

SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-Q
November 04, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended September 28, 2014

Commission file number: 1-6615

SUPERIOR INDUSTRIES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

7800 Woodley Avenue 91406
Van Nuys, California (Zip Code)
(Address of Principal Executive Offices)
Registrant's Telephone Number, Including Area Code: (818) 781-4973

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of no par value common stock outstanding as of October 24, 2014: 26,629,635

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FINANCIAL INFORMATION

Item 1. Financial Statements

Superior Industries International, Inc.
Condensed Consolidated Statements of Operations
(Dollars in thousands, except per share data)
(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
NET SALES	\$176,419	\$191,619	\$558,775	\$597,053
Cost of sales:				
Cost of sales	164,939	176,201	515,927	551,880
Restructuring costs (Note 3)	4,162	—	4,162	—
	169,101	176,201	520,089	551,880
GROSS PROFIT	7,318	15,418	38,686	45,173
Selling, general and administrative expenses	9,955	8,255	25,176	22,554
INCOME (LOSS) FROM OPERATIONS	(2,637	) 7,163	13,510	22,619
Interest income, net	233	413	893	1,289
Other income (expense), net	(336	) 142	(422	) 556
INCOME (LOSS) BEFORE INCOME TAXES	(2,740	) 7,718	13,981	24,464
Income tax (provision) benefit	321	(2,547	) (6,539	) (8,035
NET INCOME (LOSS)	\$(2,419	) \$5,171	\$7,442	\$16,429
INCOME (LOSS) PER SHARE - BASIC	\$(0.09	) \$0.19	\$0.28	\$0.60
INCOME (LOSS) PER SHARE - DILUTED	\$(0.09	) \$0.19	\$0.27	\$0.60
DIVIDENDS DECLARED PER SHARE	\$0.18	\$0.02	\$0.54	\$0.02

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

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Superior Industries International, Inc.
 Condensed Consolidated Statements of Comprehensive Income (Loss)
 (Dollars in thousands)
 (Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Net income (loss)	\$(2,419	) \$5,171	\$7,442	\$16,429
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	(3,837	) 2,068	(3,419	) 375
Defined benefit pension plan:				
Adjustment to unrealized loss for unvested termination	—	522	—	522
Amortization of amounts resulting from changes in actuarial assumptions	30	135	89	404
Tax provision	(11	) (233	) (33	) (333
Pension changes, net of tax	19	424	56	593
Other comprehensive income (loss), net of tax	(3,818	) 2,492	(3,363	) 968
Comprehensive income (loss)	\$(6,237	) \$7,663	\$4,079	\$17,397

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

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Superior Industries International, Inc.
Condensed Consolidated Balance Sheets
(Dollars in thousands)
(Unaudited)

	September 28, 2014	December 29, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$83,133	\$199,301
Short term investments	3,750	3,750
Accounts receivable, net	104,081	89,623
Inventories	77,674	67,193
Income taxes receivable	6,305	7,584
Deferred income taxes, net	7,854	7,917
Other current assets	15,052	8,850
Total current assets	297,849	384,218
Property, plant and equipment, net	258,518	219,892
Investment in and advances to unconsolidated affiliate	4,500	4,565
Non-current deferred income taxes, net	15,105	14,664
Non-current assets	29,735	30,049
Total assets	\$605,707	\$653,388
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$25,971	\$34,494
Accrued expenses	50,713	64,936
Total current liabilities	76,684	99,430
Non-current income tax liabilities	16,154	15,050
Non-current deferred income tax liabilities, net	20,354	21,070
Other non-current liabilities	34,615	34,775
Commitments and contingencies (Note 16)	—	—
Shareholders' equity:		
Preferred stock, no par value		
Authorized - 1,000,000 shares		
Issued - none	—	—
Common stock, no par value		
Authorized - 100,000,000 shares		
Issued and outstanding - 26,632,794 shares (27,155,550 shares at December 29, 2013)	79,213	75,305
Accumulated other comprehensive loss	(63,726	) (60,363
Retained earnings	442,413	468,121
Total shareholders' equity	457,900	483,063
Total liabilities and shareholders' equity	\$605,707	\$653,388

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

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Superior Industries International, Inc.
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Thirty-nine Weeks Ended	
	September 28, 2014	September 29, 2013
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$5,693	\$20,684
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(92,043	) (43,408
Proceeds from life insurance policy	352	297
Proceeds from sales and maturities of investments	3,750	3,970
Purchase of investments	(3,750	) (3,750
Proceeds from sale of property, plant and equipment	1,973	13
Premiums paid for life insurance	(340	) (347
Other	158	—
NET CASH USED IN INVESTING ACTIVITIES	(89,900	) (43,225
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(14,605) —
Cash paid for common stock repurchase	(21,790) —
Proceeds from exercise of stock options	5,568	1,515
Excess tax benefits from exercise of stock options	47	322
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(30,780	) 1,837
Effect of exchange rate changes on cash	(1,181	) 64
Net decrease in cash and cash equivalents	(116,168	) (20,640
Cash and cash equivalents at the beginning of the period	199,301	203,364
Cash and cash equivalents at the end of the period	\$83,133	\$182,724

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

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Superior Industries International, Inc.
 Condensed Consolidated Statement of Shareholders' Equity
 (Dollars in thousands, except per share data)
 (Unaudited)

	Common Stock		Accumulated Other Comprehensive Income (Loss)			
	Number of Shares	Amount	Pension Obligations	Cumulative Translation Adjustment	Retained Earnings	Total
Balance at December 29, 2013	27,155,550	\$75,305	\$(2,258)	\$(58,105)	\$468,121	\$483,063
Net income					7,442	7,442
Change in employee benefit plans, net of taxes			56	—	—	56
Net foreign currency translation adjustment			—	(3,419)	—	(3,419)
Stock options exercised	346,835	5,568	—	—	—	5,568
Restricted stock awards granted, net of forfeitures	219,969	—	—	—	—	—
Stock-based compensation expense	—	1,832	—	—	—	1,832
Tax impact of stock options	—	(338)	—	—	—	(338)
Common stock repurchased	(1,089,560)	(3,154)	—	—	(18,636)	(21,790)
Cash dividends declared (\$0.54 per share)	—	—	—	—	(14,514)	(14,514)
Balance at September 28, 2014	26,632,794	\$79,213	\$(2,202)	\$(61,524)	\$442,413	\$457,900

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

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Superior Industries International, Inc.
Notes to Condensed Consolidated Financial Statements
September 28, 2014
(Unaudited)

Note 1 – Nature of Operations

Headquartered in Van Nuys, California, the principal business of Superior Industries International, Inc. (referred to herein as the “company” or in the first person notation “we,” “us” and “our”) is the design and manufacture of aluminum road wheels for sale to original equipment manufacturers (“OEMs”). We are one of the largest suppliers of cast aluminum wheels to the world’s leading automobile and light-duty truck manufacturers, with wheel manufacturing operations in the United States and Mexico. Customers in North America represent the principal market for our products. In addition, the majority of our net sales to international customers by our North American facilities are delivered primarily to such customers’ assembly operations in North America.

Ford Motor Company (“Ford”), General Motors Company (“GM”), Toyota Motor Company (“Toyota”) and Chrysler Group LLC (“Chrysler”) were our customers individually accounting for more than 10 percent of our consolidated sales in the first three quarters of 2014 and together represented approximately 90 percent and 91 percent of our total sales during the first three quarters of 2014 and 2013, respectively. We also manufacture aluminum wheels for BMW, Mazda, Mitsubishi, Nissan, Subaru, Tesla and Volkswagen. The loss of all or a substantial portion of our sales to Ford, GM, Toyota or Chrysler would have a significant adverse impact on our operating results and financial condition. This risk is partially mitigated by our long-term relationships with these OEM customers and our supply arrangements, which are generally for multi-year periods.

Demand for automobiles and light-duty trucks (including SUV’s and crossover vehicles) in the North American market is subject to many unpredictable factors such as changes in the general economy, gasoline prices, consumer credit availability and interest rates. Demand for aluminum wheels can be further affected by other factors, including pricing and performance comparisons to competitive materials such as steel. Finally, the demand for our products is influenced by shifts of market share between vehicle manufacturers and the specific market penetration of individual vehicle platforms being sold by our customers.

While we historically have had long-term relationships with our customers and our supply arrangements generally are for multi-year periods, maintaining such long-term arrangements on terms acceptable to us has become increasingly difficult. Global competitive pricing pressures continue to affect our business negatively as our customers maintain and/or further develop alternative supplier options. Increasingly global procurement practices and competition, and the pressure for price reductions, may make it more difficult to maintain long-term supply arrangements with our customers. As a result, there can be no guarantees that we will be able to negotiate supply arrangements with our customers on terms acceptable to us in the future.

We are engaged in ongoing programs to reduce our own costs through improved operational and procurement practices in an attempt to mitigate the impact of these pricing pressures. However, these improvement programs may not be sufficient to offset the adverse impact of ongoing pricing pressures and potential reductions in customer demand in future periods. Additional factors such as inconsistent customer ordering patterns, increasing product complexity and heightened quality standards also are making it increasingly difficult to reduce our costs. It is also possible that as we incur costs to implement improvement strategies, the initial impact of these strategies on our financial position, results of operations and cash flow may be negative.

The raw materials used in producing our products are readily available and are obtained through suppliers with whom we have, in many cases, relatively long-standing trade relations.

Note 2 – Presentation of Condensed Consolidated Financial Statements

During interim periods, we follow the accounting policies set forth in our Annual Report on Form 10-K for the fiscal year ended December 29, 2013 (the "2013 Annual Report on Form 10-K") and apply appropriate interim financial reporting standards for a fair statement of our operating results and financial position in conformity with accounting principles generally accepted in the United States of America, as codified by the Financial Accounting Standards Board ("FASB") in the Accounting Standards Codification ("ASC") (referred to herein as "U.S. GAAP"), as indicated below. Users of financial information produced for interim periods in 2014 are encouraged to read this Quarterly Report on Form 10-Q in conjunction with our consolidated financial statements and notes thereto filed with the Securities and Exchange Commission ("SEC") in our 2013 Annual Report on Form 10-K.

Interim financial reporting standards require us to make estimates that are based on assumptions regarding the outcome of future events and circumstances not known at that time, including the use of estimated effective tax rates. Inevitably, some assumptions will not materialize, unanticipated events or circumstances may occur which vary from those estimates and such variations may

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significantly affect our future results. Additionally, interim results may not be indicative of our results for future interim periods or our annual results.

We use a 4-4-5 convention for our fiscal quarters, which are thirteen week periods generally ending on the last Sunday of each calendar quarter. We refer to these thirteen week fiscal periods as “quarters” throughout this report. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the SEC’s requirements for Form 10-Q and, in our opinion, contain all adjustments, of a normal and recurring nature, which are necessary for a fair statement of (i) the condensed consolidated statements of operations for the thirteen and thirty-nine week periods ended September 28, 2014 and September 29, 2013, (ii) the condensed consolidated statements of comprehensive income (loss) for the thirteen and thirty-nine week periods ended September 28, 2014 and September 29, 2013, (iii) the condensed consolidated balance sheets at September 28, 2014 and December 29, 2013, (iv) the condensed consolidated statements of cash flows for the thirty-nine week periods ended September 28, 2014 and September 29, 2013, and (v) the condensed consolidated statement of shareholders’ equity for the thirty-nine week period ended September 28, 2014. However, the accompanying unaudited condensed consolidated financial statements do not include all information and notes required by U.S. GAAP. The condensed consolidated balance sheet as of December 29, 2013, included in this report, was derived from our 2013 audited financial statements, but does not include all disclosures required by U.S. GAAP.

New Accounting Pronouncement

In May 2014, the FASB issued an Accounting Standards Update (“ASU”) entitled “Revenue from Contracts with Customers.” The ASU requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

Note 3 – Restructuring

On July 30, 2014, we announced the planned closure of our wheel manufacturing facility located in Rogers, Arkansas, that will result in a workforce reduction of approximately 500 employees and a shift in production to other facilities. The planned closure of the Rogers facility, which is expected to be effective in the fourth quarter of 2014, was approved on July 29, 2014. The action was necessary in order to reduce costs and enhance our global competitive position. In addition, other measures were taken to reduce costs including the planned sale of the company’s two aircraft. One airplane was sold for cash in September 2014 incurring a \$0.2 million loss on sale. The remaining airplane is classified as held-for-sale with a carrying value of \$1.0 million and is included in other current assets on our condensed consolidated balance sheet at September 28, 2014.

Included in selling, general and administrative expense in the condensed consolidated statements of operations for the thirteen weeks ended September 28, 2014 are charges totaling \$1.0 million to reduce the carrying balance of the aircraft we currently are marketing for sale at its estimated fair value. Cost of sales for the thirteen weeks ended September 28, 2014 includes \$3.1 million of depreciation accelerated due to shorter useful lives for assets to be abandoned when operations cease at the Rogers facility. Additional depreciation accelerated due to shorter useful lives of approximately \$3.1 million related to the plant closure will be recorded in the fourth quarter of 2014. We do not expect any significant additional charges or impairments related to the fixed assets at this time.

As noted above, the operations are expected to cease at the facility in the fourth quarter of 2014. Following the date production ceases at the facility we currently expect to actively market the facility for sale. Based on the current carrying value of the land and building of \$3.0 million, we do not expect a loss on the sale at this time. In addition, after production ceases at the facility, machinery and equipment to be held and used at our other plants will be

transferred, with the carrying values depreciated over the remaining estimated useful lives of these assets.

The total cost expected to be incurred as a result of the Rogers facility closure is \$10.5 million, of which \$3.8 million is expected to be paid in cash. One-time termination benefits, equipment lease termination costs, inventory write-downs and other costs related to this plant closure are estimated to approximate \$4.3 million, of which \$1.1 million was recorded in the thirteen weeks ended September 28, 2014. Costs for one-time termination benefits included in cost of sales in the third quarter of 2014 totaled \$0.8 million. These one-time termination benefits are derived from the individual agreements with each employee and are being accrued ratably over the requisite service period. We expect to incur additional one-time severance costs of approximately \$1.2 million over the next three to six months.

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The following table summarizes the Rogers, Arkansas plant closure costs and classification in the condensed consolidated statements of operations as of September 28, 2014:

(Dollars in thousands)	Costs Incurred Through September 28, 2014	Costs Remaining	Total Expected Costs	Classification
Accelerated depreciation of assets to be abandoned	\$ 3,112	\$ 3,145	\$ 6,257	Cost of sales, Restructuring costs
One-time severance costs	800	1,158	1,958	Cost of sales, Restructuring costs
Equipment removal, inventory write-down, lease termination and other costs	250	2,054	2,304	Cost of sales, Restructuring costs
	\$ 4,162	\$ 6,357	\$ 10,519	

Changes in the accrued expenses related to restructuring liabilities during the thirty-nine weeks ended September 28, 2014 are summarized as follows:

(Dollars in thousands)

Balance December 29, 2013	\$—
Restructuring accruals	1,050
Cash payments	—
Balance September 28, 2014	\$ 1,050

Note 4 – Investment in Unconsolidated Affiliate

On June 28, 2010, we executed a share subscription agreement with Synergies Castings Limited ("Synergies"), a private aluminum wheel manufacturer based in Visakhapatnam, India, providing for our acquisition of a minority interest in Synergies. As of September 28, 2014, the total cash investment in Synergies amounted to \$4.5 million, representing 12.6 percent of the outstanding equity shares of Synergies. Our Synergies investment is accounted for using the cost method. During 2011, a group of existing equity holders, including the company, made a loan of \$1.5 million to Synergies for working capital needs. The company's share of this unsecured advance was \$450,000. The principal balance as of September 28, 2014 was \$116,000 and is scheduled to be repaid over the next 7 months.

Note 5 – 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 September 28, 2014, there were 1.9 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 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 the plan generally require no less than a three year ratable vesting period.

During the first three quarters of 2014 no stock options were granted, 346,835 stock options were exercised and 145,417 options were canceled.

During the first three quarters of 2014 we granted restricted shares, or “full value” awards under our Plan, totaling 90,750 shares. The fair values of each issued restricted share on the applicable date of grant averaged \$19.21 for the first three quarters of 2014.

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In addition, during the second quarter of 2014, we granted 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 16 - 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. Restricted share awards, which are generally subject to forfeiture if employment terminates prior to the shares vesting, are expensed ratably over the vesting period. Shares of restricted stock granted under the Plan are considered issued and outstanding at the date of grant and have the same dividend and voting rights as other common stock. Dividends paid on the restricted shares granted under the Plan are non-forfeitable if the restricted shares do not ultimately vest.

Other Awards

During the second quarter of 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 16 - Commitments and Contingencies).

Stock-based compensation expense related to our unvested stock options and restricted share awards was allocated as follows:

(Dollars in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Cost of sales	\$18	\$50	\$98	\$168
Selling, general and administrative expenses	505	464	1,734	1,332
Stock-based compensation expense before income taxes	523	514	1,832	1,500
Income tax benefit	(180)	(132)	(568)	(360)
Total stock-based compensation expense after income taxes	\$343	\$382	\$1,264	\$1,140

As of September 28, 2014, a total of \$3.4 million of unrecognized compensation cost related to non-vested awards is expected to be recognized over a weighted average period of approximately 2.2 years. There were no significant capitalized stock-based compensation costs at September 28, 2014 and December 29, 2013.

Note 6 – Business Segments

Our Chief Executive Officer is our chief operating decision maker ("CODM"). Our CODM evaluates both consolidated and disaggregated financial information at each manufacturing facility in deciding how to allocate resources and assess performance. Each manufacturing facility functions as a separate cost center, manufactures the same products, ships product to the same group of customers, and utilizes the same cast manufacturing process and, as a result, production can be transferred among our facilities. Accordingly, we operate as a single integrated business and, as such, have only one operating segment - original equipment aluminum automotive wheels. Net sales and net property, plant and equipment by geographic area are summarized below.

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(Dollars in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Net sales:				
U.S.	\$58,569	\$65,090	\$196,637	\$219,228
Mexico	117,850	126,529	362,138	377,825
Consolidated net sales	\$176,419	\$191,619	\$558,775	\$597,053
Property, plant and equipment, net:			September 28, 2014	December 29, 2013
U.S.			\$57,215	\$62,821
Mexico			201,303	157,071
Consolidated property, plant and equipment, net			\$258,518	\$219,892

Note 7 – Pre-Production Costs Related to Long-Term Supply Arrangements

We incur preproduction engineering and tooling costs related to the products manufactured for our customers under long-term supply agreements. We amortize the cost of the customer-owned tooling over the expected life of the wheel program on a straight line basis. Also, we defer any reimbursements made to us by our customers and recognize the tooling reimbursement revenue over the same period in which the tooling is in use. Recognized deferred tooling revenues included in net sales in the condensed consolidated statements of operations totaled \$2.0 million and \$2.3 million for the thirteen weeks ended September 28, 2014 and September 29, 2013, respectively, and \$6.1 million and \$7.2 million for the thirty-nine weeks ended September 28, 2014 and September 29, 2013, respectively. The following table summarizes the unamortized customer-owned tooling costs included in our non-current assets, and the deferred tooling revenues included in accrued expenses and other non-current liabilities.

(Dollars in Thousands)	September 28, 2014	December 29, 2013
Unamortized Preproduction Costs		
Preproduction costs	\$64,820	\$60,776
Accumulated amortization	(51,580)	(46,213)
Net preproduction costs	\$13,240	\$14,563
Deferred Tooling Revenues		
Accrued expenses	\$5,501	\$5,950
Other non-current liabilities	2,976	2,619
Total deferred tooling revenues	\$8,477	\$8,569

Note 8 – Income Per Share

In accordance with U.S. GAAP, basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of outstanding stock options calculated using the treasury stock method.

The computation of diluted earnings per share does not include stock option awards that were outstanding and anti-dilutive (i.e., including such awards would result in higher earnings per share), since the exercise prices of these awards exceeded the average market price of the company's common stock during the respective periods. For the thirteen and thirty-nine week periods ended September 28, 2014 there were 2.0 million and 0.9 million shares issuable under outstanding stock options excluded from the computations, respectively. For the thirteen and thirty-nine week periods ended September 29, 2013, there were 1.8 million and 0.9 million shares issuable under outstanding stock

options excluded from the computations, respectively. Summarized below are the calculations of basic and diluted earnings per share.

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(In thousands, except per share amounts)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Basic Income (Loss) Per Share:				
Reported net income (loss)	\$(2,419	) \$5,171	\$7,442	\$16,429
Basic income (loss) per share	\$(0.09	) \$0.19	\$0.28	\$0.60
Weighted average shares outstanding - Basic	26,652	27,453	26,991	27,370
Diluted Income (Loss) Per Share:				
Reported net income (loss)	\$(2,419	) \$5,171	\$7,442	\$16,429
Diluted income (loss) per share	\$(0.09	) \$0.19	\$0.27	\$0.60
Weighted average shares outstanding	26,652	27,453	26,991	27,370
Weighted average dilutive stock options	—	83	137	144
Weighted average shares outstanding - Diluted	26,652	27,536	27,128	27,514

Note 9 – Income Taxes

We account for income taxes using the asset and liability method. The asset and liability method requires the recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between the tax basis and financial reporting basis of our assets and liabilities. We calculate current and deferred tax provisions based on estimates and assumptions that could differ from actual results reflected on the income tax returns filed during the following years. Adjustments based on filed returns are recorded when identified in the subsequent years.

The effect on deferred taxes of a change in tax rates is recognized in income in the period that the tax rate change is enacted. In assessing the likelihood of realization of deferred tax assets, we consider whether it is more likely than not that some portion of the deferred tax assets will not be realized. A valuation allowance is provided for deferred income taxes when, in our judgment, based upon currently available information and other factors, it is more likely than not that all or a portion of such deferred income tax assets will not be realized. The determination of the need for a valuation allowance is based on an on-going evaluation of current information including, among other things, historical operating results, estimates of future earnings in different taxing jurisdictions and the expected timing of the reversals of temporary differences. We believe that the determination to record a valuation allowance to reduce a deferred income tax asset is a significant accounting estimate because it is based, among other things, on an estimate of future taxable income in the United States and certain other jurisdictions, which is susceptible to change and may or may not occur, and because the impact of adjusting a valuation allowance may be material. Our valuation allowances totaled \$3.4 million as of September 28, 2014 and December 29, 2013, and relate to state deferred tax assets for net operating loss and tax credit carryforwards that are not expected to be realized due to changes in tax law and cessation of business in Kansas.

We record uncertain tax positions in accordance with US GAAP on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. If a position does not meet the more likely than not threshold for recognition in step one, no benefit is recorded until the first subsequent period in which the more likely than not standard is met, the issue is resolved with the taxing authority, or the statute of limitations expires. Positions previously recognized are derecognized when we subsequently determine the position no longer is more likely than not to be sustained. Evaluation of tax positions, their technical merits, and measurements using cumulative probability are highly subjective management estimates. Actual results could differ materially from these estimates.

Presently, we have not recorded a deferred tax liability for temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration. These temporary differences may become taxable upon a repatriation of earnings from the subsidiaries or a sale or liquidation of the subsidiaries. At this time, the company does not have any plans to repatriate additional income from its foreign subsidiaries.

The income tax benefit for the thirteen weeks ended September 28, 2014 was \$0.3 million, which was an effective income tax rate of 12 percent. For the thirty-nine weeks ended September 28, 2014 the provision for income taxes was \$6.5 million, which

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was an effective income tax rate of 47 percent. The tax benefit for the thirteen weeks ended September 28, 2014 was lower than the benefit calculated using the U.S. federal statutory rate due to interest and penalties on unrecognized tax benefits and the write-down of a tax refund receivable, partially offset by the release of certain liabilities related to uncertain tax positions due to the expiration of a statute of limitations. The effective tax rate for the thirty-nine weeks ended September 28, 2014 was higher than the federal statutory rate as a result of non-deductible expenses primarily related to compensation deduction limitations and recent tax law changes in Mexico, interest and penalties on unrecognized tax benefits, the write-down of a tax refund receivable and state income taxes (net of federal tax benefit), partially offset by the release of a reserve due to the expiration of a statute of limitations and foreign income taxed at rates that are lower than the U. S. statutory rates.

For the thirteen weeks ended September 29, 2013 the provision for income taxes was \$2.5 million, which was an effective income tax rate of 33 percent. The effective tax rate was favorably affected by income tax credits and foreign income taxes that are taxed at rates lower than the U. S. statutory rates, partially offset by unfavorable non-deductible expenses incurred during the quarter, interest on unrecognized tax benefits and state income taxes (net of federal tax benefit). The provision for income taxes for the thirty-nine weeks ended September 29, 2013 was \$8.0 million, which was an effective income tax rate of 33 percent. The effective tax rate was favorably impacted by foreign income taxes (taxed at rates lower than the U. S. statutory rates) and tax credits, including credits recognized as a result of the 2013 enactment of the American Taxpayer Relief Act of 2012 and the settlement of a tax audit at our Mexican subsidiary discussed below, partially offset by state income taxes (net of federal tax benefit).

During the first three quarters of 2014, the liability for uncertain tax positions increased by \$1.2 million to \$16.4 million from \$15.2 million at December 29, 2013. The increase primarily resulted from \$1.1 million of interest and penalties which were recognized in income tax expense during the first three quarters of 2014 and a \$0.8 million increase for tax positions taken in the current period, partially offset by a \$0.5 million reduction due to the expiration of a statute of limitations. During February 2013, Mexico's Tax Administration Service (Servicio de Administracion Tributaria, or "SAT"), finalized its examination of the 2007 tax year of Superior Industries de Mexico S.A. de C.V., our wholly-owned Mexican subsidiary. As a result, we reached a settlement with SAT for the 2007 tax year and made a cash payment of \$0.3 million during the first quarter of 2013.

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 taxing authorities in Mexico, the Netherlands, India and the United States. We are no longer open for examination by taxing authorities regarding any U.S. federal income tax returns for years before 2011 while the years open for examination under various state and local jurisdictions vary. The Internal Revenue Service ("IRS") is currently conducting an audit of the 2011 tax year of Superior Industries International and subsidiaries. We expect this IRS audit to be completed during the fourth quarter of 2014. We expect approximately \$9.4 million of unrecognized tax benefits related to our U.S. and Mexico operations will be recognized in the twelve month period ending September 27, 2015 due to the expiration of certain statutes of limitations or due to settlement of uncertain tax positions.

Note 10 – Short-Term Investments

The company's short-term investments include certificates of deposit and fixed deposits whose original maturity is greater than three months and is one year or less. Certificates of deposit and fixed deposits whose original maturity is three months or less are classified as cash equivalents and certificates of deposit and fixed deposits whose maturity is greater than one year at the balance sheet date are classified as non-current assets in our condensed consolidated balance sheet. The purchase of any certificate of deposit or fixed deposit that is classified as a short-term investment or non-current asset appears in the investing section of our condensed consolidated statement of cash flows.

Restricted Deposits

We purchase certificates of deposit with maturity dates that expire within twelve months that are used to directly secure or collateralize letters of credit securing our workers' compensation obligations. At September 28, 2014 and December 29, 2013, certificates of deposit totaling \$3.8 million were restricted in use and were classified as short-term investments on our condensed consolidated balance sheets.

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Note 11 – Accounts Receivable

(Dollars in thousands)

	September 28, 2014	December 29, 2013
Trade receivables	\$97,035	\$82,809
Other receivables	7,574	7,724
	104,609	90,533
Allowance for doubtful accounts	(528	) (910
Accounts receivable, net	\$ 104,081	\$89,623

Note 12 – Inventories

(Dollars in thousands)

	September 28, 2014	December 29, 2013
Raw materials	\$17,334	\$15,631
Work in process	34,533	27,835
Finished goods	25,807	23,727
Inventories	\$77,674	\$67,193

Service wheel and supplies inventory included in other non-current assets in the condensed consolidated balance sheets totaled \$6.6 million and \$5.6 million at September 28, 2014 and December 29, 2013, respectively. Included in raw materials was supplies inventory totaling \$8.8 million and \$9.2 million at September 28, 2014 and December 29, 2013, respectively.

Note 13 – Property, Plant and Equipment

(Dollars in thousands)

	September 28, 2014	December 29, 2013
Land and buildings	\$71,587	\$72,310
Machinery and equipment	424,048	421,219
Leasehold improvements and others	9,921	9,152
Construction in progress	122,874	78,442
	628,430	581,123
Accumulated depreciation	(369,912	) (361,231
Property, plant and equipment, net	\$258,518	\$219,892

Construction in progress includes \$114.6 million and \$66.3 million of costs related to our new wheel plant under construction in Mexico, at September 28, 2014 and December 29, 2013, respectively, including amounts accrued in accounts payable and accrued liabilities of \$10.6 million and \$29.2 million, at September 28, 2014 and December 29, 2013, respectively. Depreciation expense was \$11.5 million and \$7.3 million for the thirteen weeks ended September 28, 2014 and September 29, 2013, respectively. Depreciation expense was \$25.9 million and \$21.4 million for the thirty-nine weeks ended September 28, 2014 and September 29, 2013, respectively. Depreciation expense and asset write-downs for the thirteen weeks ended September 28, 2014 includes \$4.1 million of additional charges for depreciation accelerated due to shorter useful lives for assets to be abandoned when operations cease at our Rogers facility and charges to reduce the carrying value of equipment (see Note 3 - Restructuring).

Note 14 – Retirement Plans

We have an unfunded supplemental executive retirement plan covering certain officers, key members of management and our non-employee directors. Subject to certain vesting requirements, the plan provides for retirement benefits based on the average of the final thirty-six months of base salary. Such benefits become payable upon attaining age sixty-five, or upon retirement, if later. The benefits are paid biweekly and continue for the remainder of the retiree's

life or for a minimum of ten years. The plan was closed to new participants effective February 3, 2011.

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For the thirty-nine weeks ended September 28, 2014, payments to retirees or their beneficiaries totaled approximately \$1,040,000. We presently anticipate benefit payments in 2014 to total approximately \$1.5 million. The following table summarizes the components of net periodic pension cost for the first three quarters of 2014 and 2013.

(Dollars in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Service cost	\$21	\$67	\$346	\$201
Interest cost	293	283	879	851
Net amortization	30	135	89	404
Net periodic pension cost	\$344	\$485	\$1,314	\$1,456

Note 15 - Common Stock Repurchase Programs

In March 2013, our board of directors approved a new stock repurchase program (the "2013 Program") authorizing the repurchase of up to \$30.0 million of our common stock. This 2013 Program replaced the previously existing share repurchase program. Shares repurchased under the 2013 Program totaled 1,510,759 at a cost of \$30.0 million through September 28, 2014, including 1,089,560 shares repurchased at a cost of \$21.8 million in the first three quarters of 2014. Accordingly, no additional shares may be repurchased under the 2013 Program.

In October 2014, our Board of Directors approved a new stock repurchase program (the "2014 Program") authorizing the repurchase of up to \$30.0 million of our common stock. Under the 2014 Program, we may repurchase common stock from time to time on the open market or in private transactions. Currently, we expect to fund the repurchases through available cash, although credit options are being evaluated in the context of total capital needs. The timing and extent of the repurchases under the 2014 Program will depend upon market conditions and other corporate considerations in our sole discretion.

Note 16 – 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 20,000 stock options divided by the company's closing stock price on the separation date (See Note 5 - Stock-Based Compensation), and

• Vesting of all of Mr. Borick's unvested stock options and unvested restricted stock.

During 2014, the company recognized \$1.1 million 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 3 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.

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,

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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 date of grant. 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.

Mexico Facility

In June 2013 we entered into a contract for the construction of the facility for our new wheel plant in Mexico and subsequently entered into non-cancellable contracts for the purchase of equipment for the new facility. These contracts are denominated in U.S. dollars, Mexican pesos and euros with a U.S. dollar value at September 28, 2014 of approximately \$120.6 million, of which a total of \$102.9 million was paid in cash in 2013 and 2014, with the remaining payments expected to be made over the next 3 months.

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 17 – Risk Management.

Note 17 – 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 3 percent in relation to the U.S. dollar in the first three quarters of 2014. Foreign currency transaction losses totaled \$0.4 million and \$0.2 million in the third quarter of 2014 and 2013, respectively. Foreign currency transaction losses totaled \$0.6 million in the first three quarters of 2014, while transaction gains totaled \$0.2 million in the first three quarters of 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 September 28, 2014 of \$60.5 million. Translation gains and losses are included in other comprehensive income in the condensed consolidated statements of comprehensive income (loss).

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 September 28, 2014 we have several purchase commitments in place for the delivery of natural gas in 2014 through 2015 for a total cost of \$1.6 million. These natural gas contracts are considered to be derivatives under U.S. GAAP, and when entering into these contracts, we expected to 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 do not account for these purchase commitments as derivatives unless there is a 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. Based on the quarterly analysis of our estimated future production levels, we believe that our remaining natural gas purchase commitments in effect as of September 28, 2014 will continue to qualify for the NPNS exemption since we can assert that it is probable we will take full delivery of the contracted quantities.

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Note 18 – Subsequent Event

On November 1, 2014, we entered into a commitment letter (the “Commitment Letter”) with J.P. Morgan Securities LLC (“JPMorgan” or the “Lead Arranger”), JPMorgan Chase Bank, N.A. (“JPMCB”) and Wells Fargo Bank, National Association (“WFB” and, collectively with JPMCB, the “Commitment Lenders”). Under the terms of the Commitment Letter, the Lead Arranger agrees to structure and arrange a senior secured revolving credit facility in an initial aggregate principal amount of \$100.0 million (the “Facility”) and the Commitment Lenders commit to provide the entire principal amount of the Facility. Pursuant to an expansion feature, Superior may request to increase the aggregate amount of the Facility or obtain incremental term loans in an amount up to \$50.0 million, which amount is uncommitted at this time. The Facility would have a term of five years, include certain restrictive covenants and would be secured by certain assets of the company.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We may from time to time make written or oral statements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report which constitute “forward-looking statements” within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Act of 1934. These forward-looking statements are based upon management’s current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and costs and potential liability for environmental-related matters. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as “expects,” “anticipates,” “believes,” “will,” “will likely result,” “will continue,” “plans to” and similar expressions.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the company, which could cause actual results to differ materially from such statements and from the company’s historical results and experience. The principal factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, changes in the automotive industry, including the financial condition of our OEM customers and changes in consumer preferences for end products, fluctuations in production schedules for vehicles for which we are a supplier, fluctuations in anticipated demand for aluminum wheels in the North American market, increased global competitive pressures and pricing pressures, our dependence on major customers and third party suppliers and manufacturers, cost, capacity and time of completion for our new manufacturing facility and the related impact on our operating performance and financial condition, our future liquidity and credit options, our future capital spending for existing operations, our ongoing ability to achieve cost savings and other operational improvements, our ability to introduce new products to meet our customers’ demand in a timely manner, the impact on our relationship with customers and our market position due to limitations in our manufacturing capacity, increased repair and maintenance costs and costs to replace machinery and equipment on an accelerated basis due to continued operation of our plants at near full capacity levels, our exposure to foreign currency fluctuations, increasing fuel and energy costs, regulatory changes and other factors or conditions described in Item 1A - Risk Factors in Part I of our 2013 Annual Report on Form 10-K and from time to time in our future reports filed with the Securities and Exchange Commission.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Any forward-looking

statement speaks only as of the date on which such statement is made, and the company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and notes thereto and with the audited Consolidated Financial Statements, notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2013 Annual Report on Form 10-K.

Executive Overview

During the third quarter of 2014, we completed a review of initiatives to reduce costs and enhance our competitive position. Based on this review, we committed to a plan to close operations at our Rogers, Arkansas facility effective during the fourth quarter of 2014. The closure will result in a reduction of workforce of approximately 500 employees and a shift in production to other facilities. In addition, other measures were taken or are in process to reduce costs including the sale of the company's two aircraft.

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Operating results for the third quarter were unfavorably impacted by these actions. Additional charges related to the Rogers facility fixed assets and other closing costs will continue into the fourth quarter of 2014.

North American production of passenger cars and light-duty trucks in the third quarter of 2014 was reported by industry publications as increasing by approximately 8 percent overall versus the comparable period a year ago, continuing the trend of growth since the 2009 recession. Production of light-duty trucks -- the light-duty truck category includes pick-up trucks, SUV's, vans and "crossover vehicles"-- increased 11 percent and production of passenger cars increased 5 percent. The production level for the North American automotive industry for the third quarter of 2014 was 4.2 million vehicles. Factors contributing to the continued market recovery include general economic improvement, low consumer interest rates and the relatively high average age of vehicles, which may be an indicator of pent-up demand. In June 2014, it was reported that the average age of all light vehicles in the U.S. remained steady at a record level of 11.4 years, according to IHS Automotive.

Net sales in the third quarter of 2014 decreased \$15.2 million, or 8 percent, to \$176.4 million from \$191.6 million in the comparable period a year ago. Wheel sales in the third quarter of 2014 decreased \$14.9 million, to \$174.2 million from \$189.1 million in the comparable period a year ago, as wheel unit shipments decreased 11 percent in 2014 to 2.6 million.

The results for the third quarter of 2014 reflect the impacts of costs totaling \$5.4 million (\$3.3 million after tax) associated with several items including the closure of our Rogers facility and affecting gross profit totaling \$4.2 million, depreciation charges totaling \$1.0 million in SG&A for the write-down of an aircraft we currently are marketing for sale and a loss on the sale of our second aircraft of \$0.2 million. Gross profit in the third quarter of 2014 was \$7.3 million, or 4 percent of net sales, compared to \$15.4 million, or 8 percent of net sales, in the comparable period a year ago. The loss from operations for the third quarter of 2014 was \$2.6 million, a \$9.8 million decline from operating income of \$7.2 million for the third quarter of 2013. Net loss for the third quarter of 2014 was \$2.4 million, or \$0.09 per diluted share. In comparison, net income in the third quarter of 2013 was \$5.2 million, or \$0.19 per diluted share.

Supported by the expectation of continued strength in the North American market, we announced in 2013 our plans to invest between \$125 million and \$135 million to build a new manufacturing facility in Mexico, which we currently project will be operational in late 2014. In June 2013 we entered into a contract for the construction of the new facility and we subsequently entered into contracts for the purchase of equipment for the new facility. As of the end of the third quarter of 2014 the total value of these contracts was approximately \$120.6 million.

Under the share repurchase program we instituted in 2013 to enhance shareholder value, we repurchased 436,777 additional shares of company stock at a cost of \$8.8 million in the third quarter of 2014. As of the end of the third quarter of 2014, total repurchases reached the maximum expenditure authorized under the program of \$30.0 million. In October 2014, our Board of Directors approved a new stock buyback program authorizing the repurchase of up to \$30.0 million of our common stock.

Results of Operations

(Dollars in thousands, except per share amounts)

Selected data	Thirteen Weeks Ended		Thirty-nine Weeks Ended		
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013	
Net sales	\$176,419	\$191,619	\$558,775	\$597,053	
Gross profit	\$7,318	\$15,418	\$38,686	\$45,173	
Percentage of net sales	4.1	% 8.0	% 6.9	% 7.6	%

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Income (loss) from operations	\$ (2,637)	\$ 7,163	\$ 13,510	\$ 22,619	
Percentage of net sales	(1.5)%	3.7	% 2.4	% 3.8	%
Net income (loss)	\$ (2,419	)	\$ 5,171	\$ 7,442	\$ 16,429	
Percentage of net sales	(1.4	)%	2.7	% 1.3	% 2.8	%
Diluted income (loss) per share	\$ (0.09	)	\$ 0.19	\$ 0.27	\$ 0.60	

Restructuring Actions

During the third quarter of 2014, we completed a review of initiatives to reduce costs and enhance our competitive position. Based on this review, we committed to a plan to close operations at our Rogers, Arkansas facility which is expected to be completed during the fourth quarter of 2014. The closure will result in a reduction of workforce of approximately 500 employees and a shift

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in production to other facilities. In addition, other measures were taken or are in process to reduce costs including the sale of the company's two aircraft. The results for the third quarter of 2014 reflect the impacts of costs totaling \$5.4 million (\$3.3 million after tax) related to these actions, including costs associated with the closure of our Rogers facility affecting gross profit totaling \$4.2 million, charges totaling \$1.0 million in SG&A for the write-down of the carrying value of an aircraft we currently are marketing for sale and a loss on the sale of our second aircraft of \$0.2 million.

Cost of sales in the current quarter includes \$3.1 million of depreciation accelerated due to shorter useful lives for assets to be abandoned when operations cease at the Rogers facility. Additional depreciation accelerated due to shorter useful lives of an estimated \$3.1 million related to the plant closure will be recorded in the fourth quarter of 2014. We do not expect any significant additional charges or impairments related to the fixed assets at this time.

As noted above, the operations are expected to cease at the Rogers facility in the fourth quarter of 2014. Following the date production ceases at the facility we currently expect to actively market the property for sale. Based on the current carrying value of the land and building of \$3.0 million, we do not expect a loss on sale at this time.

One-time employee severance benefits, equipment lease termination costs, inventory write-downs and other costs related to this plant closure are estimated to approximate \$4.3 million, of which \$1.1 million in total was recorded in the third quarter of 2014. Within the total third quarter charge, costs for one-time employee severance benefits totaled \$0.8 million and were included in cost of sales. These one-time employee severance benefits are derived from the individual agreements with each employee and are being accrued ratably over the related remaining service period. We expect to incur additional one-time employee severance costs of approximately \$1.2 million over the next three to six months.

The total cost expected to be incurred as a result of the Rogers facility closure is \$10.5 million, of which \$3.8 million is expected to be paid in cash. As a result of the closure of the Rogers manufacturing facility, we estimate annual depreciation expense for 2015 will decrease \$1.7 million and annual labor savings will approximate \$14.8 million, based on year-to-date actual expenses through the end of the third quarter of 2014. However, we also will incur increasing depreciation and other operating costs associated with our new wheel plant in Mexico as production activity grows during 2015.

Net Sales

As noted above, net sales in the third quarter of 2014 decreased \$15.2 million, or 8 percent, to \$176.4 million from \$191.6 million in the comparable period a year ago. Wheel sales in the third quarter of 2014 decreased \$14.9 million to \$174.2 million from \$189.1 million in 2013 as wheel shipments decreased 11 percent in the 2014 period. Unit shipments decreased to Ford, GM, Toyota, BMW and Chrysler, while shipments to Subaru, VW and Nissan increased. Shipments to other customers were minimal and remained relatively unchanged. The average selling price of our wheels increased 3 percent primarily reflecting an increase in the value of the aluminum component of sales which we generally pass through to our customers. The increase in aluminum value resulted in \$5.8 million higher revenues in the third quarter of 2014 when compared to 2013. Wheel development revenues totaled \$2.2 million in the third quarter of 2014 and \$2.5 million in the comparable 2013 period.

Net sales in the first three quarters of 2014 decreased \$38.3 million, or 6 percent, to \$558.8 million from \$597.1 million in the comparable period a year ago. Wheel sales in the first three quarters of 2014 decreased \$37.2 million to \$552.1 million from \$589.3 million in 2013. The decline in wheel sales primarily resulted from 6 percent lower unit shipments in the first three quarters of 2014 compared to the first three quarters