ABIOMED INC
Form 10-Q
August 01, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-09585

ABIOMED, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	04-2743260
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

22 CHERRY HILL DRIVE

DANVERS, MASSACHUSETTS 01923

(Address of principal executive offices, including zip code)

(978) 646-1400

(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 (§ 229.405 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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

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

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

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

As of July 28, 2017, 44,102,166 shares of the registrant's common stock, $.01 par value, were outstanding.

ABIOMED, INC. AND SUBSIDIARIES

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NOTE REGARDING COMPANY REFERENCES

Throughout this report on Form 10-Q (the "Report"), "Abiomed, Inc.," the "Company," "we," "us" and "our" refer to ABIOMED Inc. and its consolidated subsidiaries.

NOTE REGARDING TRADEMARKS

ABIOMED, IMPELLA, IMPELLA 2.5, IMPELLA 5.0, IMPELLA LD, IMPELLA CP and IMPELLA RP are trademarks of ABIOMED, Inc., and are registered in the U.S. and certain foreign countries. AB5000 and cVAD REGISTRY are trademarks of ABIOMED, Inc. RECOVER is a trademark of Abiomed Europe GmbH, a subsidiary of ABIOMED, Inc., and is registered in certain foreign countries.

PART 1. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS
ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)

	June 30, 2017	March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$43,970	$39,040
Short-term marketable securities	207,441	190,908
Accounts receivable, net	53,557	54,055
Inventories	36,926	34,931
Prepaid expenses and other current assets	9,021	8,024
Total current assets	350,915	326,958
Long-term marketable securities	37,669	47,143
Property and equipment, net	92,804	87,777
Goodwill	33,199	31,045
In-process research and development	15,487	14,482
Long-term deferred tax assets, net	113,457	34,723
Other assets	8,686	8,286
Total assets	$652,217	$550,414
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$12,784	$20,620
Accrued expenses	35,695	37,703
Deferred revenue	9,697	10,495
Current portion of capital lease obligation	829	799
Total current liabilities	59,005	69,617
Other long-term liabilities	588	3,251
Contingent consideration	9,418	9,153
Long-term deferred tax liabilities	837	783
Capital lease obligation, net of current portion	15,325	15,539
Total liabilities	85,173	98,343
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Class B Preferred Stock, $.01 par value	—	—
Authorized - 1,000,000 shares; Issued and outstanding - none		
Common stock, $.01 par value	441	437

Authorized - 100,000,000 shares; Issued - 45,791,680 shares at June 30, 2017 and 45,249,281 shares at March 31, 2017		
Outstanding - 44,080,941 shares at June 30, 2017 and 43,673,286 shares at March 31, 2017		
Additional paid in capital	580,017	565,962
Retained earnings (accumulated deficit)	65,661	(46,959)
Treasury stock at cost - 1,710,739 shares at June 30, 2017 and 1,575,995 shares at March 31, 2017	(64,567)	(46,763)
Accumulated other comprehensive loss	(14,508)	(20,606)
Total stockholders' equity	567,044	452,071
Total liabilities and stockholders' equity	$652,217	$550,414

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited)

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	For the Three Months Ended June 30,	
	2017	2016
Revenue:		
Product revenue	$ 132,431	$ 102,989
Funded research and development	37	6
	132,468	102,995
Costs and expenses:		
Cost of product revenue	21,862	15,070
Research and development	16,931	15,660
Selling, general and administrative	60,597	51,032
	99,390	81,762
Income from operations	33,078	21,233
Other income (expense):		
Investment income, net	635	269
Other income (expense), net	79	(77)
	714	192
Income before income taxes	33,792	21,425
Income tax (benefit) provision	(3,582)	8,515
Net income	$ 37,374	$ 12,910
Basic net income per share	$ 0.85	$ 0.30
Basic weighted average shares outstanding	43,895	42,811
Diluted net income per share	$ 0.82	$ 0.29
Diluted weighted average shares outstanding	45,608	45,178

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited)

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

	For the Three Months Ended June 30,	
	2017	2016
Net income	$37,374	$12,910
Other comprehensive gain (loss):		
Foreign currency translation gains (losses)	6,153	(1,699)
Net unrealized (losses) gains on marketable securities	(55)	150
Other comprehensive gain (loss)	6,098	(1,549)
Comprehensive income	$43,472	$11,361

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited)

ABIOMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	For the Three Months Ended June 30,	
	2017	2016
Operating activities:		
Net income	$37,374	$12,910
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation expense	2,463	1,406
Bad debt expense	(42)	(31)
Stock-based compensation	8,656	8,397
Write-down of inventory	510	708
Excess tax benefit from stock-based awards	—	(1,041)
Deferred tax provision	(3,830)	7,000
Change in fair value of contingent consideration	265	176
Changes in assets and liabilities:		
Accounts receivable	795	1,517
Inventories	(1,302)	(3,393)
Prepaid expenses and other assets	(915)	7
Accounts payable	(4,391)	(145)
Accrued expenses and other liabilities	(2,436)	(952)
Deferred revenue	(853)	(179)
Net cash provided by operating activities	36,294	26,380
Investing activities:		
Purchases of marketable securities	(73,626)	(67,318)
Proceeds from the sale and maturity of marketable securities	66,622	47,090
Purchase of other investment	(400)	—
Purchases of property and equipment	(9,804)	(5,099)
Net cash used for investing activities	(17,208)	(25,327)
Financing activities:		
Proceeds from the exercise of stock options	3,555	2,770
Excess tax benefit from stock-based awards	—	1,041
Taxes paid related to net share settlement of vesting of stock awards	(17,805)	(15,033)
Principal payments on capital lease obligation	(184)	—
Net cash used for financing activities	(14,434)	(11,222)
Effect of exchange rate changes on cash	278	212
Net increase in cash and cash equivalents	4,930	(9,957)
Cash and cash equivalents at beginning of period	39,040	48,231

Cash and cash equivalents at end of period	$43,970	$38,274
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$479	$420
Cash paid for interest on capital lease obligation	130	—
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment in accounts payable and accrued expenses	1,872	996

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited)

ABIOMED, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except share data)

Note 1. Nature of Business

Abiomed, Inc. (the "Company" or "Abiomed") is a provider of mechanical circulatory support devices and offers a continuum of care to heart failure patients. The Company develops, manufactures and markets proprietary products that are designed to enable the heart to rest, heal and recover by improving blood flow and/or performing the pumping function of the heart. The Company's products are used in the cardiac catheterization lab, or cath lab, by interventional cardiologists and in the heart surgery suite by heart surgeons for patients who are in need of hemodynamic support prophylactically or emergently before, during or after angioplasty or heart surgery procedures.

Note 2. Basis of Preparation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial reporting and in accordance with Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete financial statements. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017 that has been filed with the Securities and Exchange Commission (the "SEC").

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all normal and recurring adjustments that are necessary for a fair presentation of results for the interim periods presented. The results of operations for any interim period may not be indicative of results for the full fiscal year or any other subsequent period.

There have been no changes in the Company's significant accounting policies for the three months ended June 30, 2017 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017 that has been filed with the SEC.

New Accounting Pronouncements Adopted

Effective April 1, 2017, the Company adopted the Financial Accounting Standards Board ("FASB") standard update ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09") which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, recognition of stock compensation award forfeitures, classification of awards as either equity or liabilities, the calculation of diluted shares outstanding and classification on the statement of cash flows.

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The following table summarizes the most significant impacts of the new accounting guidance for the three months ended June 30, 2017:

Description of Change:	Impact of Change Upon Adoption on April 1, 2017 and for the Three Months Ended June 30, 2017:	Adoption Method:
The new standard eliminates the requirement that excess tax benefits be realized through a reduction in income taxes payable before a company can recognize them in the statement of operations.	As a result, on April 1, 2017, the Company recorded a cumulative-effect adjustment to increase retained earnings and deferred tax assets by $76.4 million for excess tax benefits not previously recognized.	Modified-retrospective (required)
Excess tax benefits related to restricted stock unit vestings or stock option exercises are recorded through the statement of operations.	The income tax benefit for the three months ended June 30, 2017, included excess tax benefits of $16.8 million. These recognized excess tax benefits resulted from restricted stock units that vested or stock options that were exercised during the three months ended June 30, 2017.	Prospective (required)
Excess tax benefits related to restricted stock unit vestings or stock option exercises are classified as operating cash flows instead of financing cash flows.	Increase in cash flow from operating activities and decrease in cash flow from financing activities by approximately $16.8 million for the three months ended June 30, 2017. The statement of cash flows for prior periods have not been adjusted.	Prospective (elected)
Calculation of diluted weighted average shares outstanding under the treasury method no longer assume that tax benefits related to stock-based awards are used to repurchase common stock.	The Company excluded the related tax benefits when applying the treasury stock method for computing diluted shares outstanding on a prospective basis as required by ASU 2016-09.	Prospective (required)
An accounting policy election can be made to reduce stock-based compensation expense for forfeitures as they occur instead of	The Company made an accounting policy election to account for forfeitures as they occur with the change applied on a modified retrospective basis with a cumulative effect adjustment on April 1, 2017 to increase additional paid-in capital by $1.8 million, increase deferred tax assets by $0.7 million and decrease retained earnings by $1.1 million. The Company elected to make this	Modified-retrospective (elected)

estimating forfeitures that are expected to occur.	accounting policy change to simplify the accounting for stock-based compensation and believes this method provides a more accurate reflection of periodic stock based compensation cost. Prior to the adoption of this accounting standard, the Company estimated at grant the likelihood that the award would ultimately vest, and revised the estimate, if necessary, in future periods if the actual forfeiture rate differed.	
Cash payments to tax authorities for shares withheld to meet employee tax withholding requirements on restricted stock units are classified as financing cash flow instead of operating cash flow.	No change since the Company has historically presented these amounts as a financing activity. Prior to ASU 2016-09, U.S. GAAP has not specified how these types of transactions should be classified in the statement of cash flows.	N/A

See table below for the changes in beginning stockholders' equity as a result of this implementation.

	Common Stock		Treasury Stock					
	Number of shares	Par value	Number of shares	Amount	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, March 31, 2017	43,673,286	$ 437	1,575,995	$ (46,763)	$ 565,962	$ (46,959)	$ (20,606)	$ 452,071
Cumulative effect of adoption of new accounting standard					1,835	75,246		77,081
Balance, April 1, 2017	43,673,286	$ 437	1,575,995	$ (46,763)	$ 567,797	$ 28,287	$ (20,606)	$ 529,152

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers to provide updated guidance on revenue recognition. This new standard will replace most of the existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies may need to use more judgment and make more estimates than under the current accounting guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The Company is assessing all of the potential impacts of the revenue recognition guidance. Although the Company has not yet completed its assessment of the new revenue recognition guidance, the Company believes that the new revenue recognition guidance generally supports the recognition of revenue at a point-in-time for product sales and over an extended period of time for preventative maintenance service agreements, which is consistent with its current revenue recognition model. The Company does anticipate that the new revenue standard will result in expanded financial statement disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. As the Company completes its evaluation of this new accounting standard, new information may arise that could change the Company’s current understanding of the impact to revenue and expense recognized and financial statement disclosures. Additionally, the Company will continue to monitor industry activities and any additional guidance provided by regulators, standards setters, or the accounting profession and adjust the Company’s assessment and implementation plans accordingly, if required. ASU 2014-09 will become effective for the Company beginning in fiscal 2019.

In February 2016, the FASB issued ASU 2016-02, Leases. This guidance requires an entity to recognize lease liabilities and a right-of-use asset for all leases on the balance sheet and to disclose key information about the entity's leasing arrangements. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with earlier adoption permitted. ASU 2016-02 must be adopted using a modified retrospective approach for all leases existing at, or entered into after the date of initial adoption, with an option to elect to use certain transition relief. The Company is currently in the process of evaluating its lessee arrangements to determine the impact of ASU 2016-02 amendment on its consolidated financial statements. This evaluation includes a review of the Company’s existing leasing arrangements on its facilities. ASU 2016-02 will become effective for the Company beginning in fiscal 2020.

Note 3. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of dilutive common shares outstanding during the period. Diluted shares outstanding are calculated by adding to the weighted average shares outstanding any potential dilutive securities outstanding for the period. Potential dilutive securities include stock options, restricted stock units, performance-based stock awards and shares to be purchased under the Company’s employee stock purchase plan. The Company’s basic and diluted net income per share for the three months ended June 30, 2017 and 2016 were as follows (in thousands, except per share data):

	For the Three Months Ended June 30,	
	2017	2016
Basic Net Income Per Share		
Net income	$ 37,374	$ 12,910
Weighted average shares used in computing basic net income per share	43,895	42,811
Net income per share - basic	$ 0.85	$ 0.30

	For the Three Months Ended June 30,	
	2017	2016
Diluted Net Income Per Share		
Net income	$ 37,374	$ 12,910
Weighted average shares used in computing basic net income per share	43,895	42,811
Effect of dilutive securities	1,713	2,367
Weighted average shares used in computing diluted net income per share	45,608	45,178
Net income per share - diluted	$ 0.82	$ 0.29

For the three months ended June 30, 2017, approximately 54,000 shares underlying out-of-the-money stock options, were excluded in the computation of diluted earnings per share because their effect would have been anti-dilutive. Also, approximately 80,000 restricted shares in the three months ended June 30, 2017, respectively, related to performance-based awards for which milestones have not been met, were not included in the computation of diluted earnings per share.

For the three months ended June 30, 2016, approximately 48,000 shares underlying out-of-the-money stock options, were excluded in the computation of diluted earnings per share because their effect would have been anti-dilutive. Also, approximately 241,000 restricted shares in the three months ended June 30, 2016, related to performance-based awards for which milestones had not been met were not included in the computation of diluted earnings per share.

Note 4. Marketable Securities and Fair Value Measurements

Marketable Securities

The Company’s marketable securities are classified as available-for-sale securities and, accordingly, are recorded at fair value. The difference between amortized cost and fair value is included in stockholders’ equity.

The Company’s marketable securities at June 30, 2017 and March 31, 2017 are invested in the following:

	Amortized	Gross Unrealized	Gross Unrealized	Fair Market

	Cost (in $000's)	Gains	Losses	Value
June 30, 2017:				
Short-term U.S. Treasury mutual fund securities	$36,138	$ —	$ (20)	$36,118
Short-term government-backed securities	113,432	—	(138)	113,294
Short-term corporate debt securities	58,053	1	(25)	58,029
Long-term government-backed securities	34,970	1	(24)	34,947
Long-term corporate debt securities	2,718	4	—	2,722
	$245,311	$ 6	$ (207)	$245,110

	Amortized Cost (in $000's)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
March 31, 2017				
Short-term U.S. Treasury mutual fund securities	$45,199	$ —	$ (13)	$45,186
Short-term government-backed securities	90,199	1	(87)	90,113
Short-term corporate debt securities	55,465	—	(31)	55,434
Long-term U.S. Treasury mutual fund securities	1,998	—	(3)	1,995
Long-term government-backed securities	43,484	5	(18)	43,471
Long-term corporate debt securities	1,853	—	(1)	1,852
	$238,198	$ 6	$ (153)	$238,051

Fair Value Hierarchy

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Level 1 primarily consists of financial instruments whose values are based on quoted market prices such as exchange-traded instruments and listed equities.

Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 is comprised of unobservable inputs that are supported by little or no market activity. Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flows, or similar techniques, and at least one significant model assumption or input is unobservable.

The following table presents the Company’s financial instruments recorded at fair value in the condensed consolidated balance sheets, classified according to the three categories described above:

June 30, 2017:	Level 1	Level 2	Level 3	Total
	(in $000's)			
Assets				
Short-term U.S. Treasury mutual fund securities	$—	$36,118	$—	$36,118
Short-term government-backed securities	—	113,294	—	113,294
Short-term corporate debt securities	—	58,029	—	58,029
Long-term government-backed securities	—	34,947	—	34,947
Long-term corporate debt securities	—	2,722	—	2,722
Liabilities				
Contingent consideration	—	—	9,418	9,418

March 31, 2017:	Level 1	Level 2	Level 3	Total
	(in $000's)			
Assets				
Short-term U.S. Treasury mutual fund securities	$—	$45,186	$—	$45,186

Short-term government-backed securities	—	90,113	—	90,113
Short-term corporate debt securities	—	55,434	—	55,434
Long-term U.S. Treasury mutual fund securities	—	1,995	—	1,995
Long-term government-backed securities	—	43,471	—	43,471
Long-term corporate debt securities	—	1,852	—	1,852
Liabilities				
Contingent consideration	—	—	9,153	9,153

The Company has determined that the estimated fair value of its investments in U.S. Treasury mutual fund securities, government-backed securities, and corporate debt securities are reported as Level 2 financial assets as they are not exchange-traded instruments.

The Company's financial liabilities consisted of contingent consideration potentially payable related to the acquisition of ECP Entwicklungsgesellschaft mbH ("ECP") and AIS GmbH Aachen Innovative Solutions ("AIS"), in July 2014. The Company acquired ECP for $13.0 million in cash, with additional potential payouts totaling $15.0 million based on the achievement of certain clinical and regulatory and revenue-based milestones. These potential milestone payments may be made, at the Company's option, by a combination of cash or Abiomed common stock. The Company uses a combination of an income approach, based on various revenue and cost assumptions and applying a probability to each outcome and a Monte-Carlo valuation model. For the clinical and regulatory milestone, probabilities were applied to each potential scenario and the resulting values were discounted using a rate that considers weighted average cost of capital as well as a specific risk premium associated with the riskiness of the earn out itself, the related projections, and the overall business. The revenue-based milestone is valued using a Monte-Carlo valuation model, which simulates estimated future revenues during the earn out-period using management's best estimates. Projected revenues are based on our most recent internal operational budgets and long-range strategic plans.

This liability is reported as Level 3 as the estimated fair value of the contingent consideration related to the acquisition of the ECP requires significant management judgment or estimation and is calculated using the following valuation methods:

	Fair Value at June 30, 2017 (in $000's)	Valuation Methodology	Significant Unobservable Input	Weighted Average (range, if applicable)
Clinical and regulatory milestone	$ 5,453	Probability weighted income approach	Projected fiscal year of milestone payments	2019 to 2022
			Discount rate	2.6% to 3.3%
			Probability of occurrence	Probability adjusted level of 40% for the base case scenario and 5% to 20% for various upside and downside scenarios
Revenue-based milestone	3,965	Monte Carlo simulation model	Projected fiscal year of milestone payments	2023 to 2035
			Discount rate	18%
			Expected volatility for forecasted revenues	50%
	$ 9,418			

The following table summarizes the change in fair value, as determined by Level 3 inputs, of the contingent consideration for the three months ended June 30, 2017 and 2016:

	For the Three Months Ended June 30,	
	2017	2016
	(in $000's)	
Level 3 liabilities, beginning balance	$9,153	$7,563
Additions	—	—
Payments	—	—
Change in fair value	265	176
Level 3 liabilities, ending balance	$9,418	$7,739

The change in fair value of the contingent consideration was primarily due to the passage of time on the fair value measurement of milestones related to the ECP acquisition. Adjustments associated with the change in fair value of contingent consideration are included in research and development expenses in the Company’s condensed consolidated statements of operations. Significant increases or decreases in any of the probabilities of success or changes in expected timelines for achievement of any of these milestones could result in a significantly higher or lower fair value of the liability. The fair value of the contingent consideration at

each reporting date is updated by reflecting the changes in fair value reflected in the Company's statement of operations. There is no assurance that any of the conditions for the milestone payments will be met.

Other Investments

The Company periodically makes investments in private medical device companies that focus on heart failure and heart pump technologies. The aggregate carrying amount of the Company's other investments was $7.6 million and $7.2 million at June 30, 2017 and March 31, 2017, respectively, and is classified within other assets in the unaudited condensed consolidated balance sheets. These investments are accounted for using the cost method and are measured at fair value only if there are identified events or changes in circumstances that may have a significant adverse effect on the fair value of these investments.

In July 2017, the Company made an additional $6.0 million investment in one of the private medical device companies noted above and will record this transaction in the quarter ending September 30, 2017.

Note 5. Property and Equipment

The components of property and equipment are as follows:

	June 30, 2017	March 31, 2017
Land	$4,326	$4,046
Building and building improvements	12,146	10,900
Capital lease asset	16,784	16,784
Leasehold improvements	34,962	34,854
Machinery and equipment	31,340	27,989
Furniture and fixtures	6,211	3,899
Construction in progress	10,075	9,257
Total cost	115,844	107,729
Less accumulated depreciation	(23,040)	(19,952)
	$92,804	$87,777

In August 2016, the Company entered into a new lease agreement for its existing corporate headquarters in Danvers, Massachusetts (see Note 10). The Company recorded $16.8 million for this lease as a capital lease asset with depreciation expense being recorded on a straight line basis over 15 years.

In December 2016, the Company entered into a purchase and sale agreement to acquire its existing European headquarters in Aachen, Germany, consisting of 33,000 square feet of space. Pursuant to the purchase and sale agreement, the Company acquired the property in February 2017. The acquisition cost for the land and building was

approximately $12.6 million, with $4.0 million being recorded to land and $8.6 million being recorded to the building and building improvements.

Note 6. Goodwill and In-Process Research and Development

The carrying amount of goodwill at June 30, 2017 and March 31, 2017 was $33.2 million and $31.0 million, respectively, and has been recorded in connection with the Company's acquisition of Impella Cardiosystems AG ("Impella Cardiosystems"), in May 2005 and ECP and AIS in July 2014. The goodwill activity is as follows:

	(in $000's)
Balance at March 31, 2017	$31,045
Foreign currency translation impact	2,154
Balance at June 30, 2017	$33,199

The Company evaluates goodwill and in-process research and development ("IPR&D") assets at least annually at October 31, as well as whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. The Company has no accumulated impairment losses on goodwill or IPR&D assets.

The carrying amount of IPR&D assets at June 30, 2017 and March 31, 2017 was $15.5 million and $14.5 million, respectively, and has been recorded in conjunction with the Company's acquisition of ECP and AIS, in July 2014. The estimated fair value of IPR&D assets at the acquisition date was determined using a probability-weighted income approach, which discounts expected future cash flows to present value. The projected cash flows from the expandable catheter pump technology were based on certain key assumptions, including estimates of future revenue and expenses, taking into account the stage of development of the technology at the acquisition date and the time and resources needed to complete development. The Company used a discount rate of 21.5% and cash flows that have been probability adjusted to reflect the risks of product commercialization, which the Company believes are appropriate and representative of market participant assumptions.

The carrying value of the Company's IPR&D assets and the change in the balance for the three months ended June 30, 2017 are as follows:

	(in $000's)
Balance at March 31, 2017	$14,482
Foreign currency translation impact	1,005
Balance at June 30, 2017	$15,487

Note 7. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2017	March 31, 2017
	(in $000's)	
Employee compensation	$22,346	$23,290
Professional, legal and accounting fees	3,464	2,019
Sales and income taxes	3,112	3,180
Research and development	2,362	2,349
Marketing	1,356	1,827
Warranty	853	717
Accrued capital expenditures	430	2,300
Other	1,772	2,021
	$35,695	$37,703

Employee compensation consists primarily of accrued bonuses, accrued commissions and accrued employee benefits at June 30, 2017 and March 31, 2017.

Note 8. Stock-Based Compensation

The following table summarizes stock-based compensation expense by financial statement line item in the Company's condensed consolidated statements of operations for the three months ended June 30, 2017 and 2016:

	For the Three Months Ended June 30,	
	2017	2016
	(in $000's)	
Cost of product revenue	$359	$299
Research and development	1,339	1,255
Selling, general and administrative	6,958	6,843
	$8,656	$8,397

Stock Options

The following table summarizes the stock option activity for the three months ended June 30, 2017:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of period	1,646	$ 32.09	5.46	
Granted	123	134.24		
Exercised	(223)	15.92		
Cancelled and expired	(22)	109.07		
Outstanding at end of period	1,524	$ 41.62	5.78	$ 154,937
Exercisable at end of period	1,147	$ 22.95	4.76	$ 138,019
Options vested and expected to vest at end of period	1,487	$ 40.93	5.72	$ 152,210

The aggregate intrinsic value of options exercised was $26.0 million for the three months ended June 30, 2017. The total fair value of options that vested during the three months ended June 30, 2017 was $3.6 million.

The remaining unrecognized stock-based compensation expense for unvested stock option awards at June 30, 2017 was approximately $12.7 million, net of forfeitures, and the weighted-average period over which this cost will be recognized is 2.7 years.

The Company estimates the fair value of each stock option granted at the grant date using the Black-Scholes option valuation model. The weighted average grant-date fair values and weighted average assumptions used in the calculation of fair value of options granted during the three months ended June 30, 2017 and 2016 was as follows:

	For the Three Months Ended June 30,	
	2017	2016
Weighted average grant-date fair value	$49.04	$40.33
Valuation assumptions:		
Risk-free interest rate	1.84 %	1.38 %
Expected option life (years)	4.07	4.13
Expected volatility	43.7 %	49.8 %

Restricted Stock Units

The following table summarizes activity of restricted stock units for the three months ended June 30, 2017:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Restricted stock units at beginning of period	1,056	$ 80.50
Granted	271	$ 134.53
Vested	(319)	$ 50.32
Forfeited	(56)	$ 99.37
Restricted stock units at end of period	952	$ 104.90

The remaining unrecognized compensation expense for outstanding restricted stock units, including performance and market-based awards, as of June 30, 2017 was $47.5 million and the weighted-average period over which this cost will be recognized is 2.4 years.

Performance-Based Awards

In May 2017, performance-based awards of restricted stock units for the potential issuance of approximately 159,000 shares of common stock were issued to certain executive officers and employees, all of which vest upon achievement of prescribed service milestones by the award recipients and performance milestones by the Company. As of June 30, 2017, the Company is recognizing compensation expense based on the probable outcome related to the prescribed performance targets on the outstanding awards.

Note 9. Income Taxes

The Company recorded an income tax benefit of $3.6 million for the three months ended June 30, 2017 as compared to an income tax provision of $8.5 million for the three months ended June 30, 2016. As discussed further in “Note 2. Basis of Presentation and Summary of Significant Accounting Policies,” the Company adopted ASU 2016-09 in the first quarter of fiscal 2018. ASU 2016-09 requires excess tax benefits and shortfalls to be recognized in the income tax provision as discrete items in the period when restricted stock units vest or stock option exercises occur, whereas previously such income tax effects were recorded as part of additional paid-in capital only when the related tax deduction resulted in a reduction of current income taxes payable. On April 1, 2017, the Company recorded a cumulative-effect adjustment to increase retained earnings and deferred tax assets by $76.4 million for excess tax benefits not previously recognized. The adoption of ASU 2016-09 also resulted in excess tax benefits associated with stock-based awards of $16.8 million being recognized as an income tax benefit for three months ended June 30, 2017. These recognized excess tax benefits resulted from restricted stock units that vested or stock options that were exercised during the three months ended June 30, 2017. The amount of future excess tax benefits or shortfalls will likely fluctuate from period to period based on the price of the Company’s stock, the number of restricted stock unit vestings or stock option exercises, and the fair value assigned to such stock-based awards under U.S. GAAP. Accordingly, the Company’s expects that the adoption of ASU 2016-09 will result in more volatility to its effective income tax rate, net income and earnings per share in future periods.

The estimated annual effective income tax rate is based upon estimated income before income taxes for the year, the geographical composition of the estimated income before taxes and estimated permanent differences. The estimated annual effective income tax rate can fluctuate and may differ from the actual tax rate recognized in fiscal 2018 for various reasons, including estimates of income before taxes, tax legislation, permanent differences, discrete items, and any adjustments between tax provision calculations and filed tax returns.

The significant differences between the statutory tax rate and effective tax rate for the three months ended June 30, 2017 and 2016 were as follows:

	For the Three Months Ended June 30,			
	2017		2016	
Statutory income tax rate	35.0	%	35.0	%
Increase resulting from:				
Excess tax benefits from stock-based awards	(49.8)		—	

Credits	(1.2)	(1.3)
State taxes, net	3.5	3.4
Permanent differences	1.8	2.7
Other	0.1	(0.1)
Effective tax rate	(10.6)%	39.7 %

The Company and its subsidiaries are subject to U.S. federal income tax, as well as income tax of multiple state and foreign jurisdictions. Fiscal years 2012 through 2017 remain open to examination in Germany and Abiomed Europe GmbH, the Company's main operating subsidiary in Germany is currently being audited for fiscal years 2012 through 2015. In July 2017, the Company was notified by the Internal Revenue Service, or IRS, that it has selected our federal tax return for fiscal 2016 for examination. All tax years remain subject to examination by the IRS and state tax authorities, because the Company has net operating loss and tax credit carryforwards which may be utilized in future years to offset taxable income, those years may also be subject to review by relevant taxing authorities if the carryforwards are utilized.

Note 10. Commitments and Contingencies

Commitments

Leases

The Company's corporate headquarters is located in Danvers, Massachusetts. This facility encompasses most of the Company's U.S. operations, including research and development, manufacturing, sales and marketing and general and administrative departments. In August 2016, the Company entered into a new lease agreement to expand its existing corporate headquarters which includes 163,560 square feet of space. The initial term of the lease agreement commenced on August 12, 2016 and terminates on August 31, 2026. The Company has options to extend the initial term for three separate periods of five years each. In connection with the entry into this new lease agreement, the Company terminated the previously existing lease for the facility dated February 24, 2014, as amended by the First Amendment to Lease dated April 30, 2015 and the Second Amendment to Lease effective January 1, 2016.

The lease agreement provides the Company with an exclusive option to purchase the building on or before August 31, 2022, subject to certain conditions set forth therein. In addition, the lease agreement grants the Company a one-time right of first offer to purchase the building from September 1, 2022 until August 31, 2026, if the lessor decides to sell the building or receives an offer to purchase the building from a third-party buyer. The Danvers, Massachusetts building lease is being recorded as a capital lease. The payments under the lease are accounted for as interest and principal payments over 15 years.

A summary of future lease commitments related to the capital lease obligation is as follows:

	Capital Lease (in $000s)
Fiscal 2018, remaining portion	$ 997
Fiscal 2019	1,349
Fiscal 2020	1,349
Fiscal 2021	1,373
Fiscal 2022	1,390
Thereafter	13,746
Total minimum lease payments	20,204
Less amounts representing interest	(4,050)
Total capital lease obligation	$ 16,154
Less current capital lease obligation	(829)
Capital lease obligation, net of current portion	$ 15,325

In February 2017, the Company entered into a lease agreement for an additional office space in Danvers, Massachusetts which expires in July 2022. The annual rent expense for this lease agreement is estimated to be $0.2 million.

In September 2016, the Company entered into a lease agreement in Berlin, Germany which commences in May 2017 and expires in May 2024. The annual rent expense for this lease agreement is estimated to be $0.3 million.

The Company also entered into a lease agreement in October 2016 through September 2021 for an office in Tokyo, Japan which houses administrative, regulatory and training personnel as we prepare for commercial launch in Japan. The annual rent expense for this lease agreement is estimated to be $0.9 million.

License Agreements

In April 2014, the Company entered into an exclusive license agreement for the rights to certain optical sensor technologies in the field of cardio-circulatory assist devices. The Company made a $1.5 million upfront payment upon execution of the agreement and could make additional payments of up to $4.5 million upon the achievement of certain development milestones. The Company paid approximately $0.8 million in development milestones which are included with research and development expenses for the fiscal year ended March 31, 2017.

Contingencies

From time to time, the Company is involved in legal and administrative proceedings and claims of various types. In some actions, the claimants seek damages, as well as other relief, which, if granted, would require significant expenditures. The Company records a liability in its consolidated financial statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. The Company reviews these estimates each accounting period as additional information is known and adjusts the loss provision when appropriate. If a matter is both probable to result in liability and the amount of loss can be reasonably estimated, the Company estimates and discloses the possible loss or range of loss. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in its consolidated financial statements.

On April 25, 2014, the Company received an administrative subpoena from the Boston regional office of the United States Department of Health and Human Services, or HHS, Office of Inspector General requesting materials relating to the Company's reimbursement of employee expenses and remuneration to healthcare providers from July 2012 through December 2012, in connection with a civil investigation under the False Claims Act (the "FCA Investigation"). Subsequently, the Company received Civil Investigative Demands from the U.S. Attorney's Office for the District of Massachusetts that collectively sought additional information relating to this matter for the time period of January 1, 2011 through September 14, 2016. The Company continues to cooperate fully with the government in this investigation and is exploring various ways to resolve this matter with the government. The Company is not able to predict what action, if any, might be taken in the future as a result of the investigation, or the potential impact on its financial position.

Thoratec Corporation, or Thoratec, has challenged a number of Company owned patents in Europe in connection with the launch of their HeartMate PHP medical device, or PHP, in Europe. These actions all relate to Thoratec's ability to manufacture and sell their PHP product in Europe. These actions do not relate to the Company's ability to manufacture or sell its Impella line of devices. Thoratec is currently a subsidiary of Abbott Laboratories since January 2017.

In October 2012, Thoratec filed a notice of opposition in the European Patent Office, or EPO, to a Company owned European patent covering a 'pigtail' feature on a blood pump. In October 2014, the EPO dismissed Thoratec's opposition, and in December 2014, Thoratec filed a notice of appeal. The appeal was heard on January 20, 2017 by the EPO Board of Appeals. The Company prevailed at the EPO Board of Appeals and succeeded in upholding the patent in an amended form. The approved amended claim covers the combination of a blood pump with a pigtail and an expanding suction basket and funnel feature. The Board of Appeals is the highest level at the EPO so there are no further challenges to this patent possible at the EPO by Thoratec.

In December 2014, Thoratec filed a nullity suit in the German Federal Patent Court against a German "pigtail" patent owned by the Company with a flexible extension feature, and auxiliary pigtail, basket and funnel features. The validity hearing was held in November 2016 and the Federal Patent Court found the patent invalid. The Company is appealing this decision.

In August 2015, Thoratec filed a nullity action in the German Federal Patent Court against two Company owned patents covering a "magnetic clutch" feature. These magnetic clutch patents were acquired by the Company in July 2014, in connection with its acquisition of ECP and AIS. The validity hearing for the magnetic clutch patents was held in June 2017. The patents were upheld in an amended form to focus on the structure and interaction of the magnets in the clutch. The unamended claims are under appeal.

In September 2015, the Company filed counterclaims in the magnetic clutch action in Germany asserting that the PHP product infringes the two magnetic clutch patents and the two pigtail patents. The infringement trial has been stayed, pending resolution of the German nullity actions.

In February 2017, Thoratec filed an opposition against a Company patent acquired from ECP and AIS relating to a housing structure for an expandable pump. The deadline for the Company to respond to the opposition is in September 2017.

In December 2015, the Company received a letter from Maquet Cardiovascular LLC, or Maquet, a subsidiary of the Getinge Group, and maker of the intra-aortic balloon pump, asserting that the Company's Impella devices infringe certain claims having guidewire, lumen and sensor features which were in two Maquet patents and one pending patent application in the U.S. and elsewhere, and attached a draft litigation complaint and encouraged the Company to take a license from Maquet. In January 2016, the Company responded to Maquet stating that it believed that the cited claims were invalid and that its Impella devices did not infringe the cited patents. In May 2016, Maquet sent an additional letter notifying the Company that the pending U.S. patent application had been issued as a U.S. patent and repeated their earlier assertion and encouraged the Company to discuss taking a license from Maquet. The three patents expire September 2020, December 2020 and October 2021. On May 19, 2016, the Company filed suit in U.S. District Court for the District of Massachusetts, or D. Mass., against Maquet seeking a declaratory judgment that the Company's Impella devices do not infringe Maquet's cited patent rights.

In August 2016, Maquet sent another letter to the Company identifying four new U.S. continuation patent filings with claims that Maquet alleges are infringed by the Company's Impella devices. Of the four U.S. continuation applications, one issued as a patent on January 17, 2017, one issued as a patent on February 7, 2017, one issued as a patent on March 21, 2017, and one has recently begun substantive prosecution. The three issued new patents will expire in September 2020 and if the fourth continuation application issues it will also expire in September 2020. In September 2016, Maquet filed a response to the Company's suit in D. Mass., including various counterclaims alleging that the Company's Impella 2.5, Impella CP, Impella 5.0, and Impella RP heart pumps infringe certain claims of the three original issued U.S. patents. On June 15, 2017, Maquet filed a motion for leave to amend its infringement counterclaims to add the three additional U.S. continuation patents mentioned above and to file various false advertising, unfair competition claims under state law and under the Lanham Act, and a trademark cancellation in the pending case. Maquet's amended complaint and counterclaim, like those it originally filed, seek injunctive relief and monetary damages in the form of a reasonable royalty, with three times the amount for alleged willful infringement. The amended complaint admits that Maquet's currently commercially available products do not embody the claims of the asserted patents. On July 21, 2017, the Court granted the motion in part, allowing the three additional continuation patents to be added to the case, and denied the motion to add the false advertising, Lanham Act claims, and the trademark cancellation claims. Discovery in the case is in its early stages, and the case is ongoing and we cannot estimate what the potential outcome of these claims will be at this time. With regard to the six Maquet patents, in March and April 2017 the Company filed requests for inter partes review, or IPR, at the U.S. Patent & Trademark Office's Patent Trial and Appeals Board, or PTAB, asserting that the claims are invalid in view of prior art blood pump technology. The PTAB's decisions on whether to institute the IPRs are expected in September or October, 2017. On July 19, 2017, the Company filed a complaint in the United States District Court for the District of Massachusetts asserting false advertising claims under the Lanham Act and common law unfair competition claims regarding statements made about intra-aortic balloon pumps and/or Impella devices by various Maquet entities. Named as defendants are Getinge AB, Datascope Corp., Maquet Cardiovascular, LLC, Maquet Cardiovascular US Sales, LLC, d/b/a/ Maquet Medical Systems USA.

The Company is unable to estimate a potential liability with respect to the legal matters noted above. There are numerous factors that make it difficult to meaningfully estimate possible loss or range of loss at this stage of the legal proceedings, including that the FCA Investigation and patent disputes with Thoratec and Maquet remain either in relatively early stages, or there are significant factual and legal issues to be resolved and information obtained or rulings made during any lawsuits or investigations that could affect the methodology for calculation.

Note 11. Segment and Enterprise Wide Disclosures

The Company operates in one business segment—the research, development and sale of medical devices to assist or replace the pumping function of the failing heart. The Company's chief operating decision maker (determined to be the Chief Executive Officer) does not manage any part of the Company separately, and the allocation of resources and assessment of performance are based on the Company's consolidated operating results. International sales (sales outside the U.S. and primarily in Europe) accounted for 10% and 9% of total product revenue for each of the three months ended June 30, 2017 and 2016, respectively. Most of the Company's long-lived assets are located in the U.S. except for $26.4 million and $23.2 million at June 30, 2017 and March 31, 2017, respectively, which are located primarily in Germany.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This Report contains forward- looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements other than one conveying solely historical facts is a forward-looking statement. These forward-looking statements may be accompanied by words such as "anticipate," "believe," "estimate," "expect," "forecast," "intend," "may," "plan," "potential," "target," "will" and other words and terms of similar meaning. These forward-looking statements address various matters including, among others, future actions related to ongoing investigations and litigation and expenditures related thereto; the development and commercialization of new and existing products and anticipated costs, including research and development, sales and marketing and training costs associated with product development and commercialization; expected capital expenditures for the fiscal year ending March 31, 2018; commercial plans for our products into new markets such as Japan; demand and expected shipments of our products; anticipated shifts in the revenue mix associated with our products; our ability to increase revenue from our Impella® line of products and the sufficiency of revenue to fund future operations; the impact of market factors such as changes in interest rates, currency exchange rates on our securities and the fair value of our financial instruments; awards of performance and market-based restricted stock units; and the impact of ASU 2016-09 on our consolidated financial statements and disclosures. Each forward-looking statement in this Report is subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statement. Applicable risks and uncertainties include, among others, our inability to predict the outcome of investigations and litigation and associated expenses; possible delays in our research and development programs; our ability to obtain regulatory approvals and market our products, and uncertainties related to regulatory processes; greater government scrutiny and regulation of the medical device industry and our ability to respond to changing laws and regulations affecting our industry, including any reforms to the regulatory approval process administered by the U.S Food and Drug Administration, or FDA, and changing enforcement practices related thereto; the inability to manufacture products in commercial quantities at an acceptable cost; the acceptance by physicians and hospitals of our products; the impact of competitive products and pricing; uncertainties associated with future capital needs and the risks identified under Item 1A of Part I of our Annual Report on Form 10-K, for the year ended March 31, 2017, as well as the other information we file with the Securities and Exchange Commission. Readers are cautioned not to place considerable reliance on any forward-looking statements contained in this Report, which speak only as of the date of this Report. We undertake no obligation to update or revise these forward-looking statements whether as a result of new information, future events or otherwise, unless required by law. Our business is subject to substantial risks and uncertainties, including those referenced above. Investors, potential investors, and others should give careful consideration to these risks and uncertainties.

Overview

We are a leading provider of temporary mechanical circulatory support devices, and we offer a continuum of care to heart failure patients. We develop, manufacture and market proprietary products that are designed to enable the heart to rest, heal and recover by improving blood flow to the coronary arteries and end-organs and/or temporarily assisting the pumping function of the heart. Our products are used in the cardiac catheterization lab, or cath lab, by interventional cardiologists, the electrophysiology lab, the hybrid lab and in the heart surgery suite by heart surgeons. A physician may use our devices for patients who are in need of hemodynamic support prophylactically, urgently or emergently before, during or after angioplasty or heart surgery procedures. We believe that heart recovery is the optimal clinical outcome for a patient experiencing heart failure because it enhances the potential for the patient to go home with the patient's own native heart, facilitating the restoration of quality of life. In addition, we believe, that for the care of such patients, heart recovery is often the most cost-effective solution for the healthcare system.

Our strategic focus and the driver of the majority of our revenue growth is the market penetration of our family of Impella® heart pumps. The Impella device portfolio, which includes the Impella 2.5® Impella CP®, Impella RP®, Impella LD® and Impella 5.0® devices, has supported numerous patients worldwide. We expect that almost all of our product and service revenue in the near future will be from our Impella devices. Revenues from our non-Impella devices, largely focused on the AB5000 device used in the heart surgery suite, have been decreasing over the past several years and we are no longer selling the AB5000 as we have strategically shifted our sales and marketing efforts towards our Impella devices and the cath lab.

In March 2015, we received a Pre-Market Approval, or PMA, from the FDA for use of the Impella 2.5 device during elective and urgent high-risk percutaneous coronary intervention, or PCI, procedures. In December 2016, the FDA expanded this PMA approval in the U.S. to include the Impella CP device. With these PMA indications, the Impella 2.5 and Impella CP devices provide the only minimally invasive treatment options indicated for use during high-risk PCI procedures. In April 2016, the FDA approved a PMA supplement for our Impella 2.5, Impella CP, Impella 5.0 and Impella LD devices to provide treatment for ongoing cardiogenic shock that occurs following a heart attack or open heart surgery. The intent of the Impella system therapy is to reduce ventricular work and to provide the circulatory support necessary to allow heart recovery and early assessment of residual myocardial function.

Our Impella 2.5, Impella 5.0, Impella LD, Impella CP and Impella RP devices also have CE Mark approval and Health Canada approval, which allows us to market these devices in the European Union and Canada.

In September 2016, we received Pharmaceuticals and Medical Devices Agency, or PMDA, approval from the Japanese Ministry of Health, Labour & Welfare, or MHLW, for our Impella 2.5 and Impella 5.0 heart pumps to provide treatment of drug-resistant acute heart failure in Japan. In July 2017, we recently received approval from the MHLW for reimbursement on Impella 2.5 and 5.0 heart pumps and 10 physician societies in Japan have completed the hospital guidance document. Reimbursement in Japan for the Impella 2.5 and 5.0 is estimated to be equivalent to our average Impella sales price in the U.S. and commences in September 2017. We expect our first Japanese patient in September 2017 and anticipate a controlled Impella launch at a limited number of hospitals by the end of fiscal 2018. We do not expect to have any material revenue in Japan during fiscal 2018.

In May 2017, we announced the enrollment of the first patient in the FDA approved prospective feasibility study, STEMI Door to Unloading with Impella CP system in acute myocardial infarction. This trial will focus on feasibility and safety of unloading the left ventricle using the Impella CP heart pump prior to primary PCI in patients presenting with ST segment elevation myocardial infarction, or STEMI, without cardiogenic shock with the hypothesis that this will potentially reduce infarct size. The study, which received Investigational Device Exemption, or IDE, approval from the FDA in October 2016, is a prospective, multi-center feasibility study. Up to 50 patients at 10 sites will be enrolled in the study. We enrolled the first patient in this study in April 2017 and we expect to complete enrollment in fiscal 2019.

We expect to continue to make additional PMA supplement submissions for our Impella suite of devices for additional indications.

Our Products

Impella 2.5®

The Impella 2.5 device is a percutaneous micro heart pump with an integrated motor and sensors. The device is designed primarily for use by interventional cardiologists to support patients in the cath lab who may require assistance to maintain circulation. The Impella 2.5 heart pump can be quickly inserted via the femoral artery to reach the left ventricle of the heart where it is directly deployed to draw blood out of the ventricle and deliver it to the circulatory system. This function is intended to reduce ventricular work and provide blood flow to vital organs. The Impella 2.5 heart pump is introduced with normal interventional cardiology procedures and can pump up to 2.5 liters of blood per minute.

The Impella 2.5 device received 510(k) clearance from the FDA in June 2008 for partial circulatory support for up to six hours. In March 2015, we received a PMA from the FDA for the use of the Impella 2.5 device during elective and urgent high-risk PCI procedures. With this PMA indication, the Impella 2.5 device became the first FDA approved hemodynamic support device for use during high-risk PCI procedures. Under this first PMA, the Impella 2.5 is a temporary (up to six hours) ventricular support device indicated for use during high-risk PCI performed in elective or urgent hemodynamically stable patients with severe coronary artery disease and depressed left ventricular ejection fraction, when a heart team, including a cardiac surgeon, that has determined high-risk PCI is the appropriate therapeutic option. Use of the Impella 2.5 device in these patients may prevent hemodynamic instability that may occur during planned temporary coronary occlusions and may reduce periprocedural and post-procedural adverse events. The product labeling allows for the clinical decision by physicians to leave the Impella 2.5 device in place beyond the intended duration of up to six hours should unforeseen circumstances arise. Pursuant to our PMA approval requirements, we are conducting a single-arm, post-approval study on the Impella 2.5 device, collecting data on high-risk PCI patients. The study is a prospective, multi-center study comprised of 369 patients from up to 70 sites

supported with the Impella 2.5 system.

In April 2016, the FDA approved a supplement to our March 2015 PMA approval for the use of our Impella 2.5, Impella CP, Impella 5.0 and Impella LD devices to provide treatment for ongoing cardiogenic shock. This PMA supplement covers a set of indications related to the use of the Impella devices in patients suffering cardiogenic shock following acute myocardial infarction or cardiac surgery and allows for a longer duration of support.

The data submitted to the FDA in support of the PMA supplement included an analysis of 415 patients from the RECOVER 1 study and the U.S. Impella registry, or cVAD Registry™, as well as a literature review using the Impella devices in 692 patients from 17 clinical studies. The PMA supplement also included a safety analysis evalulating the information in the FDA medical device reporting, or MDR, database, following the use of the Impella devices in more than 24,000 patients and which draws from seven years of experience using the Impella devices in the U.S. We believe this is the most comprehensive review ever submitted to the FDA for circulatory support in the cardiogenic shock population.

Pursuant to the April 2016 PMA approval, the Impella 2.5, Impella CP, Impella 5.0 and Impella LD catheters, in conjunction with the Automated Impella Controller, or AIC, were approved as temporary ventricular support devices intended for short term use (≤ 4 days for the Impella 2.5 and Impella CP, and ≤ 6 days for the Impella 5.0 and LD) and indicated for the treatment of ongoing cardiogenic shock that occurs immediately (< 48 hours) following acute myocardial infarction or open heart surgery as a result of isolated left ventricular failure that is not responsive to optimal medical management and conventional treatment measures. The intent of the Impella system therapy is to reduce ventricular work and to provide the circulatory support necessary to allow heart recovery and early assessment of residual myocardial function. Optimal medical management and convention treatment measures include volume loading and use of pressors and inotropes, with or without an intraortic balloon pump, or IABP.

The Impella 2.5 device has CE Mark approval in Europe for up to five days of use and is approved for use in up to 40 countries. The Impella 2.5 device also has Health Canada approval which allows us to market the device in Canada.

In September 2016, we received PMDA approval from the Japanese MHLW for our Impella 2.5 and Impella 5.0 heart pumps to provide treatment of drug-resistant acute heart failure in Japan. In July 2017, we recently received approval from the MHLW for reimbursement on Impella 2.5 and 5.0 heart pumps and 10 physician societies in Japan have completed the hospital guidance document. Reimbursement in Japan for the Impella 2.5 and 5.0 is estimated to be equivalent to our average Impella sales price in the U.S. and commences in September 2017. We expect our first Japanese patient in September 2017 and anticipate a controlled Impella launch at a limited number of hospitals by the end of fiscal 2018. We do not expect to have any material revenue in Japan during fiscal 2018.

We expect to continue to make additional PMA supplement submissions for our Impella devices for additional clinical indications.

Impella CP®

In September 2012, we announced that the Impella CP device received 510(k) clearance from the FDA. The Impella CP device provides blood flow of approximately one liter more per minute than the Impella 2.5 device and is primarily used by either interventional cardiologists to support patients in the cath lab or by cardiac surgeons in the heart surgery suite.

In April 2016, the FDA approved the PMA supplement for certain of our devices, including our Impella CP device to provide treatment for ongoing cardiogenic shock.

In December 2016, we received PMA approval from the FDA for the use of the Impella CP device during elective and urgent high-risk PCI procedures, identical to the indication for use for the Impella 2.5 device. This approval allows the Impella CP to be used as a temporary (≤ 6 hours) ventricular support system indicated for use during high risk PCI procedures performed in elective or urgent hemodynamically stable patients with severe coronary artery disease and depressed left ventricular ejection fraction, when a heart team, including a cardiac surgeon, has determined that high risk PCI is the appropriate therapeutic option. The product labeling allows for the clinical decision by physicians to leave the Impella CP device in place beyond the intended duration of up to six hours should unforeseen circumstances arise.

In May 2017, we announced the enrollment of the first patient in the FDA approved prospective feasibility study, STEMI Door to Unloading with Impella CP system in acute myocardial infarction. This trial will focus on feasibility and safety of unloading the left ventricle using the Impella CP heart pump prior to primary PCI in patients presenting with ST segment elevation myocardial infarction, or STEMI, without cardiogenic shock with the hypothesis that this will potentially reduce infarct size. The study, which received Investigational Device Exemption, or IDE, approval from the FDA in October 2016, is a prospective, multi-center feasibility study. Up to 50 patients at 10 sites will be

enrolled in the study. We enrolled the first patient in this study in April 2017 and we expect to complete enrollment in fiscal 2019.

The primary endpoints of the feasibility study will focus on safety, including Adverse Cardiovascular and Cerebrovascular Events, or MACCE, at 30 days. All patients will undergo cardiac magnetic resonance imaging to assess infarct size as a percent of left ventricular mass at 30 days post-PCI. Patients will be randomized to Impella CP placement with immediate primary PCI, or to Impella CP placement with 30 minutes of unloading prior to primary PCI. The hypothesis of this novel approach to treating STEMI patients, based on extensive mechanistic research, is that unloading the left ventricle prior to PCI reduces myocardial work load, oxygen demand and also initiates a cardio-protective effect at the myocardial cell level, which may alleviate myocardial damage caused by reperfusion injury at the time of revascularization. This feasibility study will help refine the protocol and lay the groundwork for a future pivotal study with more sites and patients and will be designed for statistical significance.

We expect to continue to make additional PMA supplement submissions for our Impella devices for additional clinical indications.

The Impella CP device has CE Mark approval in Europe for up to five days of use and is approved for use in up to 40 countries.

Impella 5.0® and Impella LD®

The Impella 5.0 and Impella LD devices are percutaneous micro heart pumps with integrated motors and sensors for use primarily in the heart surgery suite. These devices are designed to support patients who require higher levels of circulatory support as compared to the Impella 2.5.

The Impella 5.0 device can be inserted into the left ventricle via femoral cut down or through the axillary artery. The Impella 5.0 device is passed into the ascending aorta, across the valve and into the left ventricle. The Impella LD device is similar to the Impella 5.0 device, but it is implanted directly into the ascending aorta through an aortic graft. Both of these procedures are normally performed with the assistance of heart surgeons in the surgery suite. The Impella 5.0 and Impella LD devices can pump up to five liters of blood per minute, potentially providing full circulatory support.

The Impella 5.0 and Impella LD devices originally received 510(k) clearance in April 2009, for circulatory support for up to six hours. In April 2016, the FDA approved the PMA supplement for certain of our devices, including our Impella 5.0 and Impella LD devices to provide treatment for ongoing cardiogenic shock following a heart attack or open heart surgery.

The Impella 5.0 and Impella LD devices have CE Mark approval in Europe for up to ten days' duration and are approved for use in over 40 countries.

In September 2016, we received PMDA approval from the Japanese MHLW for our Impella 2.5 and Impella 5.0 heart pumps to provide treatment of drug-resistant acute heart failure in Japan. In July 2017, we recently received approval from the MHLW for reimbursement on Impella 2.5 and 5.0 heart pumps and 10 physician societies in Japan have completed the hospital guidance document. Reimbursement in Japan for the Impella 2.5 and 5.0 is estimated to be equivalent to our average Impella sales price in the U.S. and commences in September 2017. We expect our first Japanese patient in September 2017 and anticipate a controlled Impella launch at a limited number of hospitals by the end of fiscal 2018. We do not expect to have any material revenue in Japan during fiscal 2018.

Impella RP®

The Impella RP is a percutaneous catheter-based axial flow pump that is designed to allow greater than four liters of blood flow per minute and is intended to provide the flow and pressure needed to compensate for right side heart failure. The Impella RP is the first percutaneous single access heart pump designed for right heart support to receive FDA approval. The Impella RP device is approved to provide support of the right heart during times of acute failure for certain patients who have received a left ventricle assist device or have suffered heart failure due to acute myocardial infarction, or AMI, a failed heart transplant, or following open heart surgery.

In November 2012, the Impella RP device received U.S. investigational device exemption, or IDE, approval from the FDA for use in RECOVER RIGHT, a pivotal clinical study in the U.S. This was a study of 30 patients who presented signs of right side heart failure, required hemodynamic support, and were capable of being treated in the catheterization lab or cardiac surgery suite. The study was completed in March 2014 and collected safety and effectiveness data on the percutaneous use of the Impella RP device and was submitted to the FDA in support of a Humanitarian Device Exemption, or HDE, submission. An HDE is similar to a PMA application but is intended for patient populations of 8,000 or less per year in the U.S. and is subject to certain profit and use restrictions. An HDE approval requires demonstration of the safety and probable benefit of the product, which is a lower standard than is

applied to a PMA. In order to receive an HDE, there must be no comparable devices approved under a PMA that are available to treat the targeted population. An approved HDE authorizes sales of the device to any hospital after review and approval by the hospital's Institutional Review Board. In January 2015, we received HDE approval for the Impella RP device from the FDA. As part of the HDE approval, we were required to conduct post approval studies for the Impella RP device. We have completed our Impella RP post-market studies and submitted a PMA application in March 2017 with the FDA and expect to convert our HDE approval to a PMA in fiscal 2018.

In April 2014, the Impella RP device received CE Mark approval which allows for commercial sales of the Impella RP device in the European Union and other countries that require a CE Mark approval for commercial sales.

ECP

In July 2014, we acquired all of the issued shares of ECP Entwicklungsgesellschaft mbH, or ECP, a German limited liability company, for $13.0 million in cash, with additional potential payments up to a maximum of $15.0 million based on the achievement of certain technical, regulatory and commercial milestones. In connection with our acquisition of ECP, ECP acquired all of the issued shares of AIS GmbH Aachen Innovative Solutions, or AIS, a German limited liability company, for $2.8 million in cash which was provided by us. AIS, based in Aachen, Germany, holds certain intellectual property useful to ECP's business, and, prior to being acquired by ECP, had licensed such intellectual property to ECP.

ECP, based in Berlin, Germany, is engaged in research, development, prototyping and the pre-serial production of a percutaneous expandable catheter pump which increases blood circulation from the heart with an external drive shaft. The ECP pump is designed for blood flow of >3 liters/minute. It is intended to be delivered on the standard Impella 9 Fr catheter and will include an 18 Fr expandable inflow in the left ventricle with a smooth membrane crossing the left ventricle. The ECP pump is still in early stages of research and development and has not been approved for commercial use or sale.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies during the three months ended June 30, 2017, as compared to the critical accounting policies disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is included in "Note 2. Basis of Preparation and Summary of Significant Accounting Policies" to our condensed consolidated financial statements and is incorporated herein by reference.

Results of Operations

The following table sets forth certain condensed consolidated statements of operations data for the periods indicated as a percentage of total revenue:

	For the Three Months Ended June 30,	
	2017	2016
Revenue:		
Product revenue	100.0 %	100.0 %
Costs and expenses as a percentage of total revenue:		
Cost of product revenue	16.5	14.6
Research and development	12.8	15.2
Selling, general and administrative	45.7	49.6

Total costs and expenses	75.0		79.4	
Income from operations	25.0		20.6	
Income tax (benefit) provision and other	(3.2	)	8.1	
Net income as a percentage of total revenue	28.2	%	12.5	%

Three months ended June 30, 2017 compared with the three months ended June 30, 2016

Revenue

Our revenues are comprised of the following:

	For the Three Months Ended June 30,	
	2017	2016
	(in $000's)	
Impella product revenue	$127,193	$97,819
Service and other revenue	5,238	4,489
Other products	-	681
Total product revenue	132,431	102,989
Funded research and development	37	6
Total revenue	$132,468	$102,995

—

Other
1.0

(1.2
)

(2.9
)
Effective income tax rate
(32.1
)%

(43.9
)%

(38.0
)%

Our effective income tax rate for 2015 was 32.1 percent. The effective tax rate was lower than the US federal statutory rate primarily as a result of net decreases in the liability for uncertain tax positions partially offset by the reversal of deferred tax assets related to share-based compensation shortfalls.

Our effective income tax rate for 2014 was 43.9 percent. The effective tax rate was higher than the US federal statutory rate primarily as a result of valuation allowances established for foreign deferred tax assets and various permanent differences including non-deductible expenses related to recent tax law changes in Mexico.

Our effective income tax rate for 2013 was 38.0 percent. The effective rate was higher than the U.S. federal statutory rate primarily as a result of increases in the liability for uncertain tax positions.

We are a multinational company subject to taxation in many jurisdictions. We record liabilities dealing with uncertainty in the application of complex tax laws and regulations in the various taxing jurisdictions in which we operate. If we determine that payment of these liabilities will be unnecessary, we reverse the liability and recognize the tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax liabilities or valuation allowances in a period in which we determine that a recorded liability is less than we expect the ultimate assessment to be or that a tax asset is impaired.

Income taxes are accounted for pursuant to U.S. GAAP, which requires the use of the liability method and the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in the provision for income taxes in the period of enactment. U.S. income taxes on undistributed earnings of our international subsidiaries have not been provided as such earnings are considered permanently reinvested. Tax credits and special deductions are accounted for as a reduction of the provision for income taxes in the period in which the credits arise.

Tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred liabilities are as follows:

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December 31, (Thousands of dollars)	2015	2014
Deferred income tax assets:		
Liabilities deductible in the future	$7,060	$7,046
Liabilities deductible in the future related to hedging and foreign currency losses	8,469	3,378
Deferred compensation	11,833	14,023
Net loss carryforwards and credits	5,891	3,395
Competent authority deferred tax assets and other foreign timing differences	4,836	8,603
Other	(683)	1,430
Total before valuation allowance	37,406	37,875
Valuation allowance	(5,891)	(3,911)
Net deferred income tax assets	31,515	33,964
Deferred income tax liabilities:		
Differences between the book and tax basis of property, plant and equipment	(14,011)	(21,337)
Deferred income tax liabilities	(14,011)	(21,337)
Net deferred income tax assets	$17,504	$12,627

The classification of our net deferred tax asset is shown below:

December 31, (Thousands of dollars)	2015	2014
Current deferred income tax assets	$—	$9,897
Current deferred income tax liabilities	—	—
Long-term deferred income tax assets	25,598	17,852
Long-term deferred income tax liabilities	(8,094)	(15,122)
Net deferred tax asset	$17,504	$12,627

Realization of any of our deferred tax assets at December 31, 2015 is dependent on the company generating sufficient taxable income in the future. The determination of whether or not to record a full or partial valuation allowance on our deferred tax assets is a critical accounting estimate requiring a significant amount of judgment on the part of management. In determining when to release the valuation allowance established against our deferred income tax assets, we consider all available evidence, both positive and negative. We perform our analysis on a jurisdiction by jurisdiction basis at the end of each reporting period.

As of December 31, 2015 we have cumulative state NOL carryforwards of $117.6 million that begin to expire in 2016. Also, we have $2.5 million of state tax credit carryforwards which begin to expire in 2021.

We have not provided for deferred income taxes or foreign withholding tax on basis differences in our non-U.S. subsidiaries that result from undistributed earnings of $73.1 million which the company has the intent and the ability to reinvest in its foreign operations. Generally, the U.S. income taxes imposed upon repatriation of undistributed earnings would be reduced by foreign tax credits from foreign income taxes paid on the earnings. Determination of the deferred income tax liability on these basis differences is not reasonably estimable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

We account for our uncertain tax positions in accordance with U.S. GAAP. A reconciliation of the beginning and ending amounts of these tax benefits is as follows:

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Year Ended December 31, (Thousands of dollars)	2015	2014	2013
Beginning balance	$7,193	$9,462	$6,310
Increases (decreases) due to foreign currency translations	—	(244)	—
Increases (decreases) as a result of positions taken during:			
Prior periods	1,238	(2,553)	(197)
Current period	1,798	956	3,655
Settlements with taxing authorities	—	—	(306)
Expiration of applicable statutes of limitation	(2,911)	(428)	—
Ending balance [1]	$7,318	$7,193	$9,462

[1] Excludes $2.1 million, $6.4 million and $5.8 million of potential interest and penalties associated with uncertain tax positions in 2015, 2014 and 2013, respectively.

Our policy regarding interest and penalties related to uncertain tax positions is to record interest and penalties as an element of income tax expense. The cumulative amounts related to interest and penalties are added to the total liabilities for unrecognized tax positions on the balance sheet. The balance sheets at December 31, 2015, 2014 and 2013 include the liability for uncertain tax positions, cumulative interest and penalties accrued on the liabilities totaling $7.2 million, $13.6 million and $15.1 million, respectively. During 2015, we reversed certain liabilities due to the expiration of statutes of limitations in the amount of $2.9 million and related penalties and interest of $4.3 million. During 2014, we accrued net potential interest and penalties of $0.5 million and $0.1 million respectively, related to uncertain tax benefits. Included in the unrecognized tax benefits of $7.2 million is $3.1 million that, if recognized, would favorably affect our annual effective tax rate. Within the next twelve-month period we expect a decrease in unrecognized tax benefits of $2.7 million.

We conduct business internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities throughout the world, including, but not limited to Mexico, the Netherlands, Costa Rica, India, Cyprus and the United States. We are no longer under examination by the taxing authority regarding any U.S. federal income tax returns for years before 2012 while the years open for examination under various state and local jurisdictions vary. In 2014, the Internal Revenue Service ("IRS") completed its audit of the 2011 tax year of Superior Industries International and subsidiaries.

Mexico's Tax Administration Service (Servicio de Administracion Tributaria, or "SAT"), finalized their examination of the 2007 tax year of Superior Industries de Mexico S.A. de C.V., our wholly-owned Mexican subsidiary, during February 2013. In February 2013 we reached a settlement with SAT for the 2007 tax year and made a cash payment of $0.3 million. The closure of the 2007 tax year audit resulted in an immaterial decrease in the liability for uncertain tax positions.

Total income tax payments net of refunds were $12.6 million in 2015, $9.9 million in 2014 and $13.7 million in 2013, respectively.

NOTE 11 - LEASES AND RELATED PARTIES

We lease certain land, facilities and equipment under long-term operating leases expiring at various dates through 2026. Total lease expense for all operating leases amounted to $1.9 million in 2015 and 2014 and $1.8 million in 2013.

Our administrative office in Van Nuys, California was leased from the Louis L. Borick Trust and the Nita A. Borick Management Trust. During 2013 the Louis L. Borick Foundation (the "Foundation") replaced the Louis L. Borick Trust as a landlord for the company's administrative office facility. The Foundation is controlled by Mr. Steven J. Borick, the former Chairman and Chief Executive Officer of the company, as President and Director of the Foundation. The Nita A. Borick Management Trust is controlled by Nita A. Borick and Mr. Steven J. Borick as trustees.

The lease provided for annual lease payments of approximately $427,000, through March 2015. In November 2014, the lease was originally amended to extend the lease term from March 2015 to March 2017, and to reduce the amount of office space and annual rent. As amended, beginning April 2015, the annual lease payment is approximately $225,000, and the company has the option to extend the lease term for six month periods beyond March 2017. The future minimum lease payments that are payable to the Foundation and Trust for the Van Nuys administrative office lease total $0.3 million. Total lease payments to these related

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entities were $0.3 million, $0.4 million and $0.4 million for 2015, 2014 and 2013, respectively. We also have a lease for our new headquarters in Southfield, Michigan from October 2015 to September 2026 which is with an unrelated party.

The following are summarized future minimum payments under all leases:

Year Ended December 31, (Thousands of dollars)	Operating Leases
2016	$1,165
2017	641
2018	645
2019	437
2020	438
Thereafter	2,640
	$5,966

NOTE 12 - RETIREMENT PLANS

We have an unfunded salary continuation plan covering certain directors, officers and other key members of management. We purchase life insurance policies on certain participants to provide in part for future liabilities. Cash surrender value of these policies, totaling $6.9 million and $6.3 million at December 31, 2015 and 2014, respectively, are included in other non-current assets in the company's consolidated balance sheets. Subject to certain vesting requirements, the plan provides for a benefit based on final average compensation, which becomes payable on the employee's death or upon attaining age 65, if retired. The plan was closed to new participants effective February 3, 2011. We have measured the plan assets and obligations of our salary continuation plan as of our fiscal year end for all periods presented.

The following table summarizes the changes in plan benefit obligations:

Year Ended December 31, (Thousands of dollars)	2015	2014
Change in benefit obligation		
Beginning benefit obligation	$30,047	$25,145
Service cost	44	84
Interest cost	1,230	1,171
Actuarial loss (gain)	(1,372)	5,014
Benefit payments	(1,550)	(1,367)
Ending benefit obligation	$28,399	$30,047

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Year Ended December 31, (Thousands of dollars)	2015	2014
Change in plan assets		
Fair value of plan assets at beginning of year	$—	$—
Employer contribution	1,550	1,367
Benefit payments	(1,550)	(1,367)
Fair value of plan assets at end of year	$—	$—
Funded Status	$(28,399)	$(30,047)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued liabilities	(1,524)	(1,507)
Other non-current liabilities	(26,875)	(28,540)
Net amount recognized	$(28,399)	$(30,047)
Amounts recognized in accumulated other comprehensive loss consist of:		
Net actuarial loss	$6,492	$8,399
Prior service cost	(1)	(1)
Net amount recognized, before tax effect	$6,491	$8,398
Weighted average assumptions used to determine benefit obligations:		
Discount rate	4.4%	4.2%
Rate of compensation increase	3.0%	3.0%

Components of net periodic pension cost are described in the following table:

Year Ended December 31, (Thousands of dollars)	2015	2014	2013
Components of net periodic pension cost:			
Service cost	$44	$84	$230
Interest cost	1,230	1,171	1,159
Amortization of actuarial loss	535	328	430
Net periodic pension cost	$1,809	$1,583	$1,819
Weighted average assumptions used to determine net periodic pension cost:			
Discount rate	4.2%	4.8%	4.0%
Rate of compensation increase	3.0%	3.0%	3.0%

The increase in the 2015 net periodic pension cost compared to the 2014 cost was primarily due to increased amortization of actuarial losses offset by decreased service cost from terminations and retirements. The decrease in the 2014 net periodic pension cost compared to the 2013 cost was primarily due to decreased service cost from terminations and retirements, as well as decreased amortization of actuarial losses.

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Benefit payments during the next ten years, which reflect applicable future service, are as follows:

Year Ended December 31, (Thousands of dollars)	Amount
2016	$1,557
2017	$1,243
2018	$1,463
2019	$1,432
2020	$1,480
Years 2021 to 2025	$7,711

The following is an estimate of the components of net periodic pension cost in 2016:

Estimated Year Ended December 31, (Thousands of dollars)	2016
Service cost	$—
Interest cost	1,216
Amortization of actuarial loss	336
Estimated 2016 net periodic pension cost	$1,552

Other Retirement Plans

We also contribute to employee retirement savings plans in the US and Mexico that cover substantially all of our employees. The employer contribution totaled $1.5 million, $2.0 million and $2.1 million for the three years ended December 31, 2015, 2014 and 2013, respectively.

NOTE 13 - ACCRUED EXPENSES

December 31, (Thousands of dollars)	2015	2014
Construction in progress	$—	$4,090
Payroll and related benefits	13,538	13,202
Current portion of derivative liability	9,629	5,598
Dividends	4,964	4,862
Taxes, other than income taxes	7,354	6,961
Current portion of executive retirement liabilities	1,524	1,507
Other	9,205	11,804
Accrued liabilities	$46,214	$48,024

NOTE 14 - LINE OF CREDIT

On December 19, 2014, we entered into a senior secured credit agreement (the "Credit Agreement") with J.P. Morgan Securities LLC, JPMorgan Chase Bank, N.A. (“JPMCB”) and Wells Fargo Bank, National Association (together with JPMCB, the “Lenders”).

The Credit Agreement consists of a senior secured revolving credit facility in an initial aggregate principal amount of $100.0 million (the “Facility”). In addition, the company is entitled to request, subject to certain terms and conditions and the agreement of the Lenders, an increase in the aggregate revolving commitments under the Facility or to obtain incremental term loans in an aggregate amount not to exceed $50.0 million which currently is uncommitted to by any lenders. We intend to use the proceeds of the Facility to finance the working capital needs, and for the general corporate purposes of the company and its subsidiaries.

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The Company has $97.0 million of availability after giving effect to $3.0 million in outstanding letters of credit as of December 31, 2015.

The Credit Agreement expires on December 19, 2019 and borrowings under the Facility accrue interest at (i) a London interbank offered rate plus a margin of between 0.75 percent and 1.25 percent based on the total leverage ratio of Superior and its subsidiaries on a consolidated basis, (ii) a rate based on JPMCB's prime rate plus a margin of between 0.00 percent and 0.25 percent based on the total leverage ratio of the company and its subsidiaries on a consolidated basis or (iii) a combination thereof. Commitment fees are 0.2 percent on the unused portion of the facility. The commitment fees are included as interest expense in our consolidated financial statements.

Generally, all amounts under the Facility are guaranteed by certain of the U.S. subsidiaries of the company and are secured by a first priority security interest in and lien on the personal property of the company and the U.S. guarantors (as defined in the Credit Agreement) and a pledge of and first perfected security interest in the equity interests of the company's existing and future U.S. subsidiaries and 65 percent of the equity interests in certain non-U.S. direct material subsidiaries of the company and the U.S. guarantors under the Facility.

The Credit Agreement contains certain customary restrictive covenants, including, among others, financial covenants requiring the maintenance of a maximum total leverage ratio and a minimum fixed charge coverage ratio, and also includes, without limitation, covenants, in each case with certain exceptions and allowances, limiting the ability of the company and its subsidiaries to incur indebtedness, grant liens, make investments, dispose of assets, make certain restrictive payments, make optional payments and modifications of subordinated debt instruments, enter into certain transactions with affiliates, enter into swap agreements, make capital expenditures or make changes to its lines of business. At December 31, 2015, we were in compliance with all covenants contained in the Credit Agreement. At December 31, 2015 and 2014, we had no borrowings under this facility other than the outstanding letters of credit referred to above.

The Credit Agreement contains customary default provisions, representations and warranties and restrictive covenants. The Credit Agreement also contains a provision permitting the lenders to accelerate the repayment of all loans outstanding under the Facility during an event of default.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Steven J. Borick Separation Agreement

On October 14, 2013, the company and Steven J. Borick entered into a Separation Agreement (the "Separation Agreement"), providing for Mr. Borick's separation from employment as the company's President and Chief Executive Officer. Mr. Borick's separation was effective March 31, 2014. In accordance with the Separation Agreement, in addition to payment of his salary and accrued vacation through his separation date, the company paid or provided Mr. Borick with the following upon his separation:

- A lump-sum cash payment of $1,345,833
- Mr. Borick's 2013 annual incentive bonus,
- A grant of a number of shares of company common stock equal to the Black-Scholes value of an annual award of 120,000 stock options divided by the company's closing stock price on the separation date (See Note 16 - Stock-Based Compensation), and
- Vesting of all of Mr. Borick's unvested stock options and unvested restricted stock.

During the years ended December 31, 2014 and 2013, we recorded $1.1 million and $1.8 million, respectively, of compensation expense in connection with the Separation Agreement.

Donald J. Stebbins, Executive Employment Agreement

On April 30, 2014, we entered into an Executive Employment Agreement (the “Employment Agreement”) with Donald J. Stebbins in connection with his appointment as President and Chief Executive Officer of the company. The Employment Agreement became effective May 5, 2014 and is for a three year term that expires on April 30, 2017, with additional one-year automatic renewals unless either Mr. Stebbins or the company provides advance notice of nonrenewal of the Employment Agreement. The Employment Agreement provides for an annual base salary of $900,000. Mr. Stebbins may receive annual bonuses based on attainment of performance goals, determined by the company’s independent compensation committee, in the amount of 80 percent of annual base salary at threshold level performance, 100 percent of annual base salary at target level performance, and up to 200 percent of annual base salary for performance substantially above target level.

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Mr. Stebbins received inducement grants of restricted stock for 50,000 shares vesting April 30, 2017, and an additional number of shares of 82,455 determined by dividing $1,602,920 by the per share value of the company's common stock on May 5, 2014, with the additional shares vesting on December 31, 2016. Beginning in 2015, Mr. Stebbins will be granted restricted stock unit awards each year under Superior's 2008 Equity Incentive Plan, or any successor equity plan. Under the Employment Agreement, Mr. Stebbins is to be granted time-vested restricted stock units each year, cliff vesting at the third fiscal year end following grant, for a number of shares equal to 66.7 percent of his annual base salary divided by the per share value of Superior's common stock on the date of grant. In addition, Mr. Stebbins is to be granted performance-vested restricted stock units each year, vesting based on company performance goals established by the independent compensation committee during the three fiscal years following grant, for a maximum number of shares equal to 200 percent of his annual base salary divided by the per share value of Superior's common stock on the first day of the fiscal year. In general, the equity awards vest only if Mr. Stebbins continues in employment with the company through the vesting date or end of the performance period.

The Employment Agreement also contains provisions for severance benefits including lump sum payments calculated based on Mr. Stebbins' base salary and bonus, as well as health care continuation, if he is terminated without "cause" or resigns for "good reason." In addition, if Mr. Stebbins is terminated without "cause" or resigns for "good reason" within one year following a change in control of the company, the severance benefits are increased 100 percent.

Purchase Agreement

In the first quarter of 2015, we entered into an agreement to purchase a subscription to online software provided by New Generation Software Inc. ("NGS"). Our Senior Vice President, Business Operations, is a board member and passive investor and our Vice President of Information Technology is also a passive investor in NGS. We made payments to NGS of $351,000 during the 2015 fiscal year. The transaction was entered into in the ordinary course of business and is an arms-length transaction.

Stock Repurchase Programs

As discussed in Note17 - Common Stock Repurchase Programs, we have stock repurchase programs in place to repurchase our common stock.

Derivatives and Purchase Commitments

In order to hedge exposure related to fluctuations in foreign currency rates and the cost of certain commodities used in the manufacture of our products, we periodically may purchase derivative financial instruments such as forward contracts, options or collars to offset or mitigate the impact of such fluctuations. Programs to hedge currency rate exposure may address ongoing transactions including, foreign-currency-denominated receivables and payables, as well as, specific transactions related to purchase obligations. Programs to hedge exposure to commodity cost fluctuations would be based on underlying physical consumption of such commodities.

Historically, we have not actively engaged in substantial exchange rate hedging activities and, prior to 2014, we had not entered into any significant foreign exchange contracts. However, as a result of customer requirements, a significant shift is occurring in the currency denominated in our contracts with our customers. As a result of this change, we currently project that in 2016 and beyond the vast majority of our revenues will be denominated in the U.S. dollar, rather than a more balanced mix of U.S. dollar and Mexican peso. In the past we have relied upon significant revenues denominated in the Mexican peso to provide a "natural hedge" against foreign exchange rate changes impacting our peso denominated costs incurred at our facilities in Mexico. Accordingly, the foreign exchange exposure associated with peso denominated costs is a growing risk factor that could have a material adverse effect on our operating results.

In accordance with our corporate risk management policies, we may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions and forecasted future cash flows. We have implemented a program to hedge a portion of our material foreign exchange exposures, for up to 36 months. We do not use derivative contracts for trading, market-making, or speculative purposes. For additional information on our derivatives, see Note 4 - Derivative Financial Instruments.

When market conditions warrant, we may also enter into purchase commitments to secure the supply of certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. We previously had several purchase commitments for the delivery of natural gas through the end of 2015. These natural gas contracts were considered to be derivatives under U.S. GAAP, and when entering into these contracts, it was expected that we would take full delivery of the contracted quantities of natural gas over the normal course of business. Accordingly, at inception, these contracts qualified for the normal purchase, normal sale ("NPNS") exemption provided for under U.S. GAAP. As such, we did not account for these purchase

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commitments as derivatives since there was no change in facts or circumstances in regard to the company's intent or ability to use the contracted quantities of natural gas over the normal course of business.

Other

We are party to various legal and environmental proceedings incidental to our business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against us. Based on facts now known, we believe all such matters are adequately provided for, covered by insurance, are without merit, and/or involve such amounts that would not materially adversely affect our consolidated results of operations, cash flows or financial position. For additional information concerning contingencies, risks and uncertainties, See Note 19 - Risk Management.

NOTE 16 - STOCK-BASED COMPENSATION

2008 Equity Incentive Plan
Our 2008 Equity Incentive Plan (the "Plan") was amended and restated effective May 22, 2013 upon approval by our shareholders at our annual shareholders meeting. As amended, the Plan authorizes us to issue up to 3.5 million shares of common stock, along with non-qualified stock options, stock appreciation rights, restricted stock and performance units to our officers, key employees, non-employee directors and consultants. At December 31, 2015, there were 1.3 million shares available for future grants under this plan. No more than 600,000 shares may be used under the plan as “full value” awards, which include restricted stock and performance stock units. It is our policy to issue shares from authorized but not issued shares upon the exercise of stock options. Options are granted at not less than fair market value on the date of grant and expire no later than ten years after the date of grant. Options and restricted shares granted under this plan generally require no less than a three year ratable vesting period.

During 2015, no stock options were granted, 420,642 stock options were exercised, 117,269 stock options were cancelled and 905,500 stock options expired. During 2014, no stock options were granted, 453,745 stock options were exercised, 72,167 stock options were cancelled and 121,250 stock options expired.

Restricted stock awards, or “full value” awards, generally vest ratably over no less than a three year period. Shares of restricted stock granted under the Plan are considered issued and outstanding at the date of grant, have the same dividend and voting rights as other outstanding common stock, are subject to forfeiture if employment terminates prior to vesting, and are expensed ratably over the vesting period. Dividends paid on the restricted shares granted under the Plan are non-forfeitable if the restricted shares do not ultimately vest.

During 2015, we granted 23,814 restricted shares to our Board of Directors vesting May 5, 2016. The fair value of the issued restricted stock on the date of grant was $18.31. During the first quarter of 2015, the company implemented a long term incentive program for the benefit of certain members of company management. The program was designed to strengthen employee retention and to provide a more structured incentive program to stimulate improvement in future company results. Per the terms of the program, participants were granted time value restricted stock units (“RSUs”), vesting ratably over a three year time period, and performance restricted stock units (“PSUs”), with a three year cliff vesting. Upon vesting, each restricted stock award is exchangeable for one share of the company’s common stock, with accrued dividends. The PSUs are categorized further into three individual categories whose vesting is contingent upon the achievement of certain targets as follows:

- 40% of the PSUs vest upon certain Return on Capital targets
- 40% of the PSUs vest upon certain EBITDA margin targets
- 20% of the PSUs vest upon certain market based Shareholder Return targets.

In the aggregate the company granted, net of forfeitures, a total of 190,015 RSUs and PSUs in 2015, net of forfeitures, comprising:

- 53,323 time value based RSUs with a grant date fair value of $18.78 per unit
- 109,354 PSUs with an initial grant date fair value of $18.78 per unit
- 27,338 market based PSUs with a grant date fair value of $24.81 per unit.

During 2014, we granted 225,205 shares of restricted stock, with original vesting periods of one to three years. The fair values of each issued restricted share on the applicable date of grant averaged $19.35 for 2014. Included in the restricted stock granted, in 2014, were 35,081 restricted shares in connection with Mr. Steven J. Borick's, our former company President and Chief Executive Officer's, separation agreement (see Note 15 - Commitments and Contingencies). These shares fully vested on the grant date (March 31, 2014) and the cost was recognized from the date of the separation agreement (October 14, 2013) through March 31, 2014, the separation date. The shares issued also were net of an amount equal to required tax withholdings. The cash equivalent of the withheld shares was remitted by the company to the tax authorities.

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Other Awards

During 2014, we granted 132,455 restricted shares, including 50,000 shares vesting April 30, 2017, and 82,455 shares vesting on December 31, 2016. The fair value of each of these restricted shares was $19.44. These grants were made outside of the Plan as inducement grants in connection with the appointment of our new CEO and company President (see Note 15 - Commitments and Contingencies).

We received cash proceeds of $7.3 million, $7.4 million and $2.9 million from stock options exercised in 2015, 2014 and 2013, respectively. The total intrinsic value of options exercised was $0.8 million and $1.5 million, during the years ended December 31, 2015 and 2014, respectively. Upon the exercise of stock options and the issuance of restricted stock awards, it is our policy to only issue shares from authorized common stock. At December 31, 2015 there were 1.3 million shares available for future grants under this plan.

We have elected to adopt the alternative transition method for calculating the initial pool of excess tax benefits and to determine the subsequent impact of the tax effects of employee stock-based compensation awards that are outstanding on shareholders' equity and the consolidated statements of cash flows.

Stock option activity in 2015 and 2014:

	Outstanding	Weighted Average Exercise Price	Remaining Contractual Life in Years	Aggregate Intrinsic Value
Balance at December 31, 2013	2,466,606	$20.31		
Granted	—	$—		
Exercised	(453,745)	$16.36		
Canceled	(72,167)	$22.37		
Expired	(121,250)	$34.18		
Balance at December 31, 2014	1,819,444	$20.28	1.9	$2,101,753
Granted	—	—		
Exercised	(420,642)	$17.29		
Canceled	(117,269)	$21.80		
Expired	(905,500)	$22.05		
Balance at December 31, 2015	376,033	$18.89		
Options vested or expected to vest at December 31, 2015	376,033	$18.89	3.6	$452,128
Exercisable at December 31, 2015	376,033	$18.89	3.6	$452,128

The aggregate intrinsic value represents the total pretax difference between the closing stock price on the last trading day of the reporting period and the option exercise price, multiplied by the number of in-the-money options. This is the amount that would have been received by the option holders had they exercised and sold their options on that day. This amount varies based on changes in the fair market value of our common stock. The closing price of our common stock on the last trading day of our fiscal year was $18.87.

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Stock options outstanding at December 31, 2015 and 2014:

Range of Exercise Prices			Options Outstanding at 12/31/2015	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Options Exercisable at 12/31/2015	Weighted Average Exercise Price
$15.17	—	$16.54	84,250	4.0	$15.74	84,250	$15.74
$16.55	—	$17.63	89,833	3.6	$17.23	89,833	$17.23
$17.64	—	$20.20	61,500	3.1	$18.21	61,500	$18.21
$20.21	—	$22.17	79,250	2.4	$21.84	79,250	$21.84
$22.18	—	$22.57	61,200	5.4	$22.55	61,200	$22.55
			376,033	3.6	$18.89	376,033	$18.89

Range of Exercise Prices			Options Outstanding at 12/31/2014	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Options Exercisable at 12/31/2014	Weighted Average Exercise Price
$15.17	—	$17.63	436,600	3.8	$16.72	407,597	$16.71
$17.64	—	$19.36	397,167	1.3	$18.43	395,500	$18.43
$19.37	—	$21.78	240,000	0.6	$20.63	240,000	$20.63
$21.79	—	$22.54	360,377	1.8	$21.91	360,377	$21.91
$22.55	—	$25.00	385,300	1.5	$24.48	385,300	$24.48
			1,819,444	1.9	$20.28	1,788,774	$20.34

Restricted stock activity in 2015 and 2014:

	Number of Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Amortization Period (in Years)
Balance at December 31, 2013	124,163	$17.70	
Granted	225,205	$19.35	
Vested	(82,199)	$17.88	
Canceled	(14,693)	$18.18	
Balance at December 31, 2014	252,476	$18.93	2.1
Granted	23,814	$18.31	
Vested	(65,293)	$18.61	
Canceled	(18,704)	$18.56	
Balance at December 31, 2015	192,293	$19.20	1.7

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Stock-based compensation expense related to our equity incentive plans in accordance with U.S. GAAP was allocated as follows:

Year Ended December 31, (Thousands of dollars)	2015	2014	2013
Cost of sales	$370	$113	$214
Selling, general and administrative expenses	2,437	2,202	2,471
Stock-based compensation expense before income taxes	2,807	2,315	2,685
Income tax benefit	(1,044)	(740)	(762)
Total stock-based compensation expense after income taxes	$1,763	$1,575	$1,923

The 2013 compensation expense includes $0.7 million of costs primarily for accrued and accelerated share-based payment costs associated with the company CEO's Separation Agreement, see Note 15 - Commitments and Contingent Liabilities. There were no significant capitalized stock-based compensation costs at December 31, 2015 or 2014. As of December 31, 2015 there was $3.8 million of unrecognized stock-based compensation expense expected to be recognized related to unvested stock-based awards. That cost is expected to be recognized over a weighted-average period of 1.7 years.

The fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Year Ended December 31,	2012
Expected dividend yield (a)	3.7%
Expected stock price volatility (b)	41.2%
Risk-free interest rate (c)	1.4%
Expected option lives (d)	6.9 years
Weighted average grant date fair value of options granted during the period	$5.10

(a) This assumed that cash dividends of $0.16 per share would be paid each quarter on our common stock.
(b) Expected volatility is based on the historical volatility of our stock price, over the expected term of the option.
(c) The risk-free rate is based upon the rate on a U.S. Treasury note for the period representing the expected term of the option.
(d) The expected term of the option is based on historical employee exercise behavior, a contractual life of ten years and employees' post-vesting employment termination behavior.

NOTE 17 - COMMON STOCK REPURCHASE PROGRAMS

In March 2013, our Board of Directors approved a new stock repurchase program (the "2013 Repurchase Program") which authorized the repurchase of up to $30.0 million of our common stock. This 2013 Repurchase Program replaced the previously existing share repurchase program. Shares repurchased under the 2013 Repurchase Program totaled 1,510,759 at a cost of $30.0 million, including 1,089,560 shares repurchased at a cost of $21.8 million in 2014. Accordingly, no additional shares may be repurchased under the 2013 Repurchase Program. All repurchased shares described above were canceled and retired.

In October 2014, our Board of Directors approved a new stock repurchase program (the "2014 Repurchase Program") which authorized the repurchase of up to $30.0 million of our common stock. Under the 2014 Repurchase Program, we repurchased common stock from time to time on the open market or in private transactions. Shares repurchased

under the 2014 Repurchase Program totaled 1,056,954 shares at a cost of $19.6 million, all of which was repurchased during 2015. The 2014 Repurchase Program was completed in January 2016, with purchases since December 31, 2015 of 585,970 shares for a cost of $10.3 million. The repurchased shares described above were either canceled and retired or added to treasury stock after the reincorporation in Delaware in 2015.

In January of 2016, our Board of Directors approved a new stock repurchase program (the “2016 Repurchase Program”), authorizing the repurchase of up to $50.0 million of common stock. Under the 2016 Repurchase Program, we may repurchase common stock

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from time to time on the open market or in private transactions. The timing and extent of the repurchases under the 2016 Repurchase Program will depend upon market conditions and other corporate considerations in our sole discretion.

NOTE 18 - QUARTERLY FINANCIAL DATA (UNAUDITED)

(Thousands of dollars, except per share amounts)

Year 2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$173,729	$183,940	$175,656	$194,621	$727,946
Gross profit	$11,222	$19,920	$16,484	$23,591	$71,217
Income from operations	$3,669	$11,039	$8,059	$13,527	$36,294
Income before income taxes	$3,572	$10,734	$7,615	$13,362	$35,283
Income tax (provision) benefit	$762	$(4,200)	$(2,669)	$(5,232)	$(11,339)
Net income	$4,334	$6,534	$4,946	$8,130	$23,944
Income per share:					
Basic	$0.16	$0.24	$0.19	$0.31	$0.90
Diluted	$0.16	$0.24	$0.19	$0.31	$0.90
Dividends declared per share	$0.18	$0.18	$0.18	$0.18	$0.72

Year 2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$183,390	$198,966	$176,419	$186,672	$745,447
Gross profit	$15,636	$15,732	$7,318	$11,536	$50,222
Income (loss) from operations	$7,702	$8,444	$(2,637)	$4,404	$17,913
Income (loss) before income taxes	$8,059	$8,662	$(2,740)	$1,721	$15,702
Income tax (provision) benefit	$(3,237)	$(3,623)	$321	$(360)	$(6,899)
Net income (loss)	$4,822	$5,039	$(2,419)	$1,361	$8,803
Income (loss) per share:					
Basic	$0.18	$0.19	$(0.09)	$0.05	$0.33
Diluted	$0.18	$0.18	$(0.09)	$0.05	$0.33
Dividends declared per share	$0.18	$0.18	$0.18	$0.18	$0.72

NOTE 19 - RISK MANAGEMENT

We are subject to various risks and uncertainties in the ordinary course of business due, in part, to the competitive global nature of the industry in which we operate, changing commodity prices for the materials used in the manufacture of our products and the development of new products.

The functional currency of certain foreign operations in Mexico is the Mexican peso. The settlement of accounts receivable and accounts payable for our operations in Mexico requires the transfer of funds denominated in the Mexican peso, the value of which decreased 17 percent in relation to the U.S. dollar in 2015. Foreign exchange losses totaled $1.2 million and $1.0 million in 2015 and 2014, respectively and a foreign exchange gain totaled $0.2 million in 2013. All transaction gains and losses are included in other income (expense) in the condensed consolidated statements of operations.

As it relates to foreign currency translation gains and losses, however, since 1990, the Mexican peso has experienced periods of relative stability followed by periods of major declines in value. The impact of these changes in value relative to our Mexico operations resulted in a cumulative unrealized translation loss at December 31, 2015 of $88.3 million. Translation gains and losses are included in other comprehensive income in the condensed consolidated statements of comprehensive (loss) income.

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When market conditions warrant, we may also enter into purchase commitments to secure the supply of certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. At December 31, 2015, we did not have any purchase commitments in place for the delivery of natural gas in 2016.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls

The company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2015. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2015 our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changing conditions, or that the degree of compliance with policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management performed an assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2015 based upon criteria established in the 2013 Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management determined that our internal control over financial reporting was effective as of December 31, 2015 based on the criteria in the Internal Control -- Integrated Framework issued by COSO.

The effectiveness of the company's internal control over financial reporting as of December 31, 2015 has been audited by Deloitte and Touche LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report.

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Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the most recent fiscal quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, except as discussed above in the Management's Report on Internal Control Over Financial Reporting.

ITEM 9B - OTHER INFORMATION

None.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth herein, the information required by this Item is incorporated by reference to our 2016 Annual Proxy Statement.

Executive Officers - The names of corporate executive officers as of fiscal year end who are not also Directors are listed at the end of Part I of this Annual Report. Information regarding executive officers who are Directors is contained in our 2016 Annual Proxy Statement under the caption “Proposal No. 1 - Election of Directors.” Such information is incorporated herein by reference. With the exception of the Chief Executive Officer (CEO), all executive officers are appointed annually by the Board of Directors and serve at the will of the Board of Directors. For a description of the CEO’s employment agreement, see “Executive Compensation and Related Information - Compensation Discussion and Analysis” in our 2016 Annual Proxy Statement, which is incorporated herein by reference.

Code of Ethics - Included on our website, www.supind.com, under “Investors,” is our Code of Conduct, which, among others, applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. Copies of our Code of Conduct are available, without charge, from Superior Industries International, Inc., Shareholder Relations, 26600 Telegraph Road, Suite 400, Southfield, MI 48033.

ITEM 11 - EXECUTIVE COMPENSATION

Information relating to Executive Compensation is set forth under the captions “Compensation of Directors” and “Executive Compensation and Related Information - Compensation Discussion and Analysis” in our 2016 Annual Proxy Statement, which is incorporated herein by reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information related to Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters is set forth under the caption “Voting Securities and Principal Ownership” in our 2016 Annual Proxy Statement. Also see Note 12- Stock Based Compensation in Notes to the Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data of this Annual Report.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information related to Certain Relationships and Related Transactions is set forth under the caption, “Certain Relationships and Related Transactions,” in our 2016 Annual Proxy Statement, and in Note 11 - Leases and Related Parties in Notes to the Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data of this Annual Report.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information related to Principal Accountant Fees and Services is set forth under the caption “Proposal No. 5 - Ratification of Independent Registered Public Accounting Firm - Principal Accountant Fees and Services” in our 2016 Annual Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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(a) The following documents are filed as a part of this report:

1. Financial Statements: See the “Index to the Consolidated Financial Statements and Financial Statement Schedule” in Item 8 of this Annual Report.

2. Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts for the Years Ended December 31, 2015, 2014 and 2013

3. Exhibits

2.1	Agreement dated June 14, 2010 between the Registrant and Otto Fuchs Kg (Incorporated by reference to Exhibit 2.1 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2010).
2.2	Sale and Purchase Agreement dated June 14, 2010 between the Registrant and Otto Fuchs Kg (Incorporated by reference to Exhibit 2.2 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2010).
2.3	Agreement and Plan of Merger of Superior Industries International, Inc., a Delaware corporation (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed May 21, 2015).
3.1	Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to Registrant’s Current Report on Form 8-K filed May 21, 2015).
3.2	By-Laws of the Registrant (Incorporated by reference to Exhibit 3.2 to Registrant’s Current Report on Form 8-K filed May 21, 2015).
4.1	Form of Superior Industries International, Inc.'s Common Stock Certificate (Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed May 21, 2015).
10.1	Sublease dated March 2, 1976 between the Registrant and Louis L. Borick filed on Registrant’s Current Report on Form 8-K dated May 1976 (Incorporated by reference to Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1983).
10.2	Supplemental Executive Individual Retirement Plan of the Registrant (Incorporated by reference to Exhibit 10.20 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1987). *
10.3	2003 Equity Incentive Plan of the Registrant (Incorporated by reference to Exhibit 99.1 to Registrant's Form S-8 dated July 28, 2003. Registration No. 333-107380). *
10.4	Salary Continuation Plan of The Registrant, amended and restated as of November 14, 2008 (Incorporated by reference to Exhibit 10.12 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2008). *
10.5	2008 Equity Incentive Plan of the Registrant (Incorporated by reference to Exhibit A to Registrant’s Definitive Proxy Statement on Schedule 14A filed on April 28, 2008).*
10.6	2008 Equity Incentive Plan Notice of Stock Option Grant and Agreement (Incorporated by reference to Exhibit 10.2 to Registrant’s Form S-8 filed November 10, 2008. Registration No. 333-155258).*
10.7	

	Employment letter between the Registrant and Kerry A. Shiba, Senior Vice President and Chief Financial Officer (Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the period ended September 26, 2010).*
10.8	Form of Notice of Grant and Restricted Stock Agreement pursuant to Registrant's 2008 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8 K filed May 20, 2010).*
10.9	Second Amendment to Sublease Agreement dated April 1, 2010 by and among The Louis L. Borick Trust and The Nita Borick Management Trust and Registrant (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed March 25, 2010).
10.10	2010 Employee Incentive Plan of the Registrant (Incorporated by reference to exhibit 10.14 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2010).*
10.11	Superior Industries International, Inc. Annual Incentive Performance Plan (Incorporated by reference to Exhibit 10.1 to Registrant’s Current Report on Form 8-K dated March 24, 2011).*

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10.12	Superior Industries International, Inc. CEO Annual Incentive Performance Plan (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated March 24, 2011).*
10.13	Superior Industries International, Inc. Executive Change in Control Severance Plan (Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K dated March 24, 2011).*
10.14	Amended and Restated 2008 Equity Incentive Plan of the Registrant (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed May 23, 2013).*
10.15	Separation Agreement between the Registrant and Robert Earnest (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed August 22, 2013).*
10.16	Separation Agreement between the Registrant and Steven J. Borick (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed October 15, 2013).*
10.17	Consulting Agreement between the Registrant and Steven J. Borick (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed October 15, 2013).*
10.18	Executive Employment Agreement, effective May 5, 2014, by and between the Registrant and Donald J. Stebbins. (Incorporated by reference to Exhibit 10.23 to Registrant's Current Report on Form 8-K dated April 28, 2014).*
10.19	Credit agreement dated December 19, 2014 between Superior Industries International, Inc. and JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed December 23, 2014).
10.20	Amendment No. 1 to the Credit Agreement dated as of March 3, 2015, by and among Superior Industries International, Inc., the Lenders from time to time a party thereto and JP Morgan Chase Bank, N.A. as Administrative Agent (Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2015).
10.21	Consent and Amendment No. 2 dated as of October 14, 2015 to the Credit Agreement dated as of December 19, 2014, by and among Superior Industries International, Inc., the Lenders from time to time party thereto and JP Morgan Chase Bank, N.A., as Administrator (Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 27, 2015).
10.22	Separation Agreement between the Registrant and Michael J. O'Rourke (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K/A dated February 26, 2015).*
10.23	Severance Letter, dated August 25, 2015, between the Registrant and Mike Nelson (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on August 28, 2015).
**10.24	Form of Restricted Stock Unit Agreement under the Superior Industries International, Inc. Amended and Restated 2008 Equity Incentive Plan.*
**10.25	Form of Performance Based Restricted Stock Unit Agreement under the Superior Industries International, Inc. Amended and Restated 2008 Equity Incentive Plan.*

	Computation of Earnings Per Share (contained in Note 1 – Summary of Significant Accounting Policies in Notes to Consolidated Financial Statements in Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10-K).
21	List of Subsidiaries of the Company (filed herewith).
23	Consent of Deloitte and Touche LLP, our Independent Registered Public Accounting Firm (filed herewith).
31.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certification of Donald J. Stebbins, Chief Executive Officer and President, and Kerry A. Shiba, Executive Vice President and Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101	Interactive data file (furnished electronically herewith pursuant to Rule 406T of Regulation S-T).

* Indicates management contract or compensatory plan or arrangement.
** Filed herewith.

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SUPERIOR INDUSTRIES INTERNATIONAL, INC.
ANNUAL REPORT ON FORM 10-K

Schedule II

VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Thousands of dollars)

	Balance at Beginning of Year	Additions Charge to Costs and Expenses	Other Comprehensive Income (Loss)	Deductions From Reserves	Balance at End of Year
2015					
Allowance for doubtful accounts receivable	$514	$380	$—	$(27)	$867
Valuation allowances for deferred tax assets	$3,911	$1,980			$5,891
2014					
Allowance for doubtful accounts receivable	$910	$(426)	$—	$30	$514
Valuation allowances for deferred tax assets	$3,398	$473	$40	$—	$3,911
2013					
Allowance for doubtful accounts receivable	$573	$838	$—	$(501)	$910
Valuation allowances for deferred tax assets	$3,394	$4	$—	$—	$3,398

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SUPERIOR INDUSTRIES INTERNATIONAL, INC.
(Registrant)

By /s/ Donald J. Stebbins — March 11, 2016
Donald J. Stebbins
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

/s/ Donald J. Stebbins Donald J. Stebbins	Chief Executive Officer and President (Principal Executive Officer)	March 11, 2016
/s/ Kerry A. Shiba Kerry A. Shiba	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 11, 2016
/s/ Scot S. Bowie Scot S. Bowie	Vice President and Corporate Controller (Principal Accounting Officer)	March 11, 2016
/s/ Margaret S. Dano Margaret S. Dano	Chairman of the Board	March 11, 2016
/s/ Michael R. Bruynesteyn Michael R. Bruynesteyn	Director	March 11, 2016
/s/ Jack A. Hockema Jack A. Hockema	Director	March 11, 2016
/s/ Paul J. Humphries Paul J. Humphries	Director	March 11, 2016
/s/ James S. McElya James S. McElya	Director	March 11, 2016
/s/ Timothy McQuay Timothy McQuay	Director	March 11, 2016
/s/ Francisco S. Uranga Francisco S. Uranga	Director	March 11, 2016