STONERIDGE INC
Form 10-Q
May 09, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarter ended March 31, 2008

OR

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

For the transition period from________to ________

Commission file number: 001-13337

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

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

(330) 856-2443

Registrant's telephone number, including area code

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

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

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

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

The number of Common Shares, without par value, outstanding as of April 25, 2008 was 24,667,999.

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STONERIDGE, INC. AND SUBSIDIARIES

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Item 1. Financial Statements.

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

ASSETS	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
Current Assets:		
Cash and cash equivalents	$ 88,273	$ 95,924
Accounts receivable, less reserves of $5,495 and $4,736, respectively	136,983	122,288
Inventories, net	66,591	57,392
Prepaid expenses and other	19,662	15,926
Deferred income taxes	10,188	9,829
Total current assets	321,697	301,359
Long-Term Assets:		
Property, plant and equipment, net	91,853	92,752
Other Assets:		
Goodwill	65,720	65,176
Investments and other, net	43,173	39,454
Deferred income taxes	24,618	29,028
Total long-term assets	225,364	226,410
Total Assets	$ 547,061	$ 527,769
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 76,581	$ 69,373
Accrued expenses and other	58,023	47,198
Total current liabilities	134,604	116,571
Long-Term Liabilities:		
Long-term debt	189,000	200,000
Deferred income taxes	2,951	2,665
Other liabilities	2,363	2,344
Total long-term liabilities	194,314	205,009
Shareholders' Equity:		
Preferred Shares, without par value, authorized 5,000 shares, none issued	-	-
Common Shares, without par value, authorized 60,000 shares, issued 24,687 and 24,601 shares and outstanding 24,668 and 24,209 shares, respectively, with no stated value	-	-
Additional paid-in capital	154,898	154,173
Common Shares held in treasury, 19 and 373 shares, respectively, at cost	(9)	(383)
Retained earnings	44,919	38,372
Accumulated other comprehensive income	18,335	14,027

Total shareholders’ equity		218,143		206,189
Total Liabilities and Shareholders' Equity	$	547,061	$	527,769

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 March 31, 2008	Three Months Ended March 31, 2007
Net Sales	$ 203,070	$ 185,028
Costs and Expenses:		
Cost of goods sold	151,253	142,181
Selling, general and administrative	36,282	33,097
Restructuring charges	1,422	41
Operating Income	14,113	9,709
Interest expense, net	5,372	5,484
Equity in earnings of investees	(3,819)	(2,120)
Loss on early extinguishment of debt	499	-
Other loss, net	402	288
Income Before Income Taxes	11,659	6,057
Provision for income taxes	5,112	1,187
Net Income	$ 6,547	$ 4,870
Basic net income per share	$ 0.28	$ 0.21
Basic weighted average shares outstanding	23,286	22,990
Diluted net income per share	$ 0.28	$ 0.21
Diluted weighted average shares outstanding	23,647	23,403

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)

	Three Months Ended March 31, 2008	2007
OPERATING ACTIVITIES:		
Net income	$ 6,547	$ 4,870
Adjustments to reconcile net income to net cash provided by (used for) operating activities -		
Depreciation	7,287	7,165
Amortization	433	398
Deferred income taxes	3,656	434
Equity in earnings of investees	(3,819)	(2,120)
Gain on sale of property, plant and equipment	(8)	(35)
Share-based compensation expense	1,081	587
Changes in operating assets and liabilities -		
Accounts receivable, net	(12,189)	(13,325)
Inventories, net	(8,103)	(1,748)
Prepaid expenses and other	(2,560)	(2,462)
Other assets	23	324
Accounts payable	5,690	(5,544)
Accrued expenses and other	10,585	6,400
Net cash provided by (used for) operating activities	8,623	(5,056)
INVESTING ACTIVITIES:		
Capital expenditures	(5,513)	(6,807)
Proceeds from sale of property, plant and equipment	36	35
Business acquisitions and other	(1,061)	-
Net cash used for investing activities	(6,538)	(6,772)
FINANCING ACTIVITIES:		
Repayments of long-term debt	(11,000)	-
Share-based compensation activity, net	42	355
Premiums related to early extinguishment of debt	(358)	-
Net cash (used for) provided by financing activities	(11,316)	355
Effect of exchange rate changes on cash and cash equivalents	1,580	(142)
Net change in cash and cash equivalents	(7,651)	(11,615)
Cash and cash equivalents at beginning of period	95,924	65,882
Cash and cash equivalents at end of period	$ 88,273	$ 54,267

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. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year.

Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2007.

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 64% and 66% of the Company's inventories at March 31, 2008 and December 31, 2007, 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:

	March 31, 2008	December 31, 2007
Raw materials	$ 38,846	$ 36,678
Work-in-progress	10,029	9,065
Finished goods	19,956	13,700
Total inventories	68,831	59,443
Less: LIFO reserve	(2,240)	(2,051)
Inventories, net	$ 66,591	$ 57,392

(3) Fair Value of Financial Instruments

Financial Instruments

A financial instrument is cash or a contract that imposes an obligation to deliver, or conveys a right to receive cash or another financial instrument. The carrying values of cash and cash equivalents, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. The

estimated fair value of the Company’s senior notes (fixed rate debt) at March 31, 2008 and December 31, 2007, per quoted market sources, was $191.1 million and $199.2 million, respectively. The carrying value was $189.0 million and $200.0 million as of March 31, 2008 and December 31, 2007, respectively.

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 strictly for hedging and not for speculative purposes. Management believes that its use of these instruments to reduce risk is in the Company’s best interest.

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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 foreign currency exposures. The principal currency hedged by the Company is the British pound. 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 loss, net. The Company's foreign currency forward contracts substantially offset gains and losses on the underlying foreign currency denominated transactions.

The Company's foreign currency forward contracts had a notional value of $8,720 and $8,551 at March 31, 2008 and December 31, 2007, respectively. As of March 31, 2008, the purpose of the foreign currency forward contracts is to reduce the risk of exposure related to the Company's British pound-denominated receivables. At December 31, 2007, the Company also used forward currency contracts to reduce the risk of exposure related to the Company's Mexican peso- and Swedish krona-denominated receivables. The estimated fair value of the existing contracts at March 31, 2008 and December 31, 2007, per quoted market sources, was approximately $77 and $(28), respectively. For the three months ended March 31, 2008, the Company recognized a $20 gain related to these contracts in the condensed consolidated statement of operations as a component of other loss, net. In 2007, the Company used foreign currency option contracts to reduce the risk of exposures to the Mexican peso. The Company's foreign currency option contracts expired as of December 31, 2007.

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. We entered into fixed price swap contracts for 480 and 420 metric tonnes of copper in December 2006 and January 2007, respectively. These contracts fixed the cost of copper purchases in 2007 and expired on December 31, 2007. In December 2007, we entered into a fixed price swap contract for 1.0 million pounds of copper, which will last through December 2008. 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 in the Company's consolidated balance sheets as a component of accumulated other comprehensive income. The Company deems these cash flow hedges to be highly effective. The effectiveness of the transactions has been and will be measured on an ongoing basis using regression analysis. The fair value of the fixed price commodity swap contract, per quoted market sources, was approximately $740 and $57 at March 31, 2008 and December 31, 2007, respectively. For the three months March 31, 2008, the Company recognized a $68 gain related to these contracts in the condensed consolidated statement of operations as a component of costs of goods sold.

Statement of Financial Accounting Standard No. 157, Fair Value Measurements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS No. 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. In accordance with Financial Accounting Standards Board Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), we will defer the adoption of SFAS 157 for our nonfinancial assets and nonfinancial liabilities until January 1, 2009. The adoption of SFAS 157 did not have a material impact on our fair value measurements.

The following table presents our assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. As of March 31, 2008 the Company does not have liabilities that are measured at fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

	Fair Value Measurements at March 31, 2008			
Assets	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available-for-sale equity investments	$ 288	$ 288	$ -	$ -
Derivatives	817	-	817	-
Total	$ 1,105	$ 288	$ 817	$ -

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Equity investments are valued using a market approach based on the quoted market prices of identical instruments when available or other observable inputs such as trading prices of identical instruments in active markets. Our foreign currency forward contracts are valued using an income approach based on the present value of the forward rate less the contract rate multiplied by the notional amount. Commodity swaps are valued using an income approach based on the present value of the commodity index prices less the contract rate multiplied by the notional amount.

(4) Share-Based Compensation

Total compensation related expense recognized in the condensed consolidated statements of operations for share-based compensation arrangements was $1,081 and $587 for the three months ended March 31, 2008 and 2007, respectively. The total income tax benefit recognized in the condensed consolidated statements of operations for share-based compensation arrangements was $378 and $205 for the three months ended March 31, 2008 and 2007, respectively. There was no share-based compensation cost capitalized as inventory or fixed assets for either period.

(5) Comprehensive Income (Loss)

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 March 31,	
	2008	**2007**
Net income	$ 6,547	$ 4,870
Other comprehensive income:		
Currency translation adjustments	3,816	449
Pension and postretirement liability adjustments	(9)	(8)
Unrealized gain (loss) on marketable securities	(17)	51
Unrecognized gain on derivatives	518	472
Total other comprehensive income	4,308	964
Comprehensive income	$ 10,855	$ 5,834

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

	March 31, 2008	**December 31, 2007**
Foreign currency translation adjustments	$ 18,328	$ 14,512
Pension and postretirement liability adjustments	(437)	(428)
Unrealized loss on marketable securities	(37)	(20)
Unrecognized gain (loss) on derivatives	481	(37)
Accumulated other comprehensive income	$ 18,335	$ 14,027

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

6) Long-Term Debt

Senior Notes

The Company had $189.0 and $200.0 million of senior notes outstanding at March 31, 2008 and December 31, 2007, respectively. During the first quarter of 2008, the Company repurchased and retired $11.0 million in face value of the senior notes. The outstanding senior notes bear interest at an annual rate of 11.50% and mature on May 1, 2012. The senior notes are redeemable, at the Company's option, at 103.833 until April 30, 2009. The senior notes will remain redeemable at various levels until the maturity date. Interest is payable on May 1 and November 1 of each year.

Credit Facility

On November 2, 2007, the Company entered into an asset-based credit facility, which permits borrowing up to a maximum level of $100.0 million. At March 31, 2008, there were no borrowings on this asset-based credit facility. The available borrowing capacity on this credit facility is based on eligible current assets, as defined. At March 31, 2008, the Company had borrowing capacity of $83.1 million based on eligible current assets. The asset-based credit facility does not contain financial performance 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 March 31,	
	2008	**2007**
Basic weighted-average shares outstanding	23,285,848	22,989,615
Effect of dilutive securities	360,828	413,185
Diluted weighted-average shares outstanding	23,646,676	23,402,800

Options not included in the computation of diluted net income per share to purchase 167,750 and 410,250 Common Shares at an average price of $13.12 and $14.07 per share were outstanding at March 31, 2008 and March 31, 2007, respectively. These outstanding options 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.

As of March 31, 2008, 711,375 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 achieved as of March 31, 2008. These shares 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.

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(8) Restructuring

In January 2005, the Company announced restructuring initiatives related to the rationalization of certain manufacturing facilities in Europe and North America. These restructuring initiatives were completed in 2007.

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, United Kingdom, locations. These rationalizations are part of the Company's cost reduction initiatives. In connection with these initiatives, the Company recorded restructuring charges of $2,520 in the Company's consolidated statement of operations for the three months ended March 31, 2008. Restructuring expenses that were general and administrative in nature were included in the Company's condensed consolidated statements of operations as restructuring charges, while the remaining restructuring related expenses were included in cost of goods sold.

The charges related to the restructuring initiatives announced on October 29, 2007 that belong to the Electronics reportable segment included the following:

	Severance Costs	Contract Termination Costs	Other Associated Costs	Total
Total expected restructuring charges	$ 3,454	$ 978	$ 5,582	$ 10,014
Fourth quarter 2007 charge to expense	$ 468	$ -	$ 103	$ 571
Cash payments	-	-	(103)	(103)
Accrued balance at December 31, 2007	468	-	-	468
First quarter 2008 charge to expense	873	-	614	1,487
Cash payments	-	-	(614)	(614)
Accrued balance at March 31, 2008	$ 1,341	$ -	$ -	$ 1,341
Remaining expected restructuring charge	$ 2,113	$ 978	$ 4,865	$ 7,956

The charges related to the restructuring initiatives announced on October 29, 2007 that belong to the Control Devices reportable segment included the following:

	Severance Costs	Fixed-Asset Costs	Other Associated Costs	Total (A)
Total expected restructuring charges	$ 1,851	$ 296	$ 4,748	$ 6,895
Fourth quarter 2007 charge to expense	$ 357	$ -	$ 99	$ 456

Cash payments		-		-		-		-
Accrued balance at December 31, 2007		357		-		99		456
First quarter 2008 charge to expense		365		-		668		1,033
Cash payments		-		-		(722)		(722)
Accrued balance at March 31, 2008	$	722	$	-	$	45	$	767
Remaining expected restructuring charge	$	1,129	$	296	$	3,981	$	5,406

(A) Total expected restructuring charges does not include the expected gain from the future sale of the Company’s Sarasota, Florida, facility

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All restructuring charges, except for asset-related charges, result in cash outflows. Severance costs relate to a reduction in workforce. Other associated costs include premium direct labor, inventory and equipment move costs, relocation expense, increased inventory carrying cost and miscellaneous expenditures associated with exiting business activities. No fixed-asset impairment charges were incurred because assets are being transferred to other locations for continued production.

(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.

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 three months ended March 31, 2008 and 2007:

	2008	2007
Product warranty and recall at beginning of period	$ 5,306	$ 5,825
Accruals for products shipped during period	841	557
Aggregate changes in pre-existing liabilities due to claims developments	664	510
Settlements made during the period (in cash or in kind)	(617)	(1,021)
Product warranty and recall at end of period	$ 6,194	$ 5,871

(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:

	Pension Benefit Plan Three Months Ended March 31,		Postretirement Benefit Plan Three Months Ended March 31,	
	2008	2007	2008	2007

Service cost	$	35	$	42	$	-	$	3
Interest cost		316		507		-		6
Expected return on plan assets		(361)		(566)		-		-
Amortization of actuarial loss		-		110		-		(1)
Net periodic benefit cost	$	(10)	$	93	$	-	$	8

The Company previously disclosed in its financial statements for the year ended December 31, 2007 that it expected to contribute $259 to its pension plan in 2008. Of this amount, contributions of $64 have been made to the pension plan as of March 31, 2008.

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

(11) Income Taxes

The Company recognized a provision for income taxes of $5,112, or 43.9% of pre-tax income, and $1,187, or 19.6% of pre-tax income, for federal, state and foreign income taxes for the three months ended March 31, 2008 and 2007, respectively. The increase in the effective tax rate for the three months ended March 31, 2008 compared to the three months ended March 31, 2007, was primarily attributable to the costs incurred to restructure the Company's United Kingdom operations. As the Company does not believe that the related tax benefit of those losses will be realized, a valuation allowance was recorded against the deferred tax assets associated with those foreign losses. In addition the effective rate was unfavorably impacted due to the expiration of the federal research and development tax credit at December 31, 2007.

As of December 31, 2007, the Company provided a liability of $4,618, 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. At March 31, 2008 the Company has classified $1,544 as a current liability and $3,393 as a reduction to non-current deferred income tax assets. The liability for unrecognized tax positions decreased by $5 for the quarter ended March 31, 2008 resulting in a balance at March 31, 2008 of $4,613. Through a combination of possible state audit settlements and the expiration of certain statutes of limitation, the amount of unrecognized tax benefits could decrease by approximately $290-$800 within the next 12 months.

If the Company's tax positions are sustained by the taxing authorities in favor of the Company, approximately $4,407 would reduce the Company's effective tax rate.

The Company classifies interest expense and, if applicable, penalties which could be assessed related to unrecognized tax benefits as a component of income tax expense. For the three months ended March 31, 2008 and 2007, the Company recognized approximately $46 and $(88) of gross interest and penalties, respectively. The Company has accrued approximately $719 and $672 for the payment of interest and penalties at March 31, 2008 and December 31, 2007, 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
United Kingdom	2002-2006

During the third quarter of 2007 the IRS commenced an examination of the Company's 2005 federal income tax return. It is anticipated that this examination should be completed during the second half of 2008. The Company is also under

examination for income and non-income tax filings in various state and foreign jurisdictions that should be completed at various times throughout 2008.

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

(12) Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). This standard improves reporting by creating greater consistency in the accounting and financial reporting of business combinations. Additionally, SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption of this standard is prohibited. In the absence of any planned future business combinations, management does not currently expect SFAS 141(R) to have a material impact on the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). This standard improves the relevance, comparability and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way. Additionally, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption of this standard is prohibited. In the absence of any noncontrolling (minority) interests, management does not currently expect SFAS 160 to have a material impact on the Company's financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This standard becomes effective on January 1, 2009. Earlier adoption of SFAS 161 and, separately, comparative disclosures for earlier periods at initial adoption are encouraged. As SFAS 161 only requires enhanced disclosures, this standard will have no impact on the Company's financial position, results of operations or cash flows.

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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 location 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.

The Company's operating segments are aggregated based on sharing similar economic characteristics. Other aggregation factors include the nature of the products offered and management and oversight responsibilities. The Electronics 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, 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, 2007 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 March 31,	
	2008	**2007**
Net Sales		
Electronics	$ 133,216	$ 110,565
Inter-segment sales	3,743	4,585
Electronics net sales	136,959	115,150
Control Devices	69,854	74,463
Inter-segment sales	1,320	1,366
Control Devices net sales	71,174	75,829

Eliminations		(5,063)		(5,951)
Total consolidated net sales	$	203,070	$	185,028
Income Before Income Taxes				
Electronics	$	12,991	$	5,153
Control Devices		2,076		4,482
Other corporate activities		1,907		1,948
Corporate interest expense		(5,315)		(5,526)
Total consolidated income before income taxes	$	11,659	$	6,057
Depreciation and Amortization				
Electronics	$	3,516	$	3,168
Control Devices		3,829		3,967
Corporate activities		(6)		85
Total consolidated depreciation and amortization(A)	$	7,339	$	7,220

(A) These amounts exclude the amortization of deferred financing costs.

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	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Interest Expense (Income)		
Electronics	$ 57	$ (41)
Control Devices	-	(1)
Corporate activities	5,315	5,526
Total consolidated interest expense, net	$ 5,372	$ 5,484
Capital Expenditures		
Electronics	$ 1,771	$ 3,337
Control Devices	3,694	2,804
Corporate activities	48	666
Total consolidated capital expenditures	$ 5,513	$ 6,807

	March 31, 2008	December 31, 2007
Total Assets		
Electronics	$ 231,728	$ 214,119
Control Devices	189,599	180,785
Corporate(B)	289,521	282,695
Eliminations	(163,787)	(149,830)
Total consolidated assets	$ 547,061	$ 527,769

(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 March 31, 2008	Three Months Ended March 31, 2007
Net Sales		
North America	$ 147,198	$ 134,061
Europe and other	55,872	50,967
Total consolidated net sales	$ 203,070	$ 185,028

	March 31, 2008	December 31, 2007
Non-Current Assets		
North America	$ 203,080	$ 204,556
Europe and other	22,284	21,854

Total consolidated non-current assets	$	225,364	$	226,410

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(14) Investments

PST Eletrônica S.A.

The Company has a 50% equity interest in PST Eletrônica S.A. ("PST"), a Brazilian electronic system provider focused on security and convenience applications primarily for the vehicle and motorcycle industry. The investment is accounted for under the equity method of accounting. The Company's investment in PST was $33,592 and $29,663 at March 31, 2008 and December 31, 2007, respectively.

Condensed financial information for PST is as follows:

	Three Months Ended March 31,	
	2008	2007
Revenues	$ 43,946	$ 27,351
Cost of sales	$ 21,048	$ 12,823
Total pre-tax income	$ 8,763	$ 5,325
The Company's share of pre-tax income	$ 4,382	$ 2,663

Equity in earnings of PST included in the condensed consolidated statements of operations was $3,594 and $2,015 for the three months ended March 31, 2008 and 2007, respectively.

Minda Stoneridge Instruments Ltd.

The Company has a 49% interest in Minda Stoneridge Instruments Ltd. ("Minda"), a company based in India that manufactures electronics and instrumentation equipment for the motorcycle and commercial vehicle market. The investment is accounted for under the equity method of accounting. The Company's investment in Minda was $4,736 and $4,547 at March 31, 2008 and December 31, 2007, respectively. Equity in earnings of Minda included in the condensed consolidated statements of operations was $225 and $105, for the three months ended March 31, 2008 and 2007, respectively.

Business Acquisition

On March 31, 2008, the Company acquired 100% of a Swedish aftermarket distributor of Stoneridge products for net cash of $1,074. Fair value of the assets acquired will be finalized in the second quarter of 2008.

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(15) Guarantor Financial Information

The senior notes 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 (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 March 31, 2008 and December 31, 2007 and for each of the three months ended March 31, 2008 and 2007, respectively.

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.

	March 31, 2008				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 42,764	$ 52	$ 45,457	$ -	$ 88,273
Accounts receivable, net	61,928	31,919	43,136	-	136,983
Inventories, net	30,216	12,418	23,957	-	66,591
Prepaid expenses and other	(286,867)	294,487	12,042	-	19,662
Deferred income taxes	3,235	4,470	2,483		