

STONERIDGE INC
Form 10-Q
November 09, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the quarter ended September 30, 2007

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: 001-13337
STONERIDGE, INC.**

(Exact name of registrant as specified in its charter)

Ohio

34-1598949

*(State or other jurisdiction of
incorporation or organization)*

*(I.R.S. Employer
Identification No.)*

9400 East Market Street, Warren, Ohio

44484

(Address of principal executive offices)

(Zip Code)

(330) 856-2443

Registrant's telephone number, including area code

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

90 Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of Common Shares, without par value, outstanding as of October 26, 2007 was 24,226,564.

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

| | September 30, 2007 (Unaudited) | December 31, 2006 (Audited) |
|--|---|--|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 67,649 | \$ 65,882 |
| Accounts receivable, less allowances for doubtful accounts and other reserves of \$5,521 and \$5,243, respectively | 123,916 | 106,985 |
| Inventories, net | 57,591 | 58,521 |
| Prepaid expenses and other | 19,925 | 13,448 |
| Deferred income taxes | 9,305 | 9,196 |
| Total current assets | 278,386 | 254,032 |
| Long-Term Assets: | | |
| Property, plant and equipment, net | 102,378 | 114,586 |
| Other Assets: | | |
| Goodwill | 65,176 | 65,176 |
| Investments and other, net | 40,317 | 30,875 |
| Deferred income taxes | 36,896 | 37,138 |
| Total long-term assets | 244,767 | 247,775 |
| Total Assets | \$ 523,153 | \$ 501,807 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| Current Liabilities: | | |
| Accounts payable | \$ 65,753 | \$ 72,493 |
| Accrued expenses and other | 53,949 | 45,624 |
| Total current liabilities | 119,702 | 118,117 |
| Long-Term Liabilities: | | |
| Long-term debt | 200,000 | 200,000 |
| Deferred income taxes | 2,030 | 1,923 |
| Other liabilities | 3,800 | 3,145 |

| | | |
|--|------------|------------|
| Total long-term liabilities | 205,830 | 205,068 |
| Shareholders' Equity: | | |
| Preferred Shares, without par value, authorized 5,000 shares, none issued | | |
| Common Shares, without par value, authorized 60,000 shares, issued 24,599 and 23,990 shares and outstanding 24,227 and 23,804 shares, respectively, with no stated value | | |
| Additional paid-in capital | 153,585 | 150,078 |
| Common Shares held in treasury, 373 and 186 shares, respectively, at cost | (383) | (151) |
| Retained earnings | 31,891 | 21,701 |
| Accumulated other comprehensive income | 12,528 | 6,994 |
| Total shareholders' equity | 197,621 | 178,622 |
| Total Liabilities and Shareholders' Equity | \$ 523,153 | \$ 501,807 |

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

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

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net Sales | \$ 172,814 | \$ 172,351 | \$ 541,644 | \$ 537,484 |
| Costs and Expenses: | | | | |
| Cost of goods sold | 134,944 | 134,173 | 422,045 | 414,619 |
| Selling, general and administrative | 32,407 | 29,074 | 99,209 | 92,044 |
| (Gain) loss on sale of property, plant and equipment, net | 223 | 15 | (1,465) | (1,454) |
| Operating Income | 5,240 | 9,089 | 21,855 | 32,275 |
| Interest expense, net | 5,467 | 5,710 | 16,570 | 17,462 |
| Equity in earnings of investees | (3,506) | (1,838) | (7,924) | (4,804) |
| Other (income) loss, net | 273 | (55) | 785 | 1,697 |
| Income Before Income Taxes | 3,006 | 5,272 | 12,424 | 17,920 |
| Provision for income taxes | 381 | 866 | 2,234 | 4,857 |
| Net Income | \$ 2,625 | \$ 4,406 | \$ 10,190 | \$ 13,063 |
| Basic net income per share | \$ 0.11 | \$ 0.19 | \$ 0.44 | \$ 0.57 |
| Basic weighted average shares outstanding | 23,213 | 22,880 | 23,106 | 22,833 |
| Diluted net income per share | \$ 0.11 | \$ 0.19 | \$ 0.43 | \$ 0.56 |
| Diluted weighted average shares outstanding | 23,694 | 23,396 | 23,656 | 23,250 |

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

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

| | Nine Months Ended | |
|---|--------------------------|-------------|
| | September 30, | |
| | 2007 | 2006 |
| <u>OPERATING ACTIVITIES:</u> | | |
| Net income | \$ 10,190 | \$ 13,063 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities - | | |
| Depreciation | 21,775 | 19,124 |
| Amortization | 1,196 | 1,238 |
| Deferred income taxes | (1,272) | 2,726 |
| Equity in earnings of investees | (7,924) | (4,804) |
| Gain on sale of property, plant and equipment | (1,465) | (1,454) |
| Share-based compensation expense | 1,858 | 1,380 |
| Postretirement benefit settlement gain | | (1,242) |
| Changes in operating assets and liabilities - | | |
| Accounts receivable, net | (15,197) | (19,499) |
| Inventories, net | 756 | (3,094) |
| Prepaid expenses and other | (1,676) | 189 |
| Other assets | (101) | 1,149 |
| Accounts payable | (8,446) | 12,020 |
| Accrued expenses and other | 8,215 | 1,814 |
| Net cash provided by operating activities | 7,909 | 22,610 |
| <u>INVESTING ACTIVITIES:</u> | | |
| Capital expenditures | (14,259) | (19,794) |
| Proceeds from sale of property, plant and equipment | 5,042 | 2,266 |
| Business acquisitions and other | | (668) |
| Net cash used for investing activities | (9,217) | (18,196) |
| <u>FINANCING ACTIVITIES:</u> | | |
| Repayments of long-term debt | | (44) |
| Share-based compensation activity, net | 1,956 | 47 |
| Other financing costs | | (150) |
| Net cash provided by (used for) financing activities | 1,956 | (147) |
| Effect of exchange rate changes on cash and cash equivalents | 1,119 | 1,679 |

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| | | |
|--|-----------|-----------|
| Net change in cash and cash equivalents | 1,767 | 5,946 |
| Cash and cash equivalents at beginning of period | 65,882 | 40,784 |
| Cash and cash equivalents at end of period | \$ 67,649 | \$ 46,730 |

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

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STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

(1) Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by Stoneridge, Inc. (the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission). The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the Commission's rules and regulations. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2006.

The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year.

Beginning in 2005, the Company changed from a calendar year-end to a 52-53 week fiscal year-end. Until October 30, 2006, the Company's fiscal quarters were comprised of 13-week periods. On October 30, 2006, the Company changed back to a calendar (December 31) fiscal year-end; therefore, the 2006 fiscal year ended on December 31, 2006. Our fiscal quarters are now comprised of 3-month periods. Throughout this document, three months and nine months will be used to reference the 3- and 9-month periods of 2007 and the comparable 13- and 39-week periods of 2006.

The Company has reclassified the presentation of certain prior-period information to conform to the current presentation.

(2) Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for approximately 69% and 67% of the Company's inventories at September 30, 2007 and December 31, 2006, respectively, and by the first-in, first-out (FIFO) method for all other inventories. Inventory cost includes material, labor and overhead. Inventories consist of the following:

| | September 30, 2007 | December 31, 2006 |
|--------------------|-----------------------------------|----------------------------------|
| Raw materials | \$ 38,239 | \$ 39,832 |
| Work-in-progress | 9,263 | 8,196 |
| Finished goods | 11,919 | 12,614 |
| Total inventories | 59,421 | 60,642 |
| Less: LIFO reserve | (1,830) | (2,121) |
| Inventories, net | \$ 57,591 | \$ 58,521 |

(3) Fair Value of Financial Instruments***Financial Instruments***

A financial instrument is cash or a contract that imposes an obligation to deliver, or conveys a right to receive cash or another financial instrument. The carrying values of cash and cash equivalents, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. The estimated fair value of the Company's senior notes (fixed rate debt) at September 30, 2007 and 2006, per quoted

market sources, was \$207.0 million and \$192.0 million, respectively. On both dates, the carrying value was \$200.0 million.

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STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Derivative Instruments and Hedging Activities

The Company makes use of derivative instruments in foreign exchange and commodity price hedging programs. Derivatives currently in use are foreign currency forward and commodity swap contracts. These contracts are used for hedging and not for speculative purposes. Management believes that its use of these instruments to reduce risk is in the Company's best interest.

As a result of the Company's international business presence it is exposed to foreign currency exchange risk. The Company uses derivative financial instruments, including foreign currency forward contracts, to mitigate its exposure to fluctuations in foreign currency exchange rates by reducing the effect of such fluctuations on foreign currency denominated intercompany transactions and other known foreign currency exposures. The principal currencies hedged by the Company include the Swedish krona, British pound and Mexican peso. In certain instances, the foreign currency forward contracts are marked to market, with gains and losses recognized in the Company's condensed consolidated statement of operations as a component of other income. The Company's foreign currency forward and option contracts substantially offset gains and losses on the underlying foreign currency denominated transactions. In addition, the Company's contracts intended to reduce exposure to the Mexican peso were executed to hedge forecasted transactions, and therefore the contracts are accounted for as cash flow hedges. The effective portion of the unrealized gain or loss is deferred and reported as a component of accumulated other comprehensive income. The Company's expectation is that the cash flow hedges will be highly effective in the future. The effectiveness of the transactions will be measured on an ongoing basis using the hypothetical operative method.

The Company's foreign currency forward contracts had a notional value of \$18,743 and \$15,044 at September 30, 2007 and 2006, respectively. The purpose of these investments is to reduce the risk of exposure related to the Company's Mexican peso-, Swedish krona- and British pound-denominated exposures. The contracts related to the Company's Swedish krona denominated exposures expired on July 2, 2007. The estimated fair value of the existing contracts at September 30, 2007 and 2006, per quoted market sources, was approximately \$198 and \$(311), respectively. In 2006, the Company used foreign currency option contracts to reduce the risk of exposures to the Mexican peso. As of September 30, 2006, the Company's foreign currency option contracts had a notional value of \$56 and an estimated fair value of \$12. The Company's foreign currency option contracts expired as of December 31, 2006.

To mitigate the risk of future price volatility and, consequently, fluctuations in gross margins, the Company has entered into fixed price commodity swaps with a bank to fix the cost of copper purchases. In December 2006, we entered into a fixed price swap for 480 metric tonnes of copper. In January 2007, we entered into an additional fixed price swap for 420 metric tonnes of copper. Because these contracts were executed to hedge forecasted transactions, the contracts are accounted for as cash flow hedges. The unrealized gain or loss for the effective portion of the hedge is deferred and reported as a component of accumulated other comprehensive income. The Company's expectation is that the cash flow hedges will be highly effective in the future; however, as of December 31, 2006 they were not deemed effective and had no impact on other comprehensive income. The effectiveness of the transactions has been and will be measured on an ongoing basis using the hypothetical operative method. As of September 30, 2007, the fair value of the fixed price commodity swap contracts was approximately \$536.

(4) Share-Based Compensation

Total compensation expense recognized in the condensed consolidated statements of operations for share-based compensation arrangements was \$606 and \$454 for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, total compensation expense recognized in the condensed consolidated statements of operations for share-based compensation arrangements was \$1,858 and \$1,380, respectively.

The total income tax benefit recognized in the condensed consolidated statements of operations for share-based compensation arrangements was \$212 and \$159 for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, total income tax benefit recognized in the

condensed consolidated statements of operations for share-based compensation arrangements was \$650 and \$483, respectively. There was no share-based compensation cost capitalized as inventory or fixed assets for either period.

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STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

(5) Comprehensive Income (Loss)

Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting and disclosure of comprehensive income.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 2,625 | \$ 4,406 | \$ 10,190 | \$ 13,063 |
| Other comprehensive income: | | | | |
| Currency translation adjustments | 3,019 | 249 | 5,001 | 3,608 |
| Pension liability adjustments | (24) | (41) | (60) | (275) |
| Unrealized gain (loss) on marketable securities | (22) | 10 | 39 | 32 |
| Unrecognized gain (loss) on derivatives | (547) | | 554 | |
| Total other comprehensive income | 2,426 | 218 | 5,534 | 3,365 |
| Comprehensive income | \$ 5,051 | \$ 4,624 | \$ 15,724 | \$ 16,428 |

Accumulated other comprehensive income, net of tax is comprised of the following:

| | September | December |
|--|------------------|-----------------|
| | 30, | 31, |
| | 2007 | 2006 |
| Foreign currency translation adjustments | \$ 13,526 | \$ 8,525 |
| Pension liability adjustments | (1,527) | (1,467) |
| Unrealized loss on marketable securities | (25) | (64) |
| Unrecognized gain on derivatives | 554 | |
| Accumulated other comprehensive income | \$ 12,528 | \$ 6,994 |

6) Long-Term Debt**Senior Notes**

On May 1, 2002, the Company issued \$200.0 million aggregate principal amount of senior notes. The \$200.0 million senior notes bear interest at an annual rate of 11.50% and mature on May 1, 2012. The senior notes (the Notes) are redeemable at 105.75 until April 2008. The Notes will remain redeemable at various levels until the maturity date. Interest is payable on May 1 and November 1 of each year. On July 1, 2002, the Company completed an exchange offer of the senior notes for substantially identical notes registered under the Securities Act of 1933.

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STONERIDGE, INC.
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(Unaudited)

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

Credit Agreement

On March 7, 2006, the Company amended the existing credit agreement, which provided the Company with substantially all of its borrowing capacity on the \$100.0 million credit facility. The credit agreement contains various covenants that require, among other things, the maintenance of certain specified ratios of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) and interest coverage. Restrictions also include limits on capital expenditures, operating leases and dividends. The amendment utilizes a borrowing base composed of accounts receivable and inventory. The borrowing base limitation expired June 30, 2007. In addition, the Company is prohibited from repurchasing, repaying or redeeming subordinated notes until certain covenant levels are met. As of September 30, 2007, \$96.3 million of the \$100.0 million credit facility was available to the Company. The revolving facility expires on April 30, 2008 and requires a commitment fee of 0.375% to 0.500% on the unused balance. The revolving facility permits the Company to borrow up to half its borrowings in specified foreign currencies. Interest is payable quarterly at either (i) the prime rate plus a margin of 0.25% to 1.25% or (ii) LIBOR plus a margin of 1.75% to 2.75%, depending upon the Company's ratio of consolidated total debt to consolidated EBITDA, as defined. Interest on the swing line facility is payable monthly at the quoted overnight borrowing rate plus a margin of 1.75% to 2.75%, depending upon the Company's ratio of consolidated total debt to consolidated EBITDA, as defined.

On November 2, 2007, the Company entered into an asset-based credit facility, which permits borrowing up to a maximum level of \$100.0 million. The available borrowing capacity on this credit facility is based on eligible current assets, as defined. The asset-based credit facility does not contain maintenance covenants; however, restrictions include limits on capital expenditures, operating leases and dividends. The asset-based credit facility expires on November 1, 2011, and requires a commitment fee of 0.25% on the unused balance. Interest is payable quarterly at either (i) the higher of the prime rate or the Federal Funds rate plus 0.50%, plus a margin of 0.00% to 0.25% or (ii) LIBOR plus a margin of 1.00% to 1.75%, depending upon the Company's undrawn availability, as defined.

(7) Net Income Per Share

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

Actual weighted-average shares outstanding used in calculating basic and diluted net income per share are as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Basic weighted-average shares outstanding | 23,213,240 | 22,880,325 | 23,105,561 | 22,833,392 |
| Effect of dilutive securities | 481,190 | 515,368 | 550,038 | 416,626 |
| Diluted weighted-average shares outstanding | 23,694,430 | 23,395,693 | 23,655,599 | 23,250,018 |

For the three months ended September 30, 2007 and 2006, options to purchase 139,500 and 470,250 Common Shares at an average price of \$15.56 and \$13.46, respectively, were not included in the computation of diluted net income per share because their respective exercise prices were greater than the average market price of Common Shares and, therefore, their effect would have been anti-dilutive. Options not included in the computation of diluted net income per share to purchase 139,500 and 610,850 Common Shares at an average price of \$15.56 and \$12.18, respectively, were outstanding during the nine months ended September 30, 2007 and 2006, respectively.

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As of September 30, 2007, 499,950 performance-based restricted shares were outstanding. These shares were not included in the computation of diluted net income per share because not all vesting conditions were met. Approximately one tenth of these shares was associated with a plan that used highly optimistic earnings per share targets. At this time, we believe that meeting

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STONERIDGE, INC.
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(Unaudited)

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

such thresholds is highly unlikely. The remainder may or may not become dilutive based on the Company's ability to exceed future earnings thresholds or attain certain targets of total return to its shareholders measured against a peer group's performance.

(8) Restructuring

In January 2005, the Company announced restructuring initiatives related to the rationalization of certain manufacturing facilities in Europe and North America. This rationalization is part of the Company's cost reduction initiatives. In connection with these initiatives, the Company recorded restructuring charges of \$2 and \$80 for the three months ended September 30, 2007 and 2006, respectively. Restructuring charges for the nine months ended September 30, 2007 and 2006 was \$74 and \$154, respectively. Restructuring expenses are included in the Company's condensed consolidated statement of operations as a part of selling, general and administrative expense.

The restructuring charges related to the Electronics reportable segment included the following:

| | Severance Costs | Asset- Related Charges | Total |
|--------------------------------------|----------------------------|---------------------------------------|--------------|
| Total expected restructuring charges | \$ 966 | \$ 127 | \$ 1,093 |
| Balance at December 31, 2004 | \$ | \$ | \$ |
| First quarter charge to expense | 88 | 127 | 215 |
| Second quarter charge to expense | 9 | | 9 |
| Third quarter charge to expense | 356 | | 356 |
| Fourth quarter charge to expense | 70 | | 70 |
| Cash payments | (111) | | (111) |
| Non-cash utilization | | (127) | (127) |
| Balance at December 31, 2005 | \$ 412 | \$ | \$ 412 |
| First quarter charge to expense | 176 | | 176 |
| Second quarter charge to expense | (370) | | (370) |
| Third quarter charge to expense | 127 | | 127 |
| Fourth quarter charge to expense | 436 | | 436 |
| Cash payments | (343) | | (343) |
| Balance at December 31, 2006 | \$ 438 | \$ | \$ 438 |
| First quarter charge to expense | 41 | | 41 |
| Second quarter charge to expense | 31 | | 31 |
| Third quarter charge to expense | 2 | | 2 |
| Cash payments | (512) | | (512) |

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| | | | |
|---|----|----|----|
| Balance at September 30, 2007 | \$ | \$ | \$ |
| Remaining expected restructuring charge | \$ | \$ | \$ |

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(Unaudited)

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

The restructuring charges related to the Control Devices reportable segment included the following:

| | Severance Costs | Asset- Related Charges | Facility Closure Costs | Other Exit Costs | Total |
|--------------------------------------|----------------------------|---------------------------------------|---------------------------------------|---------------------------------|--------------|
| Total expected restructuring charges | \$ 3,665 | \$ 983 | \$ 1,137 | \$ 653 | \$ 6,438 |
| Balance at March 31, 2004 | \$ | \$ | \$ | \$ | \$ |
| Second quarter charge to expense | | 205 | | | 205 |
| Third quarter charge to expense | | 202 | | 118 | 320 |
| Fourth quarter charge to expense | 1,068 | 207 | | 287 | 1,562 |
| Cash payments | (590) | | | (405) | (995) |
| Non-cash utilization | | (614) | | | (614) |
| Balance at December 31, 2004 | \$ 478 | \$ | \$ | \$ | \$ 478 |
| First quarter charge to expense | 1,698 | 206 | | 7 | 1,911 |
| Second quarter charge to expense | 586 | 163 | 746 | 174 | 1,669 |
| Third quarter charge to expense | 214 | | 218 | 35 | 467 |
| Fourth quarter charge to expense | (57) | | 140 | (18) | 65 |
| Cash payments | (2,722) | | (140) | (198) | (3,060) |
| Non-cash utilization | | (369) | | | (369) |
| Balance at December 31, 2005 | \$ 197 | \$ | \$ 964 | \$ | \$ 1,161 |
| First quarter charge to expense | | | | 48 | 48 |
| Second quarter charge to expense | 204 | | 14 | 2 | 220 |
| Third quarter charge to expense | (48) | | 1 | | (47) |
| Fourth quarter charge to expense | | | 18 | | 18 |
| Cash payments | (353) | | (569) | (50) | (972) |
| Balance at December 31, 2006 | \$ | \$ | \$ 428 | \$ | \$ 428 |
| First quarter charge to expense | | | | | |
| Second quarter charge to expense | | | | | |
| Third quarter charge to expense | | | | | |
| Cash payments | | | (428) | | (428) |

| | | | | | |
|---|----|----|----|----|----|
| Balance at September 30, 2007 | \$ | \$ | \$ | \$ | \$ |
| Remaining expected restructuring charge | \$ | \$ | \$ | \$ | \$ |

All restructuring charges, except for the asset-related charges, result in cash outflows. Asset-related charges primarily relate to accelerated depreciation and the write-down of property, plant and equipment, resulting from the closure or streamlining of certain facilities. Severance costs relate to a reduction in workforce. Facility closure costs primarily relate to asset relocation and lease termination costs. Other exit costs include miscellaneous expenditures associated with exiting business activities. As of September 30, 2007, these restructuring initiatives have been substantially completed.

(9) Commitments and Contingencies

In the ordinary course of business, the Company is involved in various legal proceedings and workers compensation and product liability disputes. The Company is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the results of operations, cash flows or the financial position of the Company.

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STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Product Warranty and Recall

Amounts accrued for product warranty and recall claims are established based on the Company's best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet dates. These accruals are based on several factors including past experience, production changes, industry developments and various other considerations. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend or settle such claims beyond the amounts accrued or beyond what the Company may recover from its suppliers.

The following provides a reconciliation of changes in product warranty and recall liability for the nine months ended September 30, 2007 and 2006:

| | 2007 | 2006 |
|---|-------------|-------------|
| Product warranty and recall at beginning of period | \$ 5,825 | \$ 6,220 |
| Accruals for products shipped during period | 2,131 | 3,185 |
| Changes in estimates of existing liabilities | 1,197 | 525 |
| Settlements made during the period (in cash or in kind) | (2,518) | (3,167) |
| Product warranty and recall at end of period | \$ 6,635 | \$ 6,763 |

(10) Employee Benefit Plans

The Company has a single defined benefit pension plan that covers certain employees in the United Kingdom and a postretirement benefit plan that covers certain employees in the U.S. The components of net periodic benefit cost under the plans are as follows:

| | Defined Benefit Plan | | | |
|--------------------------------|-----------------------------|-------------|--------------------------|-------------|
| | Three Months | | Nine Months Ended | |
| | Ended | | September 30, | |
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 44 | \$ 34 | \$ 129 | \$ 98 |
| Interest cost | 523 | 308 | 1,544 | 893 |
| Expected return on plan assets | (585) | (331) | (1,725) | (959) |
| Amortization of actuarial loss | 114 | 79 | 335 | 228 |
| Net periodic benefit cost | \$ 96 | \$ 90 | \$ 283 | \$ 260 |

| | Postretirement Benefit Plan | | | |
|--------------------------------|------------------------------------|-------------|--------------------------|-------------|
| | Three Months | | Nine Months Ended | |
| | Ended | | September 30, | |
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 3 | \$ 12 | \$ 10 | \$ 40 |
| Interest cost | 5 | 17 | 17 | 58 |
| Settlement gain | | (1,242) | | (1,242) |
| Amortization of actuarial gain | (1) | | (4) | |

| | | | | | | |
|---------------------------|----|---|------------|----|----|------------|
| Net periodic benefit cost | \$ | 7 | \$ (1,213) | \$ | 23 | \$ (1,144) |
|---------------------------|----|---|------------|----|----|------------|

The Company previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute \$353 to its pension plan in 2007. Of this amount, contributions of \$194 have been made to the pension plan as of September 30, 2007.

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

(11) Income Taxes

The Company recognized a provision for income taxes of \$381, or 12.7% of pre-tax income, and \$866, or 16.4% of pre-tax income, for federal, state and foreign income taxes for the three months ended September 30, 2007 and 2006, respectively. The Company recognized a provision for income taxes of \$2,234, or 18.0% of pre-tax income, and \$4,857, or 27.1% of pre-tax income, for federal, state and foreign income taxes for the nine months ended September 30, 2007 and 2006, respectively. The decrease in the effective tax rate for the three months ended September 30, 2007 and 2006, respectively, was primarily attributable to the benefit of the federal research and development tax credit which had not been extended at September 30, 2006 and a benefit for a change in state tax law. The decrease in the effective tax rate for the nine months ended September 30, 2007 and 2006, respectively, was primarily attributable to the benefit of the federal research and development tax credit which had not been extended at September 30, 2006, a reduction in accrued income taxes, and a benefit for a change in state tax law.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 as of the beginning of the 2007 calendar year. The adoption of FIN 48 did not have a material impact on the Company's financial statements.

As of January 1, 2007, the Company provided a liability of \$4,731, excluding interest and penalties, for unrecognized tax benefits related to various federal, state and foreign income tax matters. The liability for uncertain tax positions is classified as a non-current income tax liability unless it is expected to be paid within one year. The liability for unrecognized tax positions increased by \$82 for the third quarter ended September 30, 2007 and decreased by \$9 for the nine months ended September 30, 2007 resulting in a balance at September 30, 2007 of \$4,722. Through a combination of anticipated state audit settlements and the expiration of certain statutes of limitation, the amount of unrecognized tax benefits could decrease by approximately \$87-\$152 within the next 12 months.

If the Company's tax positions are sustained by the taxing authorities in favor of the Company, approximately \$4,515 would reduce the Company's effective tax rate.

Consistent with historical financial reporting, the Company has elected to classify interest expense and, if applicable, penalties which could be assessed related to unrecognized tax benefits as a component of income tax expense. For the nine months ended September 30, 2007 and 2006, the Company recognized approximately \$6 and \$(419) of gross interest and penalties, respectively. The Company has accrued approximately \$828 and \$821 for the payment of interest and penalties at September 30, 2007 and December 31, 2006, respectively.

The Company conducts business globally and, as a result, the Company or a subsidiary of the Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. The following table summarizes the open tax years for each important jurisdiction:

| Jurisdiction | Open Tax Years |
|--------------|----------------|
| U.S. Federal | 2003-2006 |
| France | 2003-2006 |
| Mexico | 2001-2006 |
| Spain | 2002-2006 |
| Sweden | 2001-2006 |

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(12) Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which provides a definition of fair value, establishes a framework for measuring fair value and requires expanded disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The provisions of SFAS 157 will be applied prospectively. The Company is currently evaluating the impact that SFAS 157 will have on the Company's financial statements in 2008.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the Fair Value Option). Unrealized gains and losses on items for which the Fair Value Option has been elected are reported in earnings. The Fair Value Option is applied instrument by instrument (with certain exceptions), is irrevocable (unless a new election date occurs) and is applied only to an entire instrument. The effect of the first remeasurement to fair value is reported as a cumulative-effect adjustment to the opening balance of retained earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 with earlier application permitted, subject to certain conditions. The Company is currently evaluating the impact of adopting SFAS 159 on its consolidated financial statements and whether to adopt its provisions prior to the required effective date.

In May 2007, the FASB issued FSP FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (FSP FIN 48-1). FSP FIN 48-1 provides guidance on determining whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

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(13) Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise that are evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the president and chief executive officer.

The Company has two reportable segments: Electronics and Control Devices. During the third quarter of 2007, a European business unit in the Control Devices reportable segment experienced a change in future business prospects due to the loss of a significant customer contract. As a result, the Company announced that it would cease manufacturing at this business unit and transfer remaining production to a business unit in the Electronics reportable segment. In addition, management and oversight responsibilities for this business were realigned to the Electronics reportable segment. Because the Company changed the structure of its internal organization in a manner that caused the composition of its reportable segments to change, the corresponding information for prior periods has been reclassified to conform to the current year reportable segment presentation.

These reportable segments were determined based on the differences in the nature of the products offered. The Electronics reportable segment, formerly known as the Vehicle Management & Power Distribution reportable segment, produces electronic instrument clusters, electronic control units, driver information systems and electrical distribution systems, primarily wiring harnesses and connectors for electrical power and signal distribution. The Control Devices reportable segment produces electronic and electromechanical switches and control actuation devices and sensors.

The accounting policies of the Company's reportable segments are the same as those described in Note 2, *Summary of Significant Accounting Policies* of the Company's December 31, 2006 Form 10-K. The Company's management evaluates the performance of its reportable segments based primarily on revenues from external customers, capital expenditures and income before income taxes. Inter-segment sales are accounted for on terms similar to those to third parties and are eliminated upon consolidation.

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

| | Three Months Ended | | Nine Months Ended | |
|---------------------------|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net Sales | | | | |
| Electronics | \$ 103,021 | \$ 111,860 | \$ 321,497 | \$ 335,072 |
| Inter-segment sales | 3,806 | 3,422 | 13,139 | 11,073 |
| Electronics net sales | 106,827 | 115,282 | 334,636 | 346,145 |
| Control Devices | 69,793 | 60,491 | 220,147 | 202,412 |
| Inter-segment sales | 1,077 | 1,267 | 3,560 | 4,375 |
| Control Devices net sales | 70,870 | 61,758 | 223,707 | 206,787 |
| Eliminations | (4,883) | (4,689) | (16,699) | (15,448) |

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| | | | | |
|---|------------|------------|------------|------------|
| Total consolidated net sales | \$ 172,814 | \$ 172,351 | \$ 541,644 | \$ 537,484 |
| Income Before Income Taxes | | | | |
| Electronics | \$ 3,005 | \$ 7,764 | \$ 9,146 | \$ 22,160 |
| Control Devices | 2,714 | 479 | 13,601 | 10,032 |
| Other corporate activities | 2,827 | 2,715 | 6,348 | 2,913 |
| Corporate interest expense | (5,540) | (5,686) | (16,671) | (17,185) |
| Total consolidated income before income taxes | \$ 3,006 | \$ 5,272 | \$ 12,424 | \$ 17,920 |

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| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Depreciation and Amortization | | | | |
| Electronics | \$ 3,400 | \$ 2,638 | \$ 10,164 | \$ 7,548 |
| Control Devices | 3,812 | 3,789 | 11,495 | 11,435 |
| Corporate activities | 96 | 157 | 270 | 345 |
| Total consolidated depreciation and amortization(A) | \$ 7,308 | \$ 6,584 | \$ 21,929 | \$ 19,328 |
| Interest Expense (Income) | | | | |
| Electronics | \$ (69) | \$ 25 | \$ (96) | \$ 282 |
| Control Devices | (4) | (1) | (5) | (5) |
| Corporate activities | 5,540 | 5,686 | 16,671 | 17,185 |
| Total consolidated interest expense, net | \$ 5,467 | \$ 5,710 | \$ 16,570 | \$ 17,462 |
| Capital Expenditures | | | | |
| Electronics | \$ 1,569 | \$ 3,880 | \$ 6,562 | \$ 10,489 |
| Control Devices | 1,641 | 2,454 | 7,051 | 8,946 |
| Corporate activities | 235 | 310 | 646 | 359 |
| Total consolidated capital expenditures | \$ 3,445 | \$ 6,644 | \$ 14,259 | \$ 19,794 |

| | September | December |
|---------------------------|------------------|-----------------|
| | 30, | 31, |
| | 2007 | 2006 |
| Total Assets | | |
| Electronics | \$ 205,874 | \$ 213,846 |
| Control Devices | 191,149 | 187,004 |
| Corporate(B) | 282,823 | 265,986 |
| Eliminations | (156,693) | (165,029) |
| Total consolidated assets | \$ 523,153 | \$ 501,807 |

(A) These amounts represent depreciation and amortization on fixed and

certain
intangible
assets.

- (B) Assets located at Corporate consist primarily of cash, deferred taxes and equity investments.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------|---|-------------|--|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net Sales | | | | |
| North America | \$ 126,882 | \$ 130,941 | \$ 393,392 | \$ 415,356 |
| Europe and other | 45,932 | 41,410 | 148,252 | 122,128 |
| Total consolidated net sales | \$ 172,814 | \$ 172,351 | \$ 541,644 | \$ 537,484 |

| | September 30, | | December 31, | |
|---------------------------------------|--------------------------|---------|-------------------------|---------|
| | 2007 | | 2006 | |
| Non-Current Assets | | | | |
| North America | \$ | 219,749 | \$ | 215,429 |
| Europe and other | | 25,018 | | 32,346 |
| Total consolidated non-current assets | \$ | 244,767 | \$ | 247,775 |

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STONERIDGE, INC.
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(in thousands, except share and per share data, unless otherwise indicated)

(14) Investments***PST Indústria Eletrônica da Amazônia Ltda.***

The Company has a 50% equity interest in PST Indústria Eletrônica da Amazônia Ltda. (PST), a Brazilian electronic components business that specializes in electronic vehicle security devices. The investment is accounted for under the equity method of accounting. The Company's investment in PST was \$31,636 and \$21,616 at September 30, 2007 and December 31, 2006, respectively.

Condensed financial information for PST is as follows:

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------------|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | \$36,278 | \$24,598 | \$94,908 | \$66,612 |
| Cost of sales | \$16,704 | \$12,095 | \$44,210 | \$33,433 |
| Total pre-tax income | \$ 7,462 | \$ 4,381 | \$17,827 | \$12,206 |
| The Company's share of pre-tax income | \$ 3,731 | \$ 2,191 | \$ 8,914 | \$ 6,103 |

Equity in earnings of PST included in the condensed consolidated statements of operations was \$3,401 and \$1,750 for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, equity in earnings of PST was \$7,557 and \$4,576, respectively.

Minda Instruments Ltd.

At September 30, 2006, the Company had a 30% equity interest in Minda Instruments Ltd. (Minda), a company based in India that manufactures electronic instrumentation equipment for the transportation market. Since then, the Company has increased its ownership interest in Minda to 49%. The investment is accounted for under the equity method of accounting. The Company's investment in Minda was \$4,333 and \$3,796 at September 30, 2007 and December 31, 2006, respectively. Equity in earnings of Minda included in the condensed consolidated statements of operations was \$105 and \$88, for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, equity in earnings of Minda was \$367 and \$228, respectively.

(15) Guarantor Financial Information

The senior notes and the credit facility are fully and unconditionally guaranteed, jointly and severally, by each of the Company's existing and future domestic wholly owned subsidiaries (Guarantor Subsidiaries). The Company's non-U.S. subsidiaries do not guarantee the senior notes or the credit facility (Non-Guarantor Subsidiaries).

Presented below are summarized consolidating financial statements of the Parent (which includes certain of the Company's operating units), the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the Company on a condensed consolidated basis as of September 30, 2007 and December 31, 2006 and for each of the three and nine months ended September 30, 2007 and 2006.

These summarized condensed consolidating financial statements are prepared under the equity method. Separate financial statements for the Guarantor Subsidiaries are not presented based on management's determination that they do not provide additional information that is material to investors. Therefore, the Guarantor Subsidiaries are combined in the presentations on the subsequent pages.

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| | September 30, 2007 | | | | |
|--|---------------------------|-----------------------------------|--|---------------------|---------------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| <u>ASSETS</u> | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 31,750 | \$ 56 | \$ 35,843 | \$ | \$ 67,649 |
| Accounts receivable, net | 54,732 | 33,068 | 36,116 | | 123,916 |
| Inventories, net | 25,404 | 13,617 | 18,570 | | 57,591 |
| Prepaid expenses and other | (284,742) | 285,926 | 18,741 | | 19,925 |
| Deferred income taxes | 2,932 | 4,978 | 1,395 | | 9,305 |
| Total current assets | (169,924) | 337,645 | 110,665 | | 278,386 |
| Long-Term Assets: | | | | | |
| Property, plant and equipment, net | 57,051 | 26,055 | 19,272 | | 102,378 |
| Other Assets: | | | | | |
| Goodwill | 44,585 | 20,591 | | | 65,176 |
| Investments and other, net | 39,650 | 324 | 343 | | 40,317 |
| Deferred income taxes | 39,741 | (2,862) | 17 | | 36,896 |
| Investment in subsidiaries | 430,739 | | | (430,739) | |
| Total long-term assets | 611,766 | 44,108 | 19,632 | (430,739) | 244,767 |
| Total Assets | \$ 441,842 | \$ 381,753 | \$ 130,297 | \$ (430,739) | \$ 523,153 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | \$ 22,357 | \$ 20,840 | \$ 22,556 | \$ | \$ 65,753 |
| Accrued expenses and other | 21,361 | 8,571 | 24,017 | | 53,949 |
| Total current liabilities | 43,718 | 29,411 | 46,573 | | 119,702 |
| Long-Term Liabilities: | | | | | |
| Long-term debt | 200,000 | | | | 200,000 |
| Deferred income taxes | | | 2,030 | | 2,030 |
| Other liabilities | 503 | 473 | 2,824 | | 3,800 |

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| | | | | | |
|--|------------|------------|------------|--------------|------------|
| Total long-term liabilities | 200,503 | 473 | 4,854 | | 205,830 |
| Shareholders' Equity | 197,621 | 351,869 | 78,870 | (430,739) | 197,621 |
| Total Liabilities and Shareholders' Equity | \$ 441,842 | \$ 381,753 | \$ 130,297 | \$ (430,739) | \$ 523,153 |

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STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Supplemental condensed consolidating financial statements (continued):

| | December 31, 2006 | | | | |
|--|--------------------------|-----------------------------------|--|---------------------|---------------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| <u>ASSETS</u> | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 28,937 | \$ 12 | \$ 36,933 | \$ | \$ 65,882 |
| Accounts receivable, net | 48,187 | 28,376 | 30,422 | | 106,985 |
| Inventories, net | 26,173 | 12,502 | 19,846 | | 58,521 |
| Prepaid expenses and other | (273,206) | 275,577 | 11,077 | | 13,448 |
| Deferred income taxes | 3,724 | 4,379 | 1,093 | | 9,196 |
| Total current assets | (166,185) | 320,846 | 99,371 | | 254,032 |
| Long-Term Assets: | | | | | |
| Property, plant and equipment, net | 61,320 | 31,643 | 21,623 | | 114,586 |
| Other Assets: | | | | | |
| Goodwill | 44,585 | 20,591 | | | 65,176 |
| Investments and other, net | 30,874 | 131 | 170 | (300) | 30,875 |
| Deferred income taxes | 40,713 | (3,341) | (234) | | 37,138 |
| Investment in subsidiaries | 411,366 | | | (411,366) | |
| Total long-term assets | 588,858 | 49,024 | 21,559 | (411,666) | 247,775 |
| Total Assets | \$ 422,673 | \$ 369,870 | \$ 120,930 | \$ (411,666) | \$ 501,807 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | 26,690 | 19,044 | 26,759 | | 72,493 |
| Accrued expenses and other | 17,291 | 7,314 | 21,019 | | 45,624 |
| Total current liabilities | 43,981 | 26,358 | 47,778 | | 118,117 |
| Long-Term Liabilities: | | | | | |
| Long-term debt | 200,000 | | 300 | (300) | 200,000 |
| Deferred income taxes | | | 1,923 | | 1,923 |
| Other liabilities | 70 | 450 | 2,625 | | 3,145 |

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| | | | | | |
|--|------------|------------|------------|--------------|------------|
| Total long-term liabilities | 200,070 | 450 | 4,848 | (300) | 205,068 |
| Shareholders' Equity | 178,622 | 343,062 | 68,304 | (411,366) | 178,622 |
| Total Liabilities and Shareholders' Equity | \$ 422,673 | \$ 369,870 | \$ 120,930 | \$ (411,666) | \$ 501,807 |

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STONERIDGE, INC.
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(Unaudited)

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Supplemental condensed consolidating financial statements (continued):

| | For the Three Months Ended September 30, 2007 | | | | |
|--|--|-----------------------------------|---------------------------------------|---------------------|---------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net Sales | \$ 83,251 | \$ 50,588 | \$ 57,843 | \$ (18,868) | \$ 172,814 |
| Costs and Expenses: | | | | | |
| Cost of goods sold | 69,451 | 40,369 | 43,342 | (18,218) | 134,944 |
| Selling, general and administrative | 13,597 | 7,417 | 12,043 | (650) | 32,407 |
| (Gain) loss on sale of property, plant and equipment, net | 231 | | (8) | | 223 |
| Operating Income (Loss) | (28) | 2,802 | 2,466 | | 5,240 |
| Interest expense (income), net | 5,830 | | (363) | | 5,467 |
| Other (income) loss, net | (3,696) | | 463 | | (3,233) |
| Equity earnings from subsidiaries | (4,285) | | | 4,285 | |
| Income Before Income Taxes | 2,123 | 2,802 | 2,366 | (4,285) | 3,006 |
| Provision (benefit) for income taxes | (502) | 4 | 879 | | 381 |
| Net Income | \$ 2,625 | \$ 2,798 | \$ 1,487 | \$ (4,285) | \$ 2,625 |

| | For the Three Months Ended September 30, 2006 | | | | |
|---|--|-----------------------------------|--|---------------------|---------------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Net Sales | \$ 86,662 | \$ 52,953 | \$ 54,496 | \$ (21,760) | \$ 172,351 |
| Costs and Expenses: | | | | | |
| Cost of goods sold | 75,571 | 39,867 | 39,798 | (21,063) | 134,173 |
| Selling, general and administrative | 13,354 | 6,858 | 9,559 | (697) | 29,074 |
| Loss on sale of property, plant and equipment, net | 15 | | | | 15 |
| Operating Income (Loss) | (2,278) | 6,228 | 5,139 | | 9,089 |

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| | | | | | |
|--------------------------------------|----------|----------|----------|-------------|----------|
| Interest expense (income), net | 5,896 | | (186) | | 5,710 |
| Other (income) loss, net | (1,948) | | 55 | | (1,893) |
| Equity earnings from subsidiaries | (10,243) | | | 10,243 | |
| Income Before Income Taxes | 4,017 | 6,228 | 5,270 | (10,243) | 5,272 |
| Provision (benefit) for income taxes | (389) | | 1,255 | | 866 |
| Net Income | \$ 4,406 | \$ 6,228 | \$ 4,015 | \$ (10,243) | \$ 4,406 |

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

Supplemental condensed consolidating financial statements (continued):

| | For the Nine Months Ended September 30, 2007 | | | | |
|--|---|-----------------------------------|--|---------------------|---------------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Net Sales | \$ 257,119 | \$ 157,187 | \$ 186,914 | \$ (59,576) | \$ 541,644 |
| Costs and Expenses: | | | | | |
| Cost of goods sold | 217,081 | 123,231 | 139,251 | (57,518) | 422,045 |
| Selling, general and administrative | 40,719 | 23,090 | 37,458 | (2,058) | 99,209 |
| Gain on sale of property, plant and equipment, net | (116) | (1,349) | | | (1,465) |
| Operating Income (Loss) | (565) | 12,215 | 10,205 | | 21,855 |
| Interest expense (income), net | 17,498 | | (928) | | 16,570 |
| Other (income) loss, net | (7,594) | | 455 | | (7,139) |
| Equity earnings from subsidiaries | (20,819) | | | 20,819 | |
| Income Before Income Taxes | 10,350 | 12,215 | 10,678 | (20,819) | 12,424 |
| Provision for income taxes | 160 | 11 | 2,063 | | 2,234 |
| Net Income | \$ 10,190 | \$ 12,204 | \$ 8,615 | \$ (20,819) | \$ 10,190 |

| | For the Nine Months Ended September 30, 2006 | | | | |
|---|---|-----------------------------------|---------------------------------------|---------------------|---------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net Sales | \$ 267,904 | \$ 172,622 | \$ 162,051 | \$ (65,093) | \$ 537,484 |
| Costs and Expenses: | | | | | |
| Cost of goods sold | 230,745 | 128,076 | 118,785 | (62,987) | 414,619 |
| Selling, general and administrative | 39,671 | 25,677 | 28,802 | (2,106) | 92,044 |
| (Gain) loss on sale of property, plant and equipment, net | (1,457) | | 3 | | (1,454) |
| Operating Income (Loss) | (1,055) | 18,869 | 14,461 | | 32,275 |

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| | | | | | |
|-----------------------------------|-----------|-----------|-----------|-------------|-----------|
| Interest expense (income), net | 17,665 | | (203) | | 17,462 |
| Other (income) loss, net | (3,645) | | 538 | | (3,107) |
| Equity earnings from subsidiaries | (28,852) | | | 28,852 | |
| Income Before Income Taxes | 13,777 | 18,869 | 14,126 | (28,852) | 17,920 |
| Provision for income taxes | 714 | 19 | 4,124 | | 4,857 |
| Net Income | \$ 13,063 | \$ 18,850 | \$ 10,002 | \$ (28,852) | \$ 13,063 |

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STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Supplemental condensed consolidating financial statements (continued):

| | For the Nine Months Ended September 30, 2007 | | | | |
|--|---|-----------------------------------|---------------------------------------|---------------------|---------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net cash provided by (used for) operating activities | \$ 8,237 | \$ (1,561) | \$ 1,533 | \$ (300) | \$ 7,909 |
| <u>INVESTING ACTIVITIES:</u> | | | | | |
| Capital expenditures | (7,772) | (3,038) | (3,449) | | (14,259) |
| Proceeds from the sale of fixed assets | 392 | 4,643 | 7 | | 5,042 |
| Business acquisitions and other | | | | | |
| Net cash (used for) provided by investing activities | (7,380) | 1,605 | (3,442) | | (9,217) |
| <u>FINANCING ACTIVITIES:</u> | | | | | |
| Borrowings (repayments) of long-term debt | | | (300) | 300 | |
| Share-based compensation activity, net | 1,956 | | | | 1,956 |
| Other financing costs | | | | | |
| Net cash provided by (used for) financing activities | 1,956 | | (300) | 300 | 1,956 |
| Effect of exchange rate changes on cash and cash equivalents | | | 1,119 | | 1,119 |
| Net change in cash and cash equivalents | 2,813 | 44 | (1,090) | | 1,767 |
| Cash and cash equivalents at beginning of period | 28,937 | 12 | 36,933 | | 65,882 |
| Cash and cash equivalents at end of period | \$ 31,750 | \$ 56 | \$ 35,843 | \$ | \$ 67,649 |

For the Nine Months Ended September 30, 2006
Non-
Guarantor Guarantor

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| | Parent | Subsidiaries | Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------|---------------------|---------------------|---------------------|
| Net cash provided by (used for) operating activities | \$ (4,799) | \$ 5,075 | \$ 33,353 | \$ (11,019) | \$ 22,610 |
| <u>INVESTING ACTIVITIES:</u> | | | | | |
| Capital expenditures | (9,273) | (4,840) | (5,681) | | (19,794) |
| Proceeds from the sale of fixed assets | 2,266 | | | | 2,266 |
| Business acquisitions and other | (110) | (50) | 388 | (896) | (668) |
| Net cash used for investing activities | (7,117) | (4,890) | (5,293) | (896) | (18,196) |
| <u>FINANCING ACTIVITIES:</u> | | | | | |
| Borrowings (repayments) of long-term debt | 1,556 | | (12,619) | 11,019 | (44) |
| Share-based compensation activity, net | 47 | | | | 47 |
| Shareholder distributions | 10,850 | | (10,850) | | |
| Other financing costs | 7,544 | (186) | (8,404) | 896 | (150) |
| Net cash provided by (used for) financing activities | 19,997 | (186) | (31,873) | 11,915 | (147) |
| Effect of exchange rate changes on cash and cash equivalents | | | 1,679 | | 1,679 |
| Net change in cash and cash equivalents | 8,081 | (1) | (2,134) | | 5,946 |
| Cash and cash equivalents at beginning of period | 7,754 | 47 | 32,983 | | 40,784 |
| Cash and cash equivalents at end of period | \$ 15,835 | \$ 46 | \$ 30,849 | \$ | \$ 46,730 |

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STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

(16) Subsequent Events

PST Filing

On October 23, 2007, the Company announced that its PST joint venture filed certain financial information with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*). The Company currently holds a 50% equity interest in PST.

Restructuring Initiatives

On October 29, 2007, the Company announced restructuring initiatives to improve manufacturing efficiency and cost position by ceasing manufacturing operations at its Sarasota, Florida and Mitcheldean, England locations. The initiatives will begin in the fourth quarter of 2007 and the Company expects them to be substantially complete by December 31, 2008. The Company anticipates recognizing both total pre-tax costs and incurring cash expenditures of approximately \$17.4 million or less associated with these restructuring initiatives. These expected restructuring related costs are comprised of one-time termination benefits of \$5.2 million, contract termination costs of \$1.0 million and other associated costs of \$11.2 million. No impairment charges were incurred because assets will primarily be transferred to other locations for continued production, with some equipment depreciated on an accelerated basis over the remaining production period. Related 2007 fourth quarter expenses, primarily comprised of one-time termination benefits, are expected to result in pre-tax charges of \$1.0 million. As part of these restructuring initiatives, the Company also intends to sell a facility.

New Credit Agreement

On November 2, 2007, the Company entered into an asset-based credit facility, which permits borrowing up to a maximum level of \$100.0 million. The available borrowing capacity on this credit facility is based on eligible current assets, as defined. The asset-based credit facility does not contain maintenance covenants; however, restrictions include limits on capital expenditures, operating leases and dividends. The asset-based credit facility expires on November 1, 2011, and requires a commitment fee of 0.25% on the unused balance. Interest is payable quarterly at either (i) the higher of the prime rate or the Federal Funds rate plus 0.50%, plus a margin of 0.00% to 0.25% or (ii) LIBOR plus a margin of 1.00% to 1.75%, depending upon the Company's undrawn availability, as defined.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.*****Overview***

The following Management Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations and financial condition of the Company. This MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements.

We are an independent designer and manufacturer of highly engineered electrical and electronic components, modules and systems for the automotive, medium- and heavy-duty truck, agricultural and off-highway vehicle markets.

We recognized net income for the third quarter ended September 30, 2007 of \$2.6 million, or \$0.11 per diluted share, compared with net income of \$4.4 million, or \$0.19 per diluted share, for the third quarter of 2006.

We recognized net income for the nine-month period ended September 30, 2007 of \$10.2 million, or \$0.43 per diluted share, compared with net income of \$13.1 million, or \$0.56 per diluted share, for the comparable period of 2006.

Our third quarter 2007 revenue was unfavorably affected by the substantial decline in North American medium- and heavy-duty truck production and a decline in North American light vehicle production. Medium- and heavy-duty truck production in the third quarter continued to be unfavorably impacted by the new diesel emissions regulations that were implemented on January 1, 2007 in the U.S. The decline in revenue from North American medium- and heavy-duty truck and light vehicle production was offset by increased European commercial vehicle production and new program launches in both North America and Europe.

Our third quarter 2007 operating income was \$5.2 million compared with \$9.1 million in the previous year. Our results were unfavorably affected by increased depreciation expense and direct material costs as well as operational inefficiencies related to new product launches and supply chain management. In addition, the Company's selling, general and administrative (SG&A) expenses increased in the areas of design and development and selling and marketing. Our SG&A expense increase resulted from additional spending in sales and marketing support for a new product launch, higher design and development expenses and increased systems implementation costs, and a \$1.2 million one-time gain in the third quarter of 2006 related to the settlement of the life insurance benefits portion of a postretirement plan. Partially offsetting these variances was higher earnings from our PST Indústria Eletrônica da Amazônia Ltda (PST) joint venture in Brazil, which continued to perform well during the quarter, resulting in equity earnings of \$3.4 million compared to \$1.8 million in the previous year.

Our 2007 results continue to be unfavorably affected by a significant decline in medium- and heavy-duty truck production as the U.S. adopted more stringent diesel emissions regulations beginning in 2007. We currently expect this decline to continue for the remainder of the year. We expect our overall sales decline will be less than the industry production decline as our second instrument panel award and stable demand outside of the U.S. partially offsets reduced medium- and heavy-duty truck production.

We announced restructuring initiatives on October 29, 2007 to improve the Company's manufacturing efficiency and cost position by ceasing manufacturing operations at its Sarasota, Florida and Mitcheldean, England locations. We will begin these initiatives in the fourth quarter of 2007 and expect to be substantially complete by December 31, 2008. The Company anticipates recognizing both total pre-tax costs and incurring cash expenditures of approximately \$17.4 million or less associated with these restructuring initiatives. These expected restructuring related costs are comprised of one-time termination benefits of \$5.2 million, contract termination costs of \$1.0 million and other associated costs of \$11.2 million. No impairment charges were incurred because assets will primarily be transferred to other locations for continued production, with some equipment depreciated on an accelerated basis over the remaining production period. Related 2007 fourth quarter expenses, primarily comprised of one-time termination benefits, are expected to result in pre-tax charges of \$1.0 million. As part of these restructuring initiatives, we also intend to sell a facility.

Significant factors inherent to our markets that could affect our results for the remainder of 2007 include the financial stability of our customers and suppliers as well as our ability to successfully execute our planned productivity and cost reduction initiatives. We are undertaking these initiatives to mitigate commodity price increases and customer-demanded price reductions. Our results for 2007 also depend on conditions in the automotive and

commercial vehicle industries, which are generally dependent on domestic and global economies.

Table of Contents**Results of Operations**

We are primarily organized by markets served and products produced. Under this organizational structure, our operations have been aggregated into two reportable segments: Electronics and Control Devices. The Electronics reportable segment, formerly known as the Vehicle Management & Power Distribution reportable segment, includes results of operations that design and manufacture electronic instrument clusters, electronic control units, driver information systems and electrical distribution systems, primarily wiring harnesses and connectors for electrical power and signal distribution. The Control Devices reportable segment includes results of operations from our operations that design and manufacture electronic and electromechanical switches, control actuation devices and sensors.

During the third quarter of 2007, a European business unit in the Control Devices reportable segment experienced a change in future business prospects due to the loss of a significant customer contract. As a result, the Company announced that it would cease manufacturing at this business unit and transfer remaining production to a business unit in the Electronics reportable segment. Because the Company changed the structure of its internal organization in a manner that caused the composition of its reportable segments to change, the corresponding information for prior periods has been reclassified to conform to the current year reportable segment presentation.

Beginning in 2005, we changed from a calendar year-end to a 52-53 week fiscal year-end. Until October 30, 2006, our fiscal quarters were comprised of 13-week periods. On October 30, 2006, we changed back to a calendar (December 31) fiscal year-end; therefore, the 2006 fiscal year ended on December 31, 2006. Our fiscal quarters are now comprised of 3-month periods. Throughout this document, three months and nine months will be used to reference the 3- and 9-month periods of 2007 and the comparable 13- and 39-week periods of 2006.

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Net Sales. Net sales for our reportable segments, excluding inter-segment sales, for the three months ended September 30, 2007 and 2006 are summarized in the following table (in thousands):

| | Three Months Ended | | | | \$ Increase / (Decrease) | % Increase / (Decrease) |
|-----------------|-------------------------------|--------|-------------------------------|--------|---|--|
| | September 30, 2007 | | September 30, 2006 | | | |
| Electronics | \$ 103,021 | 59.6% | \$ 111,860 | 64.9% | \$ (8,839) | (7.9)% |
| Control Devices | 69,793 | 40.4 | 60,491 | 35.1 | 9,302 | 15.4% |
| Total net sales | \$ 172,814 | 100.0% | \$ 172,351 | 100.0% | \$ 463 | 0.3% |

The decrease in net sales for our Electronics segment was primarily due to a substantial decline in medium- and heavy-duty truck production in North America. Offsetting the unfavorable North American production were increased production volume in our European commercial vehicle operations, favorable foreign currency exchange rates and new program revenues in our European operations. Favorable foreign currency exchange rates contributed \$3.2 million to sales in the third quarter compared with the prior year. We continue to expect our North American commercial vehicle business to be unfavorably affected by the new 2007 diesel emissions regulations through the first half of 2008.

The increase in net sales for our Control Devices segment was primarily attributable to new product launches in our temperature and speed sensor businesses. The increase was partially offset by production volume reductions at our major customers.

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Net sales by geographic location for the three months ended September 30, 2007 and 2006 are summarized in the following table (in thousands):

| | Three Months Ended | | | | \$ Increase / (Decrease) | % Increase / (Decrease) |
|------------------|-------------------------------|--------|-------------------------------|--------|---|--|
| | September 30, 2007 | | September 30, 2006 | | | |
| North America | \$ 126,882 | 73.4% | \$ 130,941 | 76.0% | \$ (4,059) | (3.1)% |
| Europe and other | 45,932 | 26.6 | 41,410 | 24.0 | 4,522 | 10.9% |
| Total net sales | \$ 172,814 | 100.0% | \$ 172,351 | 100.0% | \$ 463 | 0.3% |

The decrease in North American sales was primarily attributable to lower sales to our commercial vehicle customers as a result of the new U.S. diesel emission regulations and lower production volume from our North American light vehicle customers. The decrease was partially offset by new program launches of temperature and speed sensor products. Our increase in sales outside of North America for the quarter was primarily due to increased production volume, new product revenues and favorable foreign currency exchange rates. The favorable effect of foreign currency exchange rates affected net sales outside North America by \$3.2 million in the third quarter of 2007 compared with the prior year.

Condensed consolidated statements of operations as a percentage of net sales for the three months ended September 30, 2007 and 2006 are presented in the following table (in thousands):

| | Three Months Ended | | | | \$ Increase / (Decrease) |
|--|-------------------------------|--------|-------------------------------|--------|---|
| | September 30, 2007 | | September 30, 2006 | | |
| Net Sales | \$ 172,814 | 100.0% | \$ 172,351 | 100.0% | \$ 463 |
| Costs and Expenses: | | | | | |
| Cost of goods sold | 134,944 | 78.1 | 134,173 | 77.8 | 771 |
| Selling, general and administrative | 32,407 | 18.8 | 29,074 | 16.9 | 3,333 |
| Loss on sale of property, plant & equipment, net | 223 | 0.1 | 15 | 0.0 | 208 |
| Operating Income | 5,240 | 3.0 | 9,089 | 5.3 | (3,849) |
| Interest expense, net | 5,467 | 3.2 | 5,710 | 3.3 | (243) |
| Equity in earnings of investees | (3,506) | (2.0) | (1,838) | (1.1) | (1,668) |
| Other (income) expense, net | 273 | 0.2 | (55) | | 328 |
| Income Before Income Taxes | 3,006 | 1.6 | 5,272 | 3.1 | (2,266) |
| Provision for income taxes | 381 | 0.2 | 866 | 0.5 | (485) |
| Net Income | \$ 2,625 | 1.4% | \$ 4,406 | 2.6% | \$ (1,781) |

Cost of Goods Sold. The increase in cost of goods sold as a percentage of sales was due to unfavorable material costs, operational inefficiencies related to new product launches and higher depreciation expense. These higher costs were partially offset by favorable gains from our commodity and foreign exchange hedging activities and ongoing procurement initiatives.

Selling, General and Administrative Expenses. Product development expenses included in SG&A were \$10.5 million and \$9.3 million for the third quarters ended September 30, 2007 and 2006, respectively. The increase

related to development spending in the areas of tachographs and instrumentation. In the future, the Company intends to reallocate its resources to focus on the design and development of new products rather than primarily focusing on sustaining existing product programs.

The increase in SG&A expenses, excluding product development expenses, for the third quarter 2007 compared with the third quarter of 2006 was primarily attributable to the \$1.2 million one-time gain in the third quarter of 2006 related to the settlement of the life insurance benefits portion of a postretirement plan.

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Equity in Earnings of Investees. The increase in equity earnings of investees was predominately attributable to the increase in equity earnings recognized from our PST joint venture. The increase primarily reflects higher volume for PST's security product lines.

Income Before Income Taxes. Income before income taxes is summarized in the following table by reportable segment (in thousands).

| | Three Months Ended | | \$ Increase / (Decrease) | % Increase / (Decrease) |
|----------------------------|-----------------------------------|-----------------------------------|---|--|
| | September 30, 2007 | September 30, 2006 | | |
| Electronics | \$ 3,005 | \$ 7,764 | \$ (4,759) | (61.3)% |
| Control Devices | 2,714 | 479 | 2,235 | 466.6% |
| Other corporate activities | 2,827 | 2,715 | 112 | 4.1% |
| Corporate interest expense | (5,540) | (5,686) | 146 | 2.6% |
| Income before income taxes | \$ 3,006 | \$ 5,272 | \$ (2,266) | (43.0)% |

The decrease in income before income taxes in the Electronics segment was related to reduced volume and increased SG&A expenses. The increased SG&A expenses were predominantly due to increased development spending in the areas of tachographs and instrumentation and higher selling and marketing costs associated with new product introductions.

The increase in income before income taxes in the Control Devices reportable segment was primarily due to increased volume resulting from new product launches. These factors were partially offset by operating inefficiencies related to a new product launch and additional China start-up expenses.

The increase in income before income taxes from other corporate activities was primarily due to an increase of \$1.6 million in equity earnings from our PST joint venture and a reduction in foreign exchange losses recorded in the previous year.

Income before income taxes by geographic location for the three months ended September 30, 2007 and 2006 is summarized in the following table (in thousands):

| | Three Months Ended | | | | \$ Increase / (Decrease) | % Increase / (Decrease) |
|----------------------------|-------------------------------|--------|-------------------------------|--------|---|--|
| | September 30, 2007 | | September 30, 2006 | | | |
| North America | \$ 1,842 | 61.3% | \$ 669 | 12.7% | \$ 1,173 | 175.3% |
| Europe and other | 1,164 | 38.7 | 4,603 | 87.3 | (3,439) | (74.7)% |
| Income before income taxes | \$ 3,006 | 100.0% | \$ 5,272 | 100.0% | \$ (2,266) | (43.0)% |

The increase in our profitability in North America was primarily attributable to increased revenue from new temperature and speed sensor product launches. The increase was offset by unfavorable variances related to new product launches, lower North American light and commercial vehicle production and unfavorable product mix. The decrease in our profitability outside North America was primarily due to increased SG&A expenses related to increased development spending in the areas of tachographs and instrumentation and higher selling and marketing costs associated with new product introductions.

Provision for Income Taxes. We recognized a provision for income taxes of \$0.4 million, or 12.7% of pre-tax income, and \$0.9 million, or 16.4% of the pre-tax income, for federal, state and foreign income taxes for the third quarters ended September 30, 2007 and 2006, respectively. The decrease in the effective tax rate for the three months

ended September 30, 2007 and 2006, respectively, was primarily attributable to the benefit of the federal research and development tax credit which had not been extended at September 30, 2006 and a benefit for a change in state tax law.

Table of Contents***Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006***

Net Sales. Net sales for our reportable segments, excluding inter-segment sales, for the nine months ended September 30, 2007 and 2006 are summarized in the following table (in thousands):

| | Nine Months Ended | | | | \$ Increase / (Decrease) | % Increase / (Decrease) |
|-----------------|-------------------------------|--------|-------------------------------|--------|---|--|
| | September 30, 2007 | | September 30, 2006 | | | |
| Electronics | \$ 321,497 | 59.4% | \$ 335,072 | 62.3% | \$ (13,575) | (4.1)% |
| Control Devices | 220,147 | 40.6 | 202,412 | 37.7 | 17,735 | 8.8% |
| Total net sales | \$ 541,644 | 100.0% | \$ 537,484 | 100.0% | \$ 4,160 | 0.8% |

The decrease in net sales for our Electronics segment was primarily due to a substantial decline in medium- and heavy-duty truck production in North America. As referenced above, medium- and heavy-duty truck production in 2007 was unfavorably impacted by the new 2007 diesel emissions regulations that were implemented on January 1, 2007 in the U.S. Offsetting the unfavorable North American production were increased production volume in our European commercial vehicle operations, favorable foreign currency exchange rates and new business wins in our European operations. Favorable foreign currency exchange rates contributed \$12.0 million to sales in the first nine months compared with the prior year. We continue to expect our North American commercial vehicle business to be unfavorably affected by the new 2007 diesel emissions regulations through the first half of 2008.

The increase in net sales for our Control Devices segment was primarily attributable to new product launches in our temperature and speed sensor businesses. The increase was partially offset by substantial production volume reductions at our major customers.

Net sales by geographic location for the nine months ended September 30, 2007 and September, 2006 are summarized in the following table (in thousands):

| | Nine Months Ended | | | | \$ Increase / (Decrease) | % Increase / (Decrease) |
|------------------|-------------------------------|--------|-------------------------------|--------|---|--|
| | September 30, 2007 | | September 30, 2006 | | | |
| North America | \$ 393,392 | 72.6% | \$ 415,356 | 77.3% | \$ (21,964) | (5.3)% |
| Europe and other | 148,252 | 27.4 | 122,128 | 22.7 | 26,124 | 21.4% |
| Total net sales | \$ 541,644 | 100.0% | \$ 537,484 | 100.0% | \$ 4,160 | 0.8% |

The decrease in North American sales was primarily attributable to lower sales to our commercial vehicle customers as a result of the new U.S. diesel emission regulations and lower production volume from our North American light vehicle customers. The decrease was partially offset by new program launches of temperature and speed sensor products. Our increase in sales outside of North America for the first nine months of 2007 was primarily due to new product revenues, increased commercial vehicle production and favorable foreign currency exchange rates. The favorable effect of foreign currency exchange rates affected net sales outside North America by \$12.0 million for the first nine months of 2007 compared with the prior year.

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Condensed consolidated statements of operations as a percentage of net sales for the nine months ended September 30, 2007 and 2006 are presented in the following table (in thousands):

| | Nine Months Ended | | | | \$ Increase / (Decrease) |
|--|-----------------------|--------|-----------------------|--------|--------------------------------|
| | September 30, 2007 | | September 30, 2006 | | |
| Net Sales | \$ 541,644 | 100.0% | \$ 537,484 | 100.0% | \$ 4,160 |
| Costs and Expenses: | | | | | |
| Cost of goods sold | 422,045 | 77.9 | 414,619 | 77.1 | 7,426 |
| Selling, general and administrative | 99,209 | 18.3 | 92,044 | 17.1 | 7,165 |
| Gain on sale of property, plant & equipment, net | (1,465) | (0.2) | (1,454) | (0.3) | (11) |
| Operating Income | 21,855 | 4.0 | 32,275 | 6.1 | (10,420) |
| Interest expense, net | 16,570 | 3.1 | 17,462 | 3.2 | (892) |
| Equity in earnings of investees | (7,924) | (1.5) | (4,804) | (0.9) | (3,120) |
| Other expense, net | 785 | 0.1 | 1,697 | 0.3 | (912) |
| Income Before Income Taxes | 12,424 | 2.3 | 17,920 | 3.5 | (5,496) |
| Provision for income taxes | 2,234 | 0.4 | 4,857 | 0.9 | (2,623) |
| Net Income | \$ 10,190 | 1.8% | \$ 13,063 | 2.6% | \$ (2,873) |

Cost of Goods Sold. The increase in cost of goods sold as a percentage of sales was due to unfavorable material costs, operational inefficiencies related to new product launches and higher depreciation expense. These costs were partially offset by favorable gains from our commodity and foreign exchange hedging activities and ongoing procurement initiatives.

Selling, General and Administrative Expenses. Product development expenses included in SG&A were \$32.3 million and \$29.9 million for the nine months ended September 30, 2007 and 2006, respectively. The increase related to development spending in the areas of tachographs and instrumentation. Mitigating the overall increase in spending were reductions in development costs at lower productivity locations. In the future, the Company intends to reallocate its resources to focus on the design and development of new products rather than primarily focusing on sustaining existing product programs.

The increase in SG&A expenses, excluding product development expenses, in 2007 compared with 2006 was primarily attributable to the increase in our selling and marketing activity to support new products in Europe, the increase in systems implementation expenses related to a new information system in Europe, and a \$1.2 million one-time gain in the third quarter of 2006 related to the settlement of the life insurance benefits portion of a postretirement plan.

Gain on Sale of Property, Plant and Equipment, net. The increase was attributable to a \$1.6 million gain on the sale of two closed facilities during the second quarter of 2007 exceeding the \$1.5 million gain on the sale of land and a building during the first quarter of 2006.

Equity in Earnings of Investees. The increase was predominately attributable to the increase in equity earnings recognized from our PST joint venture. The increase primarily reflects higher volume for PST's security product lines.

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Income Before Income Taxes. Income before income taxes is summarized in the following table by reportable segment (in thousands).

| | Nine Months Ended | | \$ Increase / (Decrease) | % Increase / (Decrease) |
|----------------------------|-----------------------------------|-----------------------------------|---|--|
| | September 30, 2007 | September 30, 2006 | | |
| Electronics | \$ 9,146 | \$ 22,160 | \$ (13,014) | (58.7)% |
| Control Devices | 13,601 | 10,032 | 3,569 | 35.6% |
| Other corporate activities | 6,348 | 2,913 | 3,435 | 117.9% |
| Corporate interest expense | (16,671) | (17,185) | 514 | 3.0% |
| Income before income taxes | \$ 12,424 | \$ 17,920 | \$ (5,496) | (30.7)% |

The decrease in income before income taxes in the Electronics segment was related to reduced volume and increased SG&A expenses. The increased SG&A expenses were predominantly due to increased development spending in the areas of tachographs and instrumentation and higher selling and marketing costs associated with new product introductions.

The increase in income before income taxes in the Control Devices reportable segment was primarily due to increased volume resulting from new product launches. These factors were offset by operating inefficiencies related to a new product launch and additional China start-up expenses.

The increase in income before income taxes from other corporate activities was primarily due to a reduction in foreign exchange losses recorded in the previous year and an increase in equity earnings from our PST joint venture of \$3.0 million.

Income before income taxes by geographic location for the nine months ended September 30, 2007 and 2006 is summarized in the following table (in thousands):

| | Nine Months Ended | | | | \$ Increase / (Decrease) | % Increase / (Decrease) |
|----------------------------|-------------------------------|--------|-------------------------------|--------|---|--|
| | September 30, 2007 | | September 30, 2006 | | | |
| North America | \$ 5,667 | 45.6% | \$ 6,006 | 33.5% | \$ (339) | (5.6)% |
| Europe and other | 6,757 | 54.4 | 11,914 | 66.5 | (5,157) | (43.3)% |
| Income before income taxes | \$ 12,424 | 100.0% | \$ 17,920 | 100.0% | \$ (5,496) | (30.7)% |

The decrease in our profitability in North America was primarily attributable to unfavorable variances related to new product launches, lower North American light and commercial vehicle production and unfavorable product mix. The decrease was offset by increased revenue from new temperature and speed sensor product launches. The decrease in our profitability outside North America was primarily due to increased SG&A related to increased development spending in the areas of tachographs and instrumentation and higher selling and marketing costs associated with new product introductions.

Provision for Income Taxes. We recognized a provision for income taxes of \$2.2 million, or 18.0% of pre-tax income, and \$4.9 million, or 27.1% of the pre-tax income, for federal, state and foreign income taxes for the nine months ended September 30, 2007 and 2006, respectively. The decrease in the effective tax rate for the nine months ended September 30, 2007 and 2006, respectively, was primarily attributable to the benefit of the federal research and development tax credit which had not been extended at September 30, 2006, a reduction in accrued income taxes, and

a benefit for a change in state tax law.

Table of Contents**Liquidity and Capital Resources**

Summary of Cash Flows (in thousands):

| | Nine Months Ended | | |
|--|-----------------------------------|-----------------------------------|-------------------------------------|
| | September 30, 2007 | September 30, 2006 | \$ Increase / (Decrease) |
| Cash provided by (used for): | | | |
| Operating activities | \$ 7,909 | \$ 22,610 | \$ (14,701) |
| Investing activities | (9,217) | (18,196) | 8,979 |
| Financing activities | 1,956 | (147) | 2,103 |
| Effect of exchange rate changes on cash and cash equivalents | 1,119 | 1,679 | (560) |
| Net change in cash and cash equivalents | \$ 1,767 | \$ 5,946 | \$ (4,179) |

The decrease in net cash provided by operating activities was primarily due to lower earnings and a larger investment in working capital. Specifically, cash used to finance movements in working capital asset and liability accounts was a use of funds in the current period of \$16.4 million versus a use of funds of \$7.4 million in the prior year.

The decrease in net cash used for investing activities reflects an increase in cash received from the sale of fixed assets in 2007 and decreases in cash used for capital projects and business investment.

The increase in net cash provided by financing activities was due to cash received from the exercise of share options during 2007 and the payment of fees associated with amending our credit agreement during the first quarter of 2006.

Future capital expenditures are expected to be consistent with recent levels and future organic growth is expected to be funded through cash flows from operations. As part of this, we will continue to evaluate the sale of non-strategic assets. In October 2007, we sold our corporate aircraft as part of this program, resulting in proceeds of \$7.1 million. Also in October 2007, we announced restructuring initiatives to improve the Company's manufacturing efficiency and cost position by ceasing manufacturing operations at its Sarasota, Florida and Mitcheldean, England locations. We anticipate recognizing both total pre-tax costs and incurring cash expenditures of approximately \$17.4 million or less associated with these restructuring initiatives. Related 2007 fourth quarter expenses, primarily comprised of one-time termination benefits, are expected to result in pre-tax charges of \$1.0 million. As part of these restructuring initiatives, we also intend to sell a facility.

Management will continue to focus on reducing its weighted average cost of capital and believes that cash flows from operations and the availability of funds from our credit facilities will provide sufficient liquidity to meet our future growth and operating needs. As outlined in Note 6 to our condensed consolidated financial statements, on November 2, 2007, we completed our new asset-based credit facility. This facility will provide us with lower borrowing rates and eliminates our financial maintenance covenants. We have also structured this facility to allow us the flexibility to refinance our outstanding debt.

There have been no material changes to the table of contractual obligations presented on page 24 of the Company's 2006 Form 10-K. The table excludes the liability for unrecognized income tax benefits, since the Company cannot predict with reasonable reliability the timing of cash settlements with the respective taxing authorities. The unrecognized income tax benefits totaled \$5.6 million as of January 1, 2007, including interest and penalties of \$0.8 million.

Critical Accounting Policies and Estimates

The Company's significant accounting policies, which include management's best estimates and judgments, are included in Item 7, Part II to the consolidated financial statements of the Company's 2006 Form 10-K. Certain of these accounting policies are considered critical as disclosed in the Critical Accounting Policies and Estimates section of Management's Discussion and Analysis of the Company's 2006 Form 10-K because of the potential for a significant

impact on the financial statements due to the inherent uncertainty in such estimates. Other than the adoption of Financial Accounting Standards Board interpretation No. 48, as discussed in Note 11, there have been no significant changes in the Company's critical accounting policies since December 31, 2006.

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Inflation and International Presence

Given the current economic climate and recent increases in certain commodity prices, we believe that a continuation of such price increases would significantly affect our profitability. Furthermore, by operating internationally, we are affected by the economic conditions of certain countries. Based on the current economic conditions in these countries, we believe we are not significantly exposed to adverse economic conditions.

Forward-Looking Statements

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

the loss or bankruptcy of a major customer or supplier;

the costs and timing of facility closures, business realignment, or similar actions;

a significant change in automotive, medium- and heavy-duty, agricultural or off-highway vehicle production;

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

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

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

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

the amount of debt and the restrictive covenants contained in our credit facility;

customer acceptance of new products;

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

the successful integration of any acquired businesses;

the occurrence or non-occurrence of circumstances beyond our control; and

those items described in Part I, Item IA (Risk Factors) of the Company's 2006 Form 10-K.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk.*****Interest Rate Risk***

From time to time, we are exposed to certain market risks, primarily resulting from the effects of changes in interest rates. At September 30, 2007, however, all of our debt was fixed rate debt. At this time, we do not intend to use financial instruments to manage this risk.

Commodity Price Risk

Given the current economic climate and the recent increases in certain commodity costs, we currently are experiencing an increased risk, particularly with respect to the purchase of copper, zinc, resins and certain other commodities. We manage this risk through a combination of fixed price agreements, staggered short-term contract maturities and commercial negotiations with our suppliers. We may also consider pursuing alternative commodities or alternative suppliers to mitigate this risk over a period of time. The recent increases in certain commodity costs have negatively affected our operating results, and a continuation of such price increases could significantly affect our profitability.

In December 2006, we entered into fixed price swap contracts for 480 metric tonnes of copper. In January 2007, we entered into an additional fixed price swap contract for 420 metric tonnes of copper. The purpose of these contracts is to reduce our price risk as it relates to copper prices.

Going forward, we believe that our mitigation efforts will offset a substantial portion of the financial impact of these increased costs. However, no assurances can be given that the magnitude or duration of these increased costs will not have a material impact on our future operating results. A hypothetical pre-tax gain or loss in fair value from a 10.0% favorable or adverse change in commodity prices would not significantly affect our results of operations, financial position or cash flows.

Foreign Currency Exchange Risk

We have currency exposures related to buying, selling and financing in currencies other than the local currency in which we operate. In some instances, we choose to reduce our exposures through financial instruments that provide offsets or limits to our exposures. Currently, our most significant currency exposures relate to the Mexican peso, Swedish krona, and British pound. We use derivative financial instruments, including foreign currency forward and option contracts, to mitigate our exposure to fluctuations in foreign currency exchange rates by reducing the effect of such fluctuations on foreign currency denominated intercompany transactions and other known foreign currency exposures.

As discussed in Note 3 to our condensed consolidated financial statements, we have entered into foreign currency forward contracts related to our Mexican peso, Swedish krona and British pound exposures. The contracts related to the Swedish krona have expired as of July 2, 2007. The existing foreign currency forward contracts at September 30, 2007 and 2006 had a notional value of \$18.7 and \$15.0 million, respectively. The estimated net fair value of these contracts at September 30, 2007 and 2006, per quoted market sources, was approximately \$0.2 and \$(0.3) million, respectively.

We do not expect the effects of this risk to be material in the future based on the current operating and economic conditions in the countries in which we operate. A hypothetical pre-tax gain or loss in fair value from a 10.0% favorable or adverse change in quoted foreign currencies would not significantly affect our results of operations, financial position or cash flows.

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Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of September 30, 2007, an evaluation was performed under the supervision and with the participation of the Company's management, including the chief executive officer (CEO) and chief financial officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2007.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the nine months ended September 30, 2007 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is involved in certain legal actions and claims arising in the ordinary course of business. The Company, however, does not believe that any of the litigation in which it is currently engaged, either individually or in the aggregate, will have a material adverse effect on its business, consolidated financial position or results of operations. The Company is subject to the risk of exposure to product liability claims in the event that the failure of any of its products causes personal injury or death to users of the Company's products and there can be no assurance that the Company will not experience any material product liability losses in the future. In addition, if any of the Company's products prove to be defective, the Company may be required to participate in government-imposed or other instituted recalls involving such products. The Company maintains insurance against such liability claims.

Item 1A. Risk Factors.

There were no material changes from risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

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SIGNATURES

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

STONERIDGE, INC.

Date: November 9, 2007

/s/ John C. Corey
John C. Corey
*President, Chief Executive Officer and
Director*
(Principal Executive Officer)

Date: November 9, 2007

/s/ George E. Strickler
George E. Strickler
*Executive Vice President, Chief Financial
Officer and Treasurer*
(Principal Financial Officer)

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INDEX TO EXHIBITS

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