | 22,996                         | 32,920      | 49,518                       | 66,836      |
| Eliminations                                       | (6,762 )                       | (12,315 )   | (12,416 )                    | (24,823 )   |
| Total net sales                                    | \$165,289                      | \$162,099   | \$328,114                    | \$323,430   |
| Operating Income (Loss):                           |                                |             |                              |             |
| Control Devices                                    | \$11,984                       | \$8,719     | \$21,590                     | \$17,152    |
| Electronics                                        | 3,222                          | 4,886       | 6,646                        | 9,668       |
| PST                                                | (2,591 )                       | (31,982 )   | (5,241 )                     | (34,524 )   |
| Unallocated Corporate <sup>(A)</sup>               | (5,200 )                       | (4,844 )    | (12,454 )                    | (9,083 )    |
| Total operating income (loss)                      | \$7,415                        | \$(23,221 ) | \$10,541                     | \$(16,787 ) |
| Depreciation and Amortization:                     |                                |             |                              |             |
| Control Devices                                    | \$2,326                        | \$2,381     | \$4,786                      | \$4,752     |
| Electronics                                        | 955                            | 1,138       | 1,911                        | 2,239       |
| PST                                                | 2,452                          | 3,453       | 5,139                        | 6,622       |
| Corporate                                          | 55                             | 35          | 70                           | 79          |
| Total depreciation and amortization <sup>(B)</sup> | \$5,788                        | \$7,007     | \$11,906                     | \$13,692    |
| Interest Expense, net:                             |                                |             |                              |             |
| Control Devices                                    | \$81                           | \$73        | \$165                        | \$133       |
| Electronics                                        | 41                             | 232         | 86                           | 432         |
| PST                                                | 803                            | 792         | 1,224                        | 1,460       |
| Corporate                                          | 733                            | 3,975       | 1,461                        | 7,976       |
| Total interest expense, net                        | \$1,658                        | \$5,072     | \$2,936                      | \$10,001    |

Capital Expenditures:

|                            |         |         |          |          |
|----------------------------|---------|---------|----------|----------|
| Control Devices            | \$3,847 | \$3,528 | \$7,882  | \$5,262  |
| Electronics                | 1,084   | 2,019   | 3,022    | 2,666    |
| PST                        | 2,039   | 2,062   | 3,412    | 3,729    |
| Corporate                  | (230 )  | 48      | 913      | 107      |
| Total capital expenditures | \$6,740 | \$7,657 | \$15,229 | \$11,764 |

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

|                          | June 30,<br>2015 | December 31,<br>2014 |
|--------------------------|------------------|----------------------|
| Total Assets:            |                  |                      |
| Control Devices          | \$ 132,670       | \$ 115,703           |
| Electronics              | 102,380          | 95,140               |
| PST                      | 140,273          | 159,980              |
| Corporate <sup>(C)</sup> | 266,772          | 279,013              |
| Eliminations             | (250,597)        | (251,085 )           |
| Total assets             | \$ 391,498       | \$ 398,751           |

(A) Unallocated Corporate expenses include, among other items, accounting, finance, legal and information technology costs as well as share-based compensation.

(B) These amounts represent depreciation and amortization on property, plant and equipment and certain intangible assets.

(C) Assets located at Corporate consist primarily of cash, intercompany loan receivables, equity investments and investments in subsidiaries.

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

|                  | Three months ended<br>June 30,<br>2015 |           | Six months ended<br>June 30,<br>2015 |           |
|------------------|----------------------------------------|-----------|--------------------------------------|-----------|
|                  | 2014                                   |           | 2014                                 |           |
| Net Sales:       |                                        |           |                                      |           |
| North America    | \$94,679                               | \$79,718  | \$184,432                            | \$159,516 |
| South America    | 22,996                                 | 32,920    | 49,518                               | 66,836    |
| Europe and Other | 47,614                                 | 49,461    | 94,164                               | 97,078    |
| Total net sales  | \$165,289                              | \$162,099 | \$328,114                            | \$323,430 |

|                   | June 30,<br>2015 | December 31,<br>2014 |
|-------------------|------------------|----------------------|
| Long-term Assets: |                  |                      |
| North America     | \$57,227         | \$ 53,406            |

|                        |            |            |
|------------------------|------------|------------|
| South America          | 73,440     | 85,433     |
| Europe and Other       | 14,474     | 14,401     |
| Total long-term assets | \$ 145,141 | \$ 153,240 |

**(14) Investments*****Minda Stoneridge Instruments Ltd.***

The Company has a 49% interest in Minda Stoneridge Instruments Ltd. (“Minda”), a company based in India that manufactures electronics, instrumentation equipment and sensors primarily for the motorcycle and commercial vehicle market. The investment is accounted for under the equity method of accounting. The Company's investment in Minda recorded as a component of investments and other long-term assets, net on the condensed consolidated balance sheets, was \$6,916 and \$6,653 at June 30, 2015 and December 31, 2014, respectively. Equity in earnings of Minda included in the condensed consolidated statements of operations was \$143 and \$144, for the three months ended June 30, 2015 and 2014, respectively. Equity in earnings of Minda included in the condensed consolidated statements of operations was \$332 and \$382, for the six months ended June 30, 2015 and 2014, respectively.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share data, unless otherwise indicated)**

**(Unaudited)**

***PST Eletrônica Ltda.***

The Company has a 74% controlling interest in PST. Noncontrolling interest in PST decreased to \$18,353 at June 30, 2015 due to comprehensive loss of \$4,197 resulting from a proportionate share of its net loss of \$1,005 for the six months ended June 30, 2015 and an unfavorable change in foreign currency translation of \$3,192. Noncontrolling interest in PST decreased to \$33,678 at June 30, 2014 due to comprehensive loss of \$5,862 resulting from a proportionate share of its net loss of \$8,199 including goodwill impairment, which was partially offset by a favorable change in foreign currency translation of \$2,337 for the six months ended June 30, 2014. Comprehensive income (loss) related to PST noncontrolling interest was \$32 and \$(6,230) for the three months ended June 30, 2015 and 2014, respectively.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### ***Background***

We are a global designer and manufacturer of highly engineered electrical and electronic components, modules and systems for the automotive, commercial, motorcycle, off-highway and agricultural vehicle markets.

### ***Segments***

We are organized by products produced and markets served. Under this structure, our continuing operations have been reported utilizing the following segments:

*Control Devices.* This segment includes results of operations that manufacture sensors, switches, valves and actuators.

*Electronics.* This segment includes results of operations from the production of electronic instrument clusters, electronic control units and driver information systems.

*PST.* This segment includes results of operations that design and manufacture electronic vehicle alarms, convenience accessories, vehicle tracking devices and monitoring services and in-vehicle audio and video devices.

During the second quarter of 2014 we entered into an asset purchase agreement to divest our Wiring business, which designed and manufactured wiring harness products and assembled instrument panels principally for the commercial, agricultural and off-highway vehicle markets. On August 1, 2014, the Company completed the sale of substantially all of the assets and liabilities of the Wiring business. As a result of the sale, this business is classified as discontinued operations in our condensed consolidated financial statements and no discussion and analysis of financial condition and results of operations is provided herein.

### ***Second Quarter Overview***

Income (loss) from continuing operations attributable to Stoneridge, Inc. of \$6.9 million, or \$0.25 per diluted share for the three months ended June 30, 2015 increased by \$28.2 million, or \$1.04 per diluted share from \$(21.3) million, or \$(0.79) per diluted share for the three months ended June 30, 2014.

The increase in income from continuing operations is primarily due to the fact that our PST segment recorded a goodwill impairment charge of \$29.3 million (including \$6.4 million attributable to noncontrolling interest) in the second quarter of 2014 which had a negative impact of \$0.85 per diluted share attributable to Stoneridge, Inc. Also, interest expense decreased by \$3.4 million resulting from the refinancing of our debt in the second half of 2014. In addition, our selling, general and administrative and design and development costs decreased by \$3.6 million in aggregate primarily due to foreign currency translation related to our PST and Electronics segments resulting from changes in foreign currency exchange rates. Further, income taxes were favorably affected by \$0.5 million due to a higher mix of U.S. earnings which does not attract tax expense due to a valuation allowance. These were partially offset by a \$2.3 million decrease in gross profit due to higher material costs in our Electronics segment and an unfavorable foreign currency translation in our Electronics and PST segments both resulting from an unfavorable change in foreign currency exchange rates.

Net sales increased by \$3.2 million, or 2.0%, from higher sales in our Control Devices and Electronics segments during the second quarter of 2015 which were substantially offset by lower sales in our PST segment. Control Devices segment sales increased due to higher North American and China automotive market sales while our Electronics segment sales increased due to higher North American and European commercial vehicle product sales. PST segment sales declined primarily due to an unfavorable foreign currency translation and was negatively impacted by lower product sales volume.

At June 30, 2015 and December 31, 2014, we had cash and cash equivalents balance of \$22.9 million and \$43.0 million, respectively. The decrease was primarily due to higher working capital, capital expenditures primarily to support the launch of new products and repayment of debt. At June 30, 2015 and December 31, 2014 we had \$100.0 million in borrowings outstanding on our Credit Facility. Working capital increased during the first half of 2015 (from the annual low point in December) due to increased sales volume and Europe Electronics inventory build in preparation for summer holiday shutdown.

## *Outlook*

The North American automotive vehicle market production is forecasted to be in the range of 17.0 million to 17.5 million units in 2015 compared to 17.0 million units produced in 2014. The improvement in the North American automotive vehicle market and sales of new products had a favorable effect on our Control Devices segment's results during the first half of 2015. We expect this will continue for the remainder of 2015.

The North American commercial vehicle market is forecasted to improve for the remainder of 2015. We expect this to have a favorable effect on our Control Devices and Electronics segments.

The European commercial vehicle market is forecasted to have modest improvement throughout the remainder of 2015 which is expected to have a favorable effect on our Electronics segment.

Our PST segment revenues and operating performance continued to be weak due to a significant weakness of the Brazilian economy and automotive market. In July 2015, the International Monetary Fund (IMF) lowered its forecasts for the Brazil gross domestic product to a decline of 1.5% in 2015 and an increase of only 0.7% in 2016. Based on the weakness in PST's sales and operating performance in the first half of 2015 and lower forecasted growth of the Brazilian economy, PST's sales and earnings growth expectations for the remainder of 2015 continue to be moderated. Since there is significant uncertainty regarding the timing and magnitude of a recovery in the Brazilian economy and automotive market, PST will continue to realign its cost structure to mitigate the effect on earnings of possible continued weakened product demand and unfavorable foreign currency exchange rates.

A significant portion of our sales are outside of the United States. These sales are generated by our non-U.S. based operations, and therefore changes in foreign currency exchange rates can have a significant effect on our results of operations, which are presented in U.S. dollars. A significant portion of our raw materials purchased by our non-U.S. based operations is in U.S. dollars, and therefore changes in foreign currency exchange rates can also have a significant effect on our results of operations.

Because of the competitive nature of the markets we serve, in the ordinary course of business we face pricing pressures from our customers. In response to these pricing pressures we have been able to effectively manage our production costs by the combination of lowering certain costs and limiting the increase of others, the net impact of which has not been material. However, if we are unable to effectively manage production costs in the future to mitigate future pricing pressures, our results of operations would be adversely affected.



**Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014**

Condensed consolidated statements of operations as a percentage of net sales are presented in the following table (in thousands):

| Three months ended June 30                                      | <b>2015</b> |         | <b>2014</b>  |          | Dollar increase / (decrease) |
|-----------------------------------------------------------------|-------------|---------|--------------|----------|------------------------------|
| Net sales                                                       | \$ 165,289  | 100.0 % | \$ 162,099   | 100.0 %  | \$ 3,190                     |
| Costs and expenses:                                             |             |         |              |          |                              |
| Cost of goods sold                                              | 119,343     | 72.2    | 113,814      | 70.2     | 5,529                        |
| Selling, general and administrative                             | 28,482      | 17.2    | 31,617       | 19.5     | (3,135 )                     |
| Design and development                                          | 10,049      | 6.1     | 10,589       | 6.6      | (540 )                       |
| Goodwill impairment                                             | -           | -       | 29,300       | 18.1     | (29,300 )                    |
| Operating income (loss)                                         | 7,415       | 4.5     | (23,221 )    | (14.4 )  | 30,636                       |
| Interest expense, net                                           | 1,658       | 1.0     | 5,072        | 3.1      | (3,414 )                     |
| Equity in earnings of investee                                  | (143 )      | (0.1 )  | (144 )       | (0.1 )   | 1                            |
| Other (income) expense, net                                     | (47 )       | -       | 330          | 0.2      | (377 )                       |
| Income (loss) before income taxes from continuing operations    | 5,947       | 3.6     | (28,479 )    | (17.6 )  | 34,426                       |
| Provision (benefit) for income taxes from continuing operations | (381 )      | (0.2 )  | 90           | 0.1      | (471 )                       |
| Income (loss) from continuing operations                        | 6,328       | 3.8     | (28,569 )    | (17.7 )  | 34,897                       |
| Discontinued operations:                                        |             |         |              |          |                              |
| Income from discontinued operations, net of tax                 | -           | -       | 594          | 0.4      | (594 )                       |
| Gain (loss) on disposal, net of tax                             | 55          | -       | (1,138 )     | (0.7 )   | 1,193                        |
| Income (loss) from discontinued operations                      | 55          | -       | (544 )       | (0.3 )   | 599                          |
| Net income (loss)                                               | 6,383       | 3.8     | (29,113 )    | (18.0 )  | 35,496                       |
| Net loss attributable to noncontrolling interest                | (596 )      | (0.4 )  | (7,221 )     | (4.5 )   | 6,625                        |
| Net income (loss) attributable to Stoneridge, Inc.              | \$ 6,979    | 4.2 %   | \$ (21,892 ) | (13.5 )% | \$ 28,871                    |

*Net Sales.* Net sales for our reportable segments, excluding inter-segment sales, are summarized in the following table (in thousands):

| Three months ended June 30 | <b>2015</b> |         | <b>2014</b> |         | Dollar increase / (decrease) | Percent increase / (decrease) |
|----------------------------|-------------|---------|-------------|---------|------------------------------|-------------------------------|
| Control Devices            | \$ 84,398   | 51.1 %  | \$ 76,413   | 47.1 %  | \$ 7,985                     | 10.4 %                        |
| Electronics                | 57,895      | 35.0    | 52,766      | 32.6    | 5,129                        | 9.7 %                         |
| PST                        | 22,996      | 13.9    | 32,920      | 20.3    | (9,924 )                     | (30.1 )%                      |
| Total net sales            | \$ 165,289  | 100.0 % | \$ 162,099  | 100.0 % | \$ 3,190                     | 2.0 %                         |

Our Control Devices segment net sales increased primarily due to new product sales in our North American automotive market and higher volume in our China automotive market of \$6.8 million and \$1.1 million, respectively. The increase also relates to slightly higher volume in our commercial vehicle market during the second quarter of 2015 when compared to the second quarter of 2014.

Our Electronics segment net sales increased primarily due to an increase in sales of our North American commercial vehicle products of \$8.4 million from higher volume related to post-disposition sales to the Wiring business acquired by Motherson of \$6.9 million, and an increase in sales volume of our European commercial vehicle products of \$6.8 million, which were partially offset by an unfavorable foreign currency translation of \$8.7 million.

Our PST segment net sales decreased primarily due to an unfavorable foreign currency translation which reduced sales by \$8.7 million, or 26.3%, and lower product volume. PST's audio and car alarm sales volume declined due to further weakening of the Brazilian economy and automotive markets while monitoring service revenues increased.

Net sales by geographic location are summarized in the following table (in thousands):

| Three months ended June 30 |            |         |            |         | Dollar     |  | Percent    |  |
|----------------------------|------------|---------|------------|---------|------------|--|------------|--|
|                            |            |         |            |         | increase / |  | increase / |  |
|                            | 2015       |         | 2014       |         | (decrease) |  | (decrease) |  |
| North America              | \$94,679   | 57.3 %  | \$79,718   | 49.2 %  | \$ 14,961  |  | 18.8 %     |  |
| South America              | 22,996     | 13.9    | 32,920     | 20.3    | (9,924 )   |  | (30.1 )%   |  |
| Europe and Other           | 47,614     | 28.8    | 49,461     | 30.5    | (1,847 )   |  | (3.7 )%    |  |
| Total net sales            | \$ 165,289 | 100.0 % | \$ 162,099 | 100.0 % | \$ 3,190   |  | 2.0 %      |  |

The increase in North American net sales was primarily attributable to increased new product sales volume in our North American Electronics segment commercial vehicle and Control Devices segment automotive markets of \$8.4 million and \$6.8 million, respectively. Our decrease in net sales in South America was primarily due to the negative impact of an unfavorable foreign currency translation and lower product sales volume. Our decrease in net sales in Europe and Other was primarily due to an unfavorable foreign currency translation of \$8.7 million, which was substantially offset by increased sales of European commercial vehicle and Chinese automotive market products of \$6.8 million and \$1.1 million, respectively.

*Cost of Goods Sold and Gross Margin.* Cost of goods sold increased by 4.9% primarily related to higher material costs resulting from unfavorable changes in foreign currency exchange rates as well as the increase in sales. Our material cost as a percentage of net sales increased to 51.2% for the second quarter of 2015 compared to 48.3% for the second quarter of 2014. As a result, our gross margin decreased to 27.8% for the second quarter of 2015 compared to 29.8% for the second quarter of 2014. The higher material costs and lower gross margin were primarily due to unfavorable changes in foreign currency exchange rates in our Electronics segment, which were partially offset by lower direct material costs in our Control Devices segment resulting from product redesign, a favorable mix of products sold and lower commodity prices.

Our Control Devices segment gross margin increased due to the benefit of increased sales volume, product redesign, a favorable mix of products sold, lower commodity prices and lower warranty costs, which were partially offset by higher employee related costs.

Our Electronics segment gross margin decreased primarily due to higher material costs resulting from an unfavorable change in foreign currency exchange rates.

Our PST segment gross margin increased slightly as a favorable sales mix, price increases, product redesign and new supplier sourcing were offset by higher material costs resulting from an unfavorable change in foreign currency exchange rates. Also, PST incurred \$0.3 million in business realignment charges in the second quarter of 2014.

*Selling, General and Administrative (“SG&A”).* SG&A expenses decreased by \$3.1 million compared to the second quarter of 2014 due to lower SG&A costs in our PST and Electronics segments primarily due to foreign currency translation resulting from a change in foreign currency exchange rates, which were partially offset by higher SG&A expenses in our Control Devices and unallocated corporate segments.

*Design and Development.* Design and development costs decreased by \$0.5 million primarily due to foreign currency translation resulting from a change in foreign currency exchange rates in our PST segment and lower Control Devices segment product development costs. An increase in design and development costs in our Electronics segment was offset by a change in foreign currency exchange rates.

*Goodwill Impairment.* The Company recorded a charge of \$29.3 million for the quarter ended June 30, 2014 related to a portion of the PST goodwill. The impairment was due to the weakening of both the Brazilian economy and automotive market resulting in lower projected revenue growth. This non-cash impairment charge is more fully described in Note 4 to our condensed consolidated financial statements.

*Operating Income (Loss).* Operating income (loss) is summarized in the following table by continuing reportable segment (in thousands):

|                            |           |             | Dollar<br>increase /<br>(decrease) | Percent<br>increase /<br>(decrease) |    |
|----------------------------|-----------|-------------|------------------------------------|-------------------------------------|----|
| Three months ended June 30 | 2015      | 2014        |                                    |                                     |    |
| Control Devices            | \$ 11,984 | \$ 8,719    | \$ 3,265                           | 37.4                                | %  |
| Electronics                | 3,222     | 4,886       | (1,664 )                           | (34.1                               | )% |
| PST                        | (2,591 )  | (31,982)    | 29,391                             | NM                                  |    |
| Unallocated corporate      | (5,200 )  | (4,844 )    | (356 )                             | (7.3                                | )% |
| Operating income (loss)    | \$ 7,415  | \$ (23,221) | \$ 30,636                          | NM                                  |    |

NM - not meaningful

Our Control Devices segment operating income increased primarily due to an increase in sales, product redesign, a favorable change in product mix and lower commodity prices which were partially offset by higher SG&A costs including legal and professional fees, performance-based compensation and employee related costs.

Our Electronics segment operating income decreased due to a decrease in gross profit as material costs increased, which was partially offset by lower SG&A costs both of which were a result of fluctuations in foreign currency exchange rates.

Our PST segment operating loss decreased due to a goodwill impairment charge of \$29.3 million that was recorded in the second quarter of 2014 which did not recur in 2015 as the remaining goodwill was written off in the fourth quarter of 2014. PST's material cost reductions achieved from product redesign, new supplier sourcing and a favorable sales

mix were offset by an unfavorable change in foreign currency exchange rates.

Our unallocated corporate operating loss increased primarily due to higher legal and professional fees.

Operating income (loss) by geographic location is summarized in the following table (in thousands):

|                            |         |            | Dollar<br>increase /<br>(decrease) | Percent<br>increase /<br>(decrease) |    |
|----------------------------|---------|------------|------------------------------------|-------------------------------------|----|
| Three months ended June 30 | 2015    | 2014       |                                    |                                     |    |
| North America              | \$7,730 | \$5,810    | \$ 1,920                           | 33.0                                | %  |
| South America              | (2,591) | (31,982)   | 29,391                             | NM                                  |    |
| Europe and Other           | 2,276   | 2,951      | (675 )                             | (22.9                               | )% |
| Operating income (loss)    | \$7,415 | \$(23,221) | \$ 30,636                          | NM                                  |    |

North American operating income includes interest expense, net of approximately \$0.7 million and \$4.0 million for the quarters ended June 30, 2015 and 2014, respectively.

Our North American operating results increased primarily due to increased sales in the North American commercial vehicle and automotive markets and lower material costs partially offset by higher SG&A costs including employee related and performance-based compensation expenses. The increase in performance in South America was due to the goodwill impairment charge recorded in 2014 that did not recur in 2015. Our results in Europe and Other declined due primarily to higher material costs resulting from an unfavorable change in foreign currency exchange rates related to our Electronics segment.

*Interest Expense, net.* Interest expense, net decreased by \$3.4 million during the second quarter of 2015 when compared to the prior year second quarter primarily due to a lower average debt balance outstanding and a lower weighted-average interest rate. We redeemed our \$175.0 million 9.5% senior secured notes in September and October 2014 using borrowings of \$100.0 million on our Credit Facility (which bore annual interest of approximately 1.8% in the second quarter of 2015), proceeds from the sale of the Wiring business and existing cash.

*Equity in Earnings of Investee.* Equity earnings for Minda was \$0.1 million for both the three months ended June 30, 2015 and 2014.

*Other (Income) Expense, net.* We record certain foreign currency transaction and forward currency hedge contract gains and losses as a component of other (income) expense, net on the condensed consolidated statement of operations. Other (income) expense, net was \$(0.1) million for the second quarter of 2015 compared to \$0.3 million for the second quarter of 2014 due to less volatility in certain foreign exchange rates in the current period. Our PST segment was unfavorably affected by a foreign currency translation loss related to the Argentinian peso in the second quarter of 2014 which did not recur in the second quarter of 2015.

*Provision (Benefit) for Income Taxes from Continuing Operations.* We recognized an income tax provision (benefit) of \$(0.4) million and \$0.1 million for federal, state and foreign income taxes for the second quarter of 2015 and 2014, respectively. The effective tax rate decreased to (6.4)% in the second quarter of 2015 from 0.3% in the second quarter of 2014. The change in the income tax provision and the effective tax rate for the three months ended June 30, 2015 compared to the same period for 2014 was primarily due to the improved earnings of the U.S. operations and reduced earnings of the European operations, which were partially offset by the smaller operating loss of PST.

We will continue to maintain a full valuation allowance on our U.S. deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of this allowance. As a result of the sale of the Wiring business and debt refinancing during the second half of 2014 and actual and anticipated earnings of the U.S. operations, we believe that there may be a reasonable possibility that additional positive evidence could develop in the near term that may allow us to reach a conclusion that some or all of the valuation allowance on our U.S. deferred tax assets will no longer be needed. Reversal of some or all of the U.S. valuation allowance would result in the recognition of certain deferred tax assets and an income tax benefit in the period the reversal is recorded. However, the exact timing and amount of a valuation allowance reversal depends upon the level of profitability that we are able to actually achieve.

**Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014**

Condensed consolidated statements of operations as a percentage of net sales are presented in the following table (in thousands):

| Six months ended June 30                                        | <b>2015</b> |         | <b>2014</b> |         | Dollar increase / (decrease) |
|-----------------------------------------------------------------|-------------|---------|-------------|---------|------------------------------|
| Net sales                                                       | \$328,114   | 100.0 % | \$323,430   | 100.0 % | \$4,684                      |
| Costs and expenses:                                             |             |         |             |         |                              |
| Cost of goods sold                                              | 238,520     | 72.7    | 227,007     | 70.2    | 11,513                       |
| Selling, general and administrative                             | 59,224      | 18.1    | 62,383      | 19.3    | (3,159 )                     |
| Design and development                                          | 19,829      | 6.0     | 21,527      | 6.6     | (1,698 )                     |
| Goodwill impairment                                             | -           | -       | 29,300      | 9.1     | (29,300 )                    |
| Operating income (loss)                                         | 10,541      | 3.2     | (16,787 )   | (5.2 )  | 27,328                       |
| Interest expense, net                                           | 2,936       | 0.9     | 10,001      | 3.1     | (7,065 )                     |
| Equity in earnings of investee                                  | (332 )      | (0.1 )  | (382 )      | (0.1 )  | 50                           |
| Other (income) expense, net                                     | (260 )      | (0.1 )  | 2,246       | 0.6     | (2,506 )                     |
| Income (loss) before income taxes from continuing operations    | 8,197       | 2.5     | (28,652 )   | (8.8 )  | 36,849                       |
| Provision (benefit) for income taxes from continuing operations | (234 )      | (0.1 )  | 385         | 0.1     | (619 )                       |
| Income (loss) from continuing operations                        | 8,431       | 2.6     | (29,037 )   | (8.9 )  | 37,468                       |
| Discontinued operations:                                        |             |         |             |         |                              |
| Income from discontinued operations, net of tax                 | -           | -       | 1,647       | 0.5     | (1,647 )                     |
| Gain (loss) on disposal, net of tax                             | (113 )      | (0.1 )  | (1,233 )    | (0.4 )  | 1,120                        |
| Income (loss) from discontinued operations                      | (113 )      | (0.1 )  | 414         | 0.1     | (527 )                       |
| Net income (loss)                                               | 8,318       | 2.5     | (28,623 )   | (8.8 )  | 36,941                       |
| Net loss attributable to noncontrolling interest                | (1,005 )    | (0.3 )  | (8,199 )    | (2.5 )  | 7,194                        |
| Net income (loss) attributable to Stoneridge, Inc.              | \$9,323     | 2.8 %   | \$(20,424 ) | (6.3 )% | \$29,747                     |

**Net Sales.** Net sales for our reportable segments, excluding inter-segment sales are summarized in the following table (in thousands):

| Six months ended June 30 | 2015      | 2014      | Dollar increase / (decrease) | Percent increase / (decrease) |
|--------------------------|-----------|-----------|------------------------------|-------------------------------|
| Control Devices          | \$164,269 | \$153,737 | \$10,532                     | 6.9 %                         |
| Electronics              | 114,327   | 102,857   | 11,470                       | 11.2 %                        |
| PST                      | 49,518    | 66,836    | (17,318 )                    | (25.9 )%                      |

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|                 |           |        |           |        |         |     |   |
|-----------------|-----------|--------|-----------|--------|---------|-----|---|
| Total net sales | \$328,114 | 100.0% | \$323,430 | 100.0% | \$4,684 | 1.4 | % |
|-----------------|-----------|--------|-----------|--------|---------|-----|---|

Our Control Devices segment net sales increased primarily due to new product sales in our North American automotive market and higher volume in our China automotive market of \$8.8 million and \$2.4 million, respectively.

Our Electronics segment net sales increased primarily due to an increase in sales of our North American commercial vehicle products of \$17.1 million from higher volume related to post-disposition sales to the Wiring business acquired by Motherson of \$14.0 million, and an increase in sales volume of our European commercial vehicle products of \$13.1 million, which were partially offset by an unfavorable foreign currency translation of \$17.4 million.

Our PST segment net sales decreased primarily due to an unfavorable foreign currency translation which reduced sales by \$14.2 million, or 21.2%, and lower product volume. PST's audio and car alarm sales volume declined due to further weakening of the Brazilian economy and automotive market while monitoring service revenues increased.

Net sales by geographic location are summarized in the following table (in thousands):

| Six months ended June 30 | 2015      |         | 2014      |         | Dollar<br>increase /<br>(decrease) | Percent<br>increase /<br>(decrease) |
|--------------------------|-----------|---------|-----------|---------|------------------------------------|-------------------------------------|
| North America            | \$184,432 | 56.2 %  | \$159,516 | 49.3 %  | \$24,916                           | 15.6 %                              |
| South America            | 49,518    | 15.1    | 66,836    | 20.7    | (17,318 )                          | (25.9 )%                            |
| Europe and Other         | 94,164    | 28.7    | 97,078    | 30.0    | (2,914 )                           | (3.0 )%                             |
| Total net sales          | \$328,114 | 100.0 % | \$323,430 | 100.0 % | \$4,684                            | 1.4 %                               |

The increase in North American net sales was primarily attributable to increased new product sales volume in our North American Electronics' commercial vehicle and Control Devices' automotive markets of \$17.1 million and \$8.8 million, respectively. Our decrease in net sales in South America was primarily due to the negative impact of an unfavorable foreign currency translation as well as lower product sales volume. Our decrease in net sales in Europe and Other was primarily due to an unfavorable foreign currency translation of \$17.4 million, which was substantially offset by increased sales of European commercial vehicle and Chinese automotive market products of \$13.1 million and \$2.4 million, respectively.

*Cost of Goods Sold and Gross Margin.* Cost of goods sold increased by 5.1% primarily related to higher material costs resulting from unfavorable changes in foreign currency exchange rates as well as the increase in sales. Our material cost as a percentage of net sales increased to 51.4% for the first half of 2015 compared to 48.1% for the first half of 2014. As a result, our gross margin decreased to 27.3% for the first half of 2015 compared to 29.8% for the first half of 2014. The higher material costs and lower gross margin were primarily due to unfavorable changes in foreign currency exchange rates in our Electronics segment, which were partially offset by lower material costs in our Control Devices segment resulting from product redesign, a favorable mix of products sold and lower commodity prices.

Our Control Devices segment gross margin increased due to the benefit of increased sales volume, product redesign, a favorable mix of products sold and lower commodity prices, which were partially offset by higher employee related

and warranty costs.

Our Electronics segment gross margin decreased primarily due to higher material costs resulting from an unfavorable change in foreign currency exchange rates.

Our PST segment gross margin increased slightly as a favorable sales mix, prices increases, product redesign and new supplier sourcing were offset by higher material costs resulting from an unfavorable change in foreign currency exchange rates. Also, PST incurred \$0.5 million in business realignment charges in the first half of 2014.

*Selling, General and Administrative.* SG&A expenses decreased by \$3.2 million compared to the first half of 2014 as lower SG&A costs in our PST and Electronics segments were partially offset by higher corporate share-based and performance-based compensation expense. SG&A costs in our PST and Electronics segments decreased primarily due to foreign currency translation resulting from a change in foreign currency exchange rates, which were partially offset by higher SG&A costs in our Control Devices segment and higher share-based compensation in connection with the accelerated vesting associated with the retirement of our former President and CEO, which was \$2.2 million.

*Design and Development.* Design and development costs decreased by \$1.7 million primarily due to foreign currency translation resulting from a change in foreign currency exchange rates in our Electronics and PST segments while the Control Devices segment incurred lower product development costs.

*Goodwill Impairment.* The Company recorded a charge of \$29.3 million for the six months ended June 30, 2014 related to a portion of the PST goodwill. The impairment was due to the weakening of both the Brazilian economy and automotive market resulting in lower projected revenue and earnings growth. This non-cash impairment charge is more fully described in Note 4 to our condensed consolidated financial statements.

*Operating Income (Loss).* Operating income is summarized in the following table by continuing reportable segment (in thousands):

| Six months ended June 30 | 2015      | 2014       | Dollar<br>increase /<br>(decrease) | Percent<br>increase /<br>(decrease) |
|--------------------------|-----------|------------|------------------------------------|-------------------------------------|
| Control Devices          | \$21,590  | \$17,152   | \$ 4,438                           | 25.9 %                              |
| Electronics              | 6,646     | 9,668      | (3,022 )                           | (31.3 )%                            |
| PST                      | (5,241 )  | (34,524)   | 29,283                             | NM                                  |
| Unallocated corporate    | (12,454)  | (9,083 )   | (3,371 )                           | (37.1 )%                            |
| Operating income (loss)  | \$ 10,541 | \$(16,787) | \$ 27,328                          | NM                                  |

Our Control Devices segment operating income increased primarily due to an increase in sales, product redesign, a favorable change in product mix, lower commodity prices and lower design and development costs, partially offset by slightly higher SG&A costs including legal and professional fees, performance-based compensation and employee benefits.

Our Electronics segment operating income decreased due to a decrease in gross profit as material costs increased, which was partially offset by lower SG&A and design and development costs all of which were a result of fluctuations in foreign currency exchange rates.

Our PST segment operating loss decreased due to a goodwill impairment charge of \$29.3 million that was recorded in the first half of 2014 which did not recur in 2015. The price increases, significant material cost reductions achieved from product redesign and new supplier sourcing were offset by an unfavorable change in foreign currency exchange rates.

Our unallocated corporate operating loss increased primarily due to higher share-based compensation as a result of the acceleration of the vesting associated with the retirement of our President and CEO of \$2.2 million in first half of 2015, higher performance-based compensation.

Operating income (loss) by geographic location is summarized in the following table (in thousands):

|                          |           |             | Dollar<br>increase /<br>(decrease) | Percent<br>increase /<br>(decrease) |    |
|--------------------------|-----------|-------------|------------------------------------|-------------------------------------|----|
| Six months ended June 30 | 2015      | 2014        |                                    |                                     |    |
| North America            | \$ 11,596 | \$ 11,463   | \$ 133                             | 1.2                                 | %  |
| South America            | (5,241 )  | (34,524)    | 29,283                             | NM                                  |    |
| Europe and Other         | 4,186     | 6,274       | (2,088 )                           | (33.3                               | )% |
| Operating income (loss)  | \$ 10,541 | \$ (16,787) | \$ 27,328                          | NM                                  |    |

North American operating income includes interest expense, net of approximately \$1.5 million and \$7.9 million for the six months ended June 30, 2015 and 2014, respectively.

Our North American operating results increased slightly due to higher sales in the North American commercial vehicle and automotive markets, lower material costs and a favorable change in product mix, which was substantially offset by higher share-based compensation expense as a result of the acceleration of the vesting of share-based awards in connection with the retirement of our former President and CEO during the first half of 2015. The increase in performance in South America was due to the goodwill impairment charge taken in the first half of 2014 which did not recur in 2015. Our results in Europe and Other declined due primarily to higher material costs resulting from an unfavorable change in foreign currency exchange rates related to our Electronics segment.

*Interest Expense, net.* Interest expense, net decreased by \$7.1 million during the first half of 2015 when compared to the same period in the prior year primarily due to a lower average debt balance outstanding and a lower weighted-average interest rate. We redeemed our \$175.0 million 9.5% senior secured notes in September and October 2014 using borrowings of \$100.0 million on our Credit Facility (which bore annual interest of approximately 1.8% in the first half of 2015), proceeds from the sale of the Wiring business and existing cash.

*Equity in Earnings of Investee.* Equity earnings for Minda was \$0.3 million and \$0.4 million for the six months ended June 30, 2015 and 2014, respectively.

*Other (Income) Expense, net.* We record certain foreign currency transaction and forward currency hedge contract gains and losses as a component of other (income) expense, net on the condensed consolidated statement of operations. Other (income) expense, net was (\$0.3) million for the first half of 2015 compared to \$2.2 million for the first half of 2014 due to less volatility in certain foreign exchange rates in the current period. Our PST segment was unfavorably affected by a significant foreign currency translation loss related to the Argentinian peso in the first half of 2014 which did not recur in the first half of 2015.

*Provision (Benefit) for Income Taxes from Continuing Operations.* We recognized an income tax provision (benefit) of \$(0.2) million and \$0.4 million for federal, state and foreign income taxes for the first half of 2015 and 2014, respectively. The effective tax rate decreased to (2.8)% in the first half of 2015 from 1.3% in the first half of 2014. The change in the tax provision and the effective tax rate for the six months ended June 30, 2015 compared to the same period for 2014 was primarily due to the improved earnings of the U.S. operations and reduced earnings of the European operations, which was partially offset by the smaller operating loss of PST. In addition, the Company recognized a discrete tax expense related to certain foreign operations during the first half of 2014 which did not recur in the first half of 2015.

We will continue to maintain a full valuation allowance on our U.S. deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of this allowance. As a result of the sale of the Wiring business and debt refinancing during the second half of 2014 and actual and anticipated earnings of the U.S. operations, we believe that there may be a reasonable possibility that additional positive evidence could develop in the near term that may allow us to reach a conclusion that some or all of the valuation allowance on our U.S. deferred tax assets will no

longer be needed. Reversal of some or all of the U.S. valuation allowance would result in the recognition of certain deferred tax assets and an income tax benefit in the period the reversal is recorded. However, the exact timing and amount of a valuation allowance reversal depends upon the level of profitability that we are able to actually achieve.

***Liquidity and Capital Resources****Summary of Cash Flows (in thousands):*

|                                                              | 2015       | 2014       | Dollar<br>increase /<br>(decrease) |
|--------------------------------------------------------------|------------|------------|------------------------------------|
| Net cash provided by (used for):                             |            |            |                                    |
| Operating activities                                         | \$1,632    | \$(7,059 ) | \$ 8,691                           |
| Investing activities                                         | (16,892)   | (13,554)   | (3,338 )                           |
| Financing activities                                         | (3,348 )   | 3,855      | (7,203 )                           |
| Effect of exchange rate changes on cash and cash equivalents | (1,553 )   | (310 )     | (1,243 )                           |
| Net change in cash and cash equivalents                      | \$(20,161) | \$(17,068) | \$ (3,093 )                        |

The increase in cash provided by operating activities for the first half of 2015 compared to the same period in 2014 was primarily due to lower working capital required as a result of the sale of the Wiring business in August 2014 and an increase in net income. Our receivable terms and collections rates have remained consistent between periods presented.

The increase in net cash used for investing activities for the first half of 2015 is due to an increase in capital expenditures primarily to support the launch of new products as well as a refund of excess proceeds received from Motherson based on the resolution of the working capital and other adjustments associated with the sale of the Wiring business.

The increase in net cash used for financing activities was primarily due to an increase in principal payments and lower borrowings on debt of \$6.7 million and \$1.0 million, respectively.

As outlined in Note 8 to our condensed consolidated financial statements, our Credit Facility permits borrowing up to a maximum level of \$300.0 million which includes an accordion feature which allows the Company to increase the availability by up to \$80.0 million upon the satisfaction of certain conditions. This variable rate facility provides the flexibility to refinance other outstanding debt or finance acquisitions through September 2019. The Credit Facility contains certain financial covenants that require the Company to maintain less than a maximum leverage ratio and more than a minimum interest coverage ratio. The Credit Facility also contains affirmative and negative covenants and events of default that are customary for credit arrangements of this type including covenants which place restrictions and/or limitations on the Company's ability to borrow money, make capital expenditures and pay dividends. The Credit Facility had an outstanding balance of \$100.0 million at June 30, 2015. The Company was in compliance with all covenants at June 30, 2015. The covenants included in our Credit Facility to date have not and are not expected to

limit our financing flexibility.

PST maintains several short-term obligations and long-term loans used for working capital purposes. At June 30, 2015, there was \$27.1 million outstanding on the PST term loans. Principal payments on PST debt at June 30, 2015 are as follows: \$20.1 million from July 2015 to June 2016, \$1.8 million from July 2016 to December 2016, \$2.0 million in 2017, \$1.2 million in both 2018 and 2019 and \$0.4 million in both 2020 and 2021.

The Company's wholly owned subsidiary located in Stockholm, Sweden, has an overdraft credit line which allows overdrafts on the subsidiary's bank account up to a maximum level of 20.0 million Swedish krona, or \$2.4 million, at June 30, 2015. At June 30, 2015, there were no overdrafts on the bank account.

Although the Company's notes and credit facilities contain various covenants, the violation of which would limit or preclude their use or accelerate the maturity, the Company has not experienced and does not expect these covenants to restrict our financing flexibility. The Company has been and expects to continue to remain in compliance with these covenants during the term of the notes and credit facilities.

Our future results could also be adversely affected by unfavorable foreign currency exchange rates. We have significant foreign denominated transaction exposure in certain locations, especially in Brazil, Argentina, Mexico, Sweden and Estonia. We have entered into foreign currency forward contracts to reduce our exposure related to certain foreign currency fluctuations. See Note 6 to the condensed consolidated financial statements for additional details. Our future results could also be unfavorably affected by increased commodity prices as commodity fluctuations impact the cost of our raw material purchases.

At June 30, 2015, we had a cash and cash equivalents balance of approximately \$22.9 million, of which \$5.9 million was held in the United States and \$17.0 million was held in foreign locations. The decrease from \$43.0 million at December 31, 2014 was due to higher working capital, capital expenditures to support the launch of new products, repayment of debt and the repurchase of common shares to satisfy employee tax withholdings.

### ***Commitments and Contingencies***

See Note 11 to the condensed consolidated financial statements for disclosures of the Company's commitments and contingencies.

### ***Seasonality***

Our Control Devices and Electronics segments are not typically affected by seasonality, however the demand for our PST segment consumer products is typically higher in the second half of the year, the fourth quarter in particular.

### ***Critical Accounting Policies and Estimates***

The Company's critical accounting policies, which include management's best estimates and judgments, are included in Part II, Item 7, to the consolidated financial statements of the Company's 2014 Form 10-K. These accounting policies are considered critical as disclosed in the Critical Accounting Policies and Estimates section of Management's Discussion and Analysis of the Company's 2014 Form 10-K because of the potential for a significant impact on the financial statements due to the inherent uncertainty in such estimates.

Information regarding other significant accounting policies is included in Note 2 to our consolidated financial statements in Item 8 of Part II of the Company's 2014 Form 10-K.

### ***Inflation and International Presence***

Given the current economic conditions of countries and recent fluctuations in certain foreign currency exchange rates and commodity prices, we believe that a negative change in such items could significantly affect our profitability.

### **Forward-Looking Statements**

Portions of this report contain “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company, our directors or officers with respect to, among other things, our (i) future product and facility expansion, (ii) acquisition or divestiture strategy, (iii) investments and new product development, and (iv) growth opportunities related to awarded business. Forward-looking statements may be identified by the words “will,” “may,” “should,” “designed to,” “believes,” “plans,” “projects,” “intends,” “expects,” “estimates,” “anticipates,” “continues,” and other words and expressions. The forward-looking statements in this report are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, among other factors:

- the reduced purchases, loss or bankruptcy of a major customer;
- the costs and timing of facility closures, business realignment activities, or similar actions;
- a significant change in automotive, commercial, motorcycle, off-highway or agricultural vehicle production;

- competitive market conditions and resulting effects on sales and pricing;

- the impact on changes in foreign currency exchange rates on sales, costs and results, particularly the Brazilian real, euro, Argentinian peso, Swedish krona and Mexican peso;

- our ability to achieve cost reductions that offset or exceed certain customer-mandated selling price reductions;

- a significant change in general economic conditions in any of the various countries in which we operate;

- labor disruptions at our facilities or at any of our significant customers or suppliers;

- the ability of our suppliers to supply us with parts and components at competitive prices on a timely basis;

- the amount of our indebtedness and the restrictive covenants contained in the agreements governing our indebtedness, including our credit facility;

- customer acceptance of new products;

- capital availability or costs, including changes in interest rates or market perceptions;

- the failure to achieve the successful integration of any acquired company or business; and

- those items described in Part I, Item 1A (“Risk Factors”) of the Company's 2014 Form 10-K.

In addition, the forward-looking statements contained herein represent our estimates only as of the date of this filing and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, whether to reflect actual results, changes in assumptions, changes in other factors affecting such forward-looking statements or otherwise.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in market risk presented within Part II, Item 7A of the Company's 2014 Form 10-K.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

As of June 30, 2015, an evaluation was performed under the supervision and with the participation of the Company's management, including the principal executive officer ("PEO") and principal financial officer ("PFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the PEO and PFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2015.

##### **Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the three months ended June 30, 2015 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II—OTHER INFORMATION****Item 1. Legal Proceedings**

We are involved in certain legal actions and claims arising in the ordinary course of business. Although it is not possible to predict with certainty the outcome of these matters, we do not believe that any of the litigation in which we are currently engaged, either individually or in the aggregate, will have a material adverse effect on our business, consolidated financial position or results of operations. We are subject to a tax assessment in Brazil related to value added taxes on vehicle tracking and monitoring services for which the likelihood of loss is not probable although it may take years to resolve. We are also subject to litigation regarding patent infringement. We are also subject to the risk of exposure to product liability claims in the event that the failure of any of our products causes personal injury or death to users of our products and there can be no assurance that we will not experience any material product liability losses in the future. In addition, if any of our products prove to be defective, we may be required to participate in a government-imposed or customer OEM-instituted recall involving such products. See additional details of these matters in Note 11 to the condensed consolidated financial statements.

**Item 1A. Risk Factors**

There have been no material changes with respect to risk factors previously disclosed in the Company's 2014 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table presents information with respect to repurchases of Common Shares made by us during the three months ended June 30, 2015. These shares were delivered to us by employees as payment for the withholding taxes due upon vesting of restricted share awards:

| Period         | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|----------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| 4/1/15-4/30/15 | -                                | -                            | N/A                                                                              | N/A                                                                            |

|                |         |          |     |     |
|----------------|---------|----------|-----|-----|
| 5/1/15-5/31/15 | -       | -        | N/A | N/A |
| 6/1/15-6/30/15 | 142,585 | \$ 11.73 | N/A | N/A |
| Total          | 142,585 |          |     |     |

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

None.

### Item 5. Other Information

None.

### Item 6. Exhibits

Reference is made to the separate, "Index to Exhibits," filed herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STONERIDGE, INC.

Date: August 3, 2015 /s/ Jonathan B. DeGaynor  
Jonathan B. DeGaynor

President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 3, 2015 /s/ George E. Strickler  
George E. Strickler  
Executive Vice President, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

## INDEX TO EXHIBITS

| Exhibit<br>Number | Exhibit |
|-------------------|---------|
|-------------------|---------|

- |      |                                                                                                                                                                 |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.                                                |
| 31.2 | Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.                                                |
| 32.1 | Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith. |
| 32.2 | Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith. |

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