

SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-K
March 12, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 27, 2009

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 1-6615

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

California 95-2594729

(State or Other Jurisdiction of
Incorporation or Organization) (IRS Employer
Identification No.)

7800 Woodley Avenue, Van Nuys, California 91406

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (818) 781-4973

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [] No [X]

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated
filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the registrant's no par value common equity held by non-affiliates as of the last business day of the registrant's most recently completed second quarter was \$376,292,000, based on a closing price of \$14.11. On March 5, 2010, there were 26,668,440 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2010 Annual Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

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

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SIGNATURES

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We may from time to time make written or oral statements that are “forward-looking”, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (Exchange Act), including statements contained in this report and other filings with the Securities and Exchange Commission and reports and other public statements to our shareholders. These statements may, for example, express expectations or projections about future actions or results that we may anticipate but, due to developments beyond our control, do not materialize. Actual results could differ materially because of issues and

uncertainties such as those listed herein, which, among others, should be considered in evaluating our financial outlook. The principal factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, the worsening financial crisis, changes in the automotive industry, financial distress of our customers, declines in industry sales volumes resulting from economic conditions, increased global competitive pressures, our dependence on major customers and third party suppliers and manufacturers, our exposure to foreign currency fluctuations, and other factors or conditions described in Item 1A – Risk Factors section of this Annual Report on Form 10-K. We assume no obligation to update publicly any forward-looking statements.

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PART I

ITEM 1 - BUSINESS

General Development and Description of Business

Headquartered in Van Nuys, California, the principal business of Superior Industries International, Inc. (referred to herein as the “company” or in the first person notation “we,” “us” and “our”) is the design and manufacture of aluminum road wheels for sale to original equipment manufacturers (OEM). We are one of the largest suppliers of cast and forged aluminum wheels to the world’s leading automobile and light truck manufacturers, with wheel manufacturing operations in the United States, Mexico and Hungary. Customers in North America represent the principal market for our products, with approximately 18 percent of our net sales to international customers by our North American facilities, primarily delivered to their assembly operations in the United States.

The company was initially incorporated in Delaware in 1969 and reincorporated in California in 1994, as the successor to three businesses founded by Louis L. Borick, founding Chairman and a Director of the company. These businesses had been engaged in the design, manufacture and sale of automotive accessories and related aftermarket products since 1957. All of the aftermarket businesses were sold or discontinued by the end of 2002. Our entry into the OEM aluminum road wheel business in 1973 resulted from our successful development of manufacturing technology, quality control and quality assurance techniques that enabled us to satisfy the quality and volume requirements of the OEM market for aluminum road wheels. The first aluminum road wheel for a domestic OEM customer was a Mustang wheel for Ford Motor Company (Ford).

Our OEM aluminum road wheels, including wheels produced by our 50 percent-owned joint venture in Hungary, are sold for factory installation, or as optional or standard equipment on many vehicle models, to Ford, General Motors (GM), Chrysler, Audi, BMW, Jaguar, Land Rover, Mercedes Benz, Mitsubishi, Nissan, Seat, Skoda, Subaru, Suzuki, Toyota, Volkswagen and Volvo. We currently supply cast and forged aluminum wheels for many North American model passenger cars and light trucks.

The Chairman and Chief Executive Officer is our chief operating decision maker (CODM). The CODM evaluates both consolidated and disaggregated financial information at each manufacturing facility in deciding how to allocate resources and assess performance. Each manufacturing facility functions as a separate cost center, manufactures the same products, ships product to the same group of customers, utilizes the same cast manufacturing process and as a result, production can be transferred among our facilities. Accordingly, we operate as a single integrated business and, as such, have only one operating segment - automotive wheels. Financial information about this segment and geographic areas is contained in Note 2 – Business Segments in Notes to Consolidated Financial Statements in Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Beginning with the third quarter of 2008, the automotive industry was negatively impacted by the continued dramatic shift away from full-size trucks and SUVs caused by continuing high fuel prices, rapidly rising commodity prices and the tightening of consumer credit due to the then deteriorating financial markets. Accordingly, our OEM customers announced unprecedented restructuring actions, including assembly plant closures, significant reductions in production of light trucks and SUVs, delayed launches of key 2009 model-year light truck programs and movement toward more fuel-efficient passenger cars and cross-over type vehicles. These restructuring actions culminated in the bankruptcy reorganization of Chrysler and GM in 2009. In addition to the financial uncertainty of several of our key customers, we also continue to face continued global competitive pricing pressures. While we have had long-term relationships with our customers and our supply arrangements are generally for multi-year periods, the recent bankruptcy filings and resulting assembly plant closures and other restructuring activities by our customers will continue to negatively impact our business. These factors may make it more difficult to maintain long-term supply

arrangements with our customers and there are no guarantees that supply arrangements will be negotiated on terms acceptable to us in the future.

The availability and demand for aluminum wheels are subject to unpredictable factors, such as changes in the general economy, the automobile industry, gasoline prices and consumer credit availability and interest rates. The raw materials used in producing our products are readily available and are obtained through numerous suppliers with whom we have established trade relations.

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Our customers continue to request price reductions as they work through their own financial challenges. We are engaged in ongoing programs to reduce our own costs through process automation and identification of industry best practices in an attempt to mitigate these pricing pressures. However, it has become increasingly more difficult to react quickly enough given the continuing pressure for price reductions, reductions in customer orders, and the lengthy transitional periods necessary to reduce labor and other costs. As such, our profit margins will continue to be lower than our historical levels for some period of time. We will continue to strive to increase our operating margins from current operating levels by aligning our plant capacity with industry demand and aggressively implementing cost-saving strategies to enable us to meet customer-pricing expectations. However, as we incur costs to implement these strategies, the initial impact on our future financial position, results of operations and cash flow may be negative. Additionally, even if successfully implemented, these strategies may not be sufficient to offset the impact of on-going pricing pressures and additional reductions in customer demand in future periods.

We have taken steps during the last two years to manage our costs in order to rationalize our production capacity after the announcements over the last six fiscal quarters by our major customers of assembly plant closures and sweeping production cuts, particularly in the light truck and SUV platforms. In August 2008, we announced the planned closure of our wheel manufacturing facility located in Pittsburg, Kansas, and workforce reductions in our other North American plants, resulting in the layoff of approximately 665 employees and the elimination of 90 open positions. On January 13, 2009, we also announced the planned closure of our Van Nuys, California wheel manufacturing facility, thereby eliminating an additional 290 jobs. The Kansas and California facilities ceased operations in December 2008 and June 2009, respectively.

Due to the deteriorating financial condition of our major customers and others in the automotive industry, we have been performing quarterly impairment analyses on all of our long-lived assets, in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP). Based on these analyses, we concluded during the first quarter of 2009 that the estimated future undiscounted cash flows of our Fayetteville, Arkansas manufacturing facility would not be sufficient to recover the carrying value of our long-lived assets attributable to that facility. As a result, we recorded a pretax asset impairment charge against earnings totaling \$8.9 million during the first quarter of 2009, reducing the \$18.2 million carrying value of certain assets at this facility to their respective estimated fair values. The estimated fair values of the long-lived assets at our Fayetteville, Arkansas manufacturing facility were based, in part, on the estimated fair values of comparable properties.

Additionally, our 50 percent-owned joint venture in Hungary is also affected by these same economic conditions. As a result, management of the joint venture has been performing quarterly impairment analyses on all of its long-lived assets in accordance with U.S. GAAP. During the fourth quarter of 2009, this analysis indicated that the estimated undiscounted future cash flows were not sufficient to cover the carrying value of the asset group, which resulted in an impairment of the long-lived assets of the group. We recorded our share of the charge, or \$14.4 million, in our equity in earnings (losses) from joint ventures during the fourth quarter of 2009.

Raw Materials

We purchase aluminum for the manufacture of our aluminum road wheels, which accounted for substantially all of our total raw material requirements during 2009. The majority of our aluminum requirements are met through purchase orders with several major domestic and foreign producers. Generally, the orders are fixed as to minimum and maximum quantities of aluminum, which the producers must supply during the term of the orders. During 2009, we were able to successfully secure aluminum commitments from our primary suppliers to meet production requirements and we are not anticipating any problems with aluminum requirements for our expected level of production in 2010. We procure other raw materials through numerous suppliers with whom we have established trade relationships.

When market conditions warrant, we may also enter into contracts to purchase certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. Typically, any such commodity commitments are expected to be purchased and used over a reasonable period of time in the normal course of business.

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We currently have several purchase agreements for the delivery of natural gas through 2012. With the closure of our manufacturing facility in Van Nuys, California in June 2009, and closure in December 2008 of our manufacturing facility in Pittsburg, Kansas, we no longer qualified for the Normal Purchase, Normal Sale (NPNS), exemption provided for in accordance with U.S. GAAP for the remaining natural gas purchase commitments related to those facilities. In addition, in the first and second quarters of 2009, we concluded that the natural gas purchase commitments for our manufacturing facility in Arkansas and certain natural gas commitments for our facilities in Chihuahua, Mexico, respectively, no longer qualified for the NPNS exemption provided for under U.S. GAAP since we could no longer assert that it was probable we would take full delivery of these contracted quantities in light of the continued decline of our industry. In accordance with U.S. GAAP these natural gas purchase commitments are classified as being with “no hedging designation” and, accordingly, we are required to record any gains and/or losses associated with the changes in the estimated fair values of these commitments in our current earnings. The contract and fair values of the purchase commitments that no longer qualified for the NPNS exemption at December 31, 2009 were \$8.6 million and \$5.6 million, respectively, which represents a gross liability of \$3.0 million, which was included in accrued expenses in our December 31, 2009 consolidated balance sheet. See Note 11 – Commitments and Contingent Liabilities in Notes to Consolidated Financials Statements in Item 8 – Financials Statements and Supplementary Data for further discussion.

Seasonal Variations

The automotive industry is cyclical and varies based on the timing of consumer purchases of vehicles, which in turn vary based on a variety of factors such as general economic conditions, availability of consumer credit, interest rates and fuel costs. While there have been no significant seasonal variations in the past few years, production schedules in our industry can vary significantly from quarter to quarter to meet the scheduling demands of our customers.

Customer Dependence

We have proven our ability to be a consistent producer of quality aluminum wheels with the capability to meet our customers’ price, quality, delivery and service requirements. We strive to continually enhance our relationships with our customers through continuous improvement programs, not only through our manufacturing operations but in the engineering, wheel development and quality areas as well. These key business relationships have resulted in multiple vehicle supply contract awards with our key customers over the past year.

Ford, GM and Chrysler were our only customers accounting for more than 10 percent of our consolidated net sales in 2009. Sales to GM, as a percentage of consolidated net sales and in dollars, were 34 percent or \$143.4 million in 2009; 40 percent or \$298.1 million in 2008; and 36 percent or \$345.6 million in 2007. Sales to Ford, as a percentage of consolidated net sales and in dollars, were 35 percent or \$146.1 million in 2009; 28 percent or \$213.5 million in 2008; and 33 percent or \$311.3 million in 2007. Sales to Chrysler, as a percentage of consolidated net sales and in dollars, were 12 percent or \$52.0 million in 2009; 14 percent or \$107.0 million in 2008; and 13 percent or \$123.8 million in 2007.

The loss of all or a substantial portion of our sales to Ford, GM or Chrysler would have a significant adverse effect on our financial results, unless the lost sales volume could be replaced. However, given the continued financial uncertainty and the current economic climate in the automobile industry, we can not provide any assurance that any lost sales volume could be replaced. We have had excellent long-term relationships with our customers. However, intense global competitive pricing pressure continues to make it difficult to maintain these relationships, and we expect this trend to continue into the future.

Net Sales Backlog

We receive OEM purchase orders to produce aluminum road wheels typically for multiple model years. These purchase orders are for vehicle wheel programs that usually last three to five years. However, customers can impose competitive pricing provisions in those purchase orders each year, thereby reducing our profit margins or increasing the risk of our losing future sales under those purchase orders. We manufacture and ship based on customer release schedules, normally provided on a weekly basis, which can vary due to cyclical automobile production or high dealer inventory levels. Accordingly, even though we have purchase orders covering multiple model years, weekly release schedules can vary with customer demand, thus firm backlog is not meaningful.

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Competition

The market for aluminum road wheels is highly competitive based primarily on price, technology, quality, delivery and overall customer service. We are one of the leading suppliers of aluminum road wheels for OEM installations in the world. We supply approximately 30 to 35 percent of the aluminum wheels installed on passenger cars and light trucks in North America. Competition is global in nature with growing exports from Asia. There are several competitors with facilities in North America, none of which aggregate greater than 10 percent of the total North American production capacity. See additional comments concerning competition in Item 1A – Risk Factors below. Other types of road wheels, such as those made of steel also compete with our products. For the model year 2008, according to Wards Auto Info Bank, an industry publication, aluminum wheel installation rates on passenger cars and light trucks produced in North America remained unchanged from 2007 at 65 percent compared to 63 percent for the model year 2006. While aluminum wheel installation rates have grown from only 10 percent in the mid-1980s, in recent years, this growth rate has slowed. We expect the trend of slow growth or no growth in installation rates to continue. Accordingly, we expect that our ability to grow in the future will be dependent upon increasing our share of the existing declining market. Although aluminum wheel installation rates have remained steady in percentage terms, total new automotive sales declines in 2008 and again in 2009. In addition, intense global pricing pressures and further contraction of the automotive industry may further decrease our profitability and could potentially result in the loss of business in the future.

Research and Development

Our policy is to continuously review, improve and develop engineering capabilities so that customer requirements are met in the most efficient and cost effective manner available. We strive to achieve this objective by attracting and retaining top engineering talent and by maintaining the latest state-of-the-art computer technology to support engineering development. A fully staffed engineering center, located in Fayetteville, Arkansas, supports our research and development manufacturing needs. We also have a technical center in Detroit, Michigan, that maintains a complement of engineering staff centrally located near our largest customers' headquarters, engineering and purchasing offices.

Research and development costs (primarily engineering and related costs), which are expensed as incurred, are included in cost of sales in the consolidated statements of operations. Amounts expended on research and development costs during each of the last three years were \$3.1 million in 2009, \$4.7 million in 2008 and \$6.3 million in 2007. The decrease experienced in 2009 was due to closure of our engineering center in Van Nuys, California, and the reduction of wheel program development activities in the current year.

Government Regulation

Safety standards in the manufacture of vehicles and automotive equipment have been established under the National Traffic and Motor Vehicle Safety Act of 1966. We believe that we are in compliance with all federal standards currently applicable to OEM suppliers and to automotive manufacturers.

Environmental Compliance

Our manufacturing facilities, like most other manufacturing companies, are subject to solid waste, water and air pollution control standards mandated by federal, state and local laws. Violators of these laws are subject to fines and, in extreme cases, plant closure. We believe our facilities are substantially in compliance with all standards presently applicable. However, costs related to environmental protection may continue to grow due to increasingly stringent laws and regulations and our ongoing commitment to rigorous internal standards. The cost of environmental compliance was approximately \$0.7 million in 2009, \$1.0 million in 2008 and \$1.3 million in 2007. We expect that

future environmental compliance expenditures will approximate these levels and will not have a material effect on our consolidated financial position. See further discussion of environmental compliance issues in Item 3 – Legal Proceedings.

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Employees

As of December 31, 2009, we had approximately 3,500 full-time employees including our joint venture, Suoftec Light Metal Products Production & Distribution Ltd. (Suoftec), compared to approximately 3,700 employees at December 31, 2008 and 5,300 at December 31, 2007. Our joint venture manufacturing facility in Hungary employed approximately 500 full-time employees at December 31, 2009. None of our employees are part of a collective bargaining agreement.

Fiscal Year End

Our fiscal year is the 52- or 53-week period ending on the last Sunday of the calendar year. The fiscal years 2009, 2008 and 2007 comprised the 52-week periods ended December 27, 2009 and December 28, 2008, and December 30, 2007, respectively. For convenience of presentation, all fiscal years are referred to as beginning as of January 1 and ending as of December 31, but actually reflect our financial position and results of operations for the periods described above.

Available Information

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and other information statements, and any amendments thereto are available, without charge, on or through our website www.supind.com under “Investor”, as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission (SEC). The public may read and copy any materials filed with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website, www.sec.gov, which contains these reports, proxy and information statements and other information regarding the company. Also included on our website, www.supind.com under Investors is our Code of Business Conduct and Ethics, which, among others, applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. Copies of all SEC filings and our Code of Business Conduct and Ethics are also available, without charge, from Superior Industries International, Inc., Shareholder Relations, 7800 Woodley Avenue, Van Nuys, CA 91406.

ITEM 1A – RISK FACTORS

The following discussion of risk factors contains “forward-looking” statements, which may be important to understanding any statement in this Annual Report on Form 10-K or elsewhere. The following information should be read in conjunction with Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Our business routinely encounters and addresses risks and uncertainties. Our business, results of operations and financial condition could be materially adversely affected by the factors described below. Discussion about the important operational risks that our businesses encounter can also be found in the MD&A section and in the business description in Item 1 – Business of this Annual Report on Form 10-K. Below, we have described our present view of certain risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently do not consider significant, could also potentially impair our business, results of operations and financial condition. Our reactions to these risks and uncertainties as well as our competitors’ reactions will affect our future operating results.

Risks Relating To Our Company

Current Economic and Financial Market Conditions - Current global economic and financial market conditions, including severe disruptions in the credit markets and potential weakness in the recovery from global economic recession, may materially and adversely affect our results of operations and financial condition. These conditions have and are likely to continue to materially impact the automotive industry generally and the financial stability of our customers, suppliers and other parties with whom we do business. Specifically, the impact of these volatile and negative conditions may include: decreased demand for our products due to the financial position of our OEM customers and general declines in the level of automobile demand; our decreased ability to accurately forecast future product trends and demand; and a negative impact on our ability to timely collect receivables from our customers and, conversely, reductions in the level and tightening of terms of trade credit available to us.

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Automotive Industry Trends - A significant portion of our sales are to domestic automotive OEMs and, therefore, our financial performance depends, in large part, on conditions in the automotive industry, which, in turn, are dependent upon the U.S. and global economies generally. As previously discussed, the results for fiscal year 2009 were negatively impacted by severe reductions in customer demand caused by the economic recession, fluctuating fuel prices and a lack of consumer credit. A significant number of our customers announced restructuring actions, including planned assembly plant closures, delays in launching key 2009 model-year light truck programs, and other actions to accelerate movement toward more fuel-efficient passenger cars and crossover-type vehicles. Weakness in recoveries of the U.S. and global economies has adversely and may continue to adversely affect consumer spending, and result in decreased demand for automobiles and light trucks. If OEMs were to decrease production due to such reduced demand or union work stoppages, our financial performance could be further adversely affected.

In addition, relatively modest declines in our customers' production levels could have a significant adverse impact on our short-term profitability as any further declines in production by our customers may require further actions on our part to address our capacity requirements. In the automotive industry, there has been a trend toward consolidation as seen with the merger of Chrysler and Fiat in 2009. Continued consolidation of the automotive industry could adversely affect our business. Such consolidation could result in a loss of some of our present customers to our competitors and could thereby lead to reduced demand and greater pressure on our pricing, which may have a significant negative impact on our business. Additionally, due to the present uncertainty in the economy, our major customers have been seeking ways to lower their own costs of manufacturing through increased use of internal manufacturing or through relocation of production to countries with lower production costs. This internal manufacturing or reliance on local or other foreign suppliers may have a significant negative impact on our business. If actual OEM production volume were to continue to be reduced accordingly, our business would be adversely affected. Our sales are also impacted by our customers' inventory levels and production schedules. If our OEM customers significantly reduce their inventory levels and reduce their orders from us, our performance would be adversely impacted. In this environment, we cannot predict future production rates or inventory levels or the underlying economic factors. Continued uncertainty and unexpected fluctuations may have a significant negative impact on our business.

The foregoing economic and financial conditions, including decreased access to credit, may lead to increased levels of restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers and other service providers and financial institutions with whom we do business. Such events could, in turn, negatively affect our business either through loss of sales or inability to meet our commitments (or inability to meet them without excess expense) due to a loss of suppliers or other providers.

GM, Ford and Chrysler, together represented approximately 82 percent of our total wheel sales for the fiscal years 2009 and 2008. Since late 2008, Chrysler and GM received emergency funding from the U.S. federal government as part of efforts to restructure both automakers. On April 30, 2009, Chrysler filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. This was followed on June 1, 2009 by GM's announcement that it was also filing a voluntary petition under Chapter 11 of the Bankruptcy Code. Reorganized entities for both Chrysler and GM emerged from bankruptcy on June 10, 2009 and July 10, 2009, respectively. Shortly after the Chapter 11 filings, both Chrysler and GM designated us as a key supplier, indicating that all pre-and post-petition accounts receivable would be paid in accordance with payment terms existing prior to the bankruptcy filings. There continues to be uncertainty surrounding the various restructurings within the automotive industry, which may lead to additional bankruptcy filings and additional financing from the U.S. government that may impose conditions on our customers that would adversely impact demand for our products.

Although both Chrysler and GM have emerged from bankruptcy, there can be no assurance that their respective bankruptcy restructurings will restore consumer confidence, increase vehicle production or improve the current economic and financial conditions. In addition, there continues to be uncertainty surrounding other restructurings

within the automotive industry, which may lead to additional bankruptcy filings and additional financing from the U.S. government that may impose conditions on our customers that would adversely impact demand for our products.

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Expiration of Government Programs – In 2009, the automotive industry was positively impacted by the federal government’s Car Allowance Rebate System, also known as “cash for clunkers” and other programs designed to increase consumer spending. The increase in automotive production resulted in increased demand for our products. There are no assurances that automotive production and correspondingly, demand for our products, would have reached the levels it did in 2009 without the “cash for clunkers” program and other government programs. Furthermore, there is no guarantee that the federal government will enact any further programs to increase consumer spending or to improve the state of the economy and the automotive industry in particular. Although the U.S. Department of the Treasury has outlined an Automotive Industry Financing Program designed to prevent significant disruption of the U.S. auto industry, there is no guarantee that such a program will be successful or enacted at all. In the event the federal government does not enact such programs or if such programs are unsuccessful, demand for our products may be negatively impacted.

Global Pricing Pressure - We continue to experience increased competition in our domestic and international markets. Since some products are being shipped to the U.S. from Asia and elsewhere, many of our North American competitors have excess capacity and, in order to promote volume, are placing intense pricing pressure in our market place. These competitive pressures are expected to continue and may result in decreased sales volumes and unit price reductions, resulting in lower revenues, gross profit and operating income and cash flows.

Additionally, cost-cutting initiatives adopted by our customers generally result in increased downward pressure on pricing. OEMs historically have had significant leverage over their outside suppliers because the automotive component supply industry is fragmented and serves a limited number of automotive OEMs, and, as such, Tier 1 suppliers like us are subject to substantial continued pressure from OEMs to reduce the price of their products. If we are unable to generate sufficient production cost savings in the future to offset price reductions, our gross margin and profitability and cash flows would be adversely affected. In addition, changes in OEMs’ purchasing policies or payment practices could have an adverse effect on our business.

Competition - The automotive component supply industry is highly competitive, both domestically and internationally. Competition is based primarily on price, technology, quality, delivery and overall customer service. Some of our competitors are companies, or divisions or subsidiaries of companies that are larger and have greater financial and other resources than we do. We cannot ensure that our products will be able to compete successfully with the products of these or other companies. Furthermore, the rapidly evolving nature of the markets in which we compete has attracted new entrants, particularly in low cost countries. As a result, our sales levels and margins are being adversely affected by pricing pressures caused by such new entrants, especially in low-cost foreign markets, such as China. Such new entrants with lower cost structures pose a significant threat to our ability to compete internationally and domestically. These factors led to selective sourcing of future business by our customers to foreign competitors in the past and they may continue to do so in the future. In addition, any of our competitors may foresee the course of market development more accurately than we are able to, develop products that are superior to our products, have the ability to produce similar products at a lower cost than we do, or adapt more quickly than we do to new technologies or evolving customer requirements. As a result, our products may not be able to compete successfully with their products. As a result of highly competitive market conditions in our industry, a number of our competitors have been forced to seek bankruptcy protection. These competitors may emerge and in some cases have emerged from bankruptcy protection with stronger balance sheets and a desire to gain market share by offering their products at a lower price than our products, which would have an adverse impact on our financial condition and results of operations and cash flows.

Dependence on Major Customers - We derived approximately 82 percent of our fiscal 2009 and 2008 net sales from Ford, GM and Chrysler and their subsidiaries. We do not have guaranteed long-term agreements with these customers and cannot predict whether that we will maintain our current relationships with these customers or whether we will continue to supply them at current levels. The loss of a significant portion of sales to Ford, GM or Chrysler would

have a material adverse effect on our business, unless the lost revenues were replaced. Ford, GM and Chrysler have been experiencing decreasing market share in North America. In addition, if any of our significant customers were to encounter further financial difficulties, work stoppages or seek bankruptcy protection, our business could be adversely affected.

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Furthermore, our OEM customers are not required to purchase any minimum amount of products from us. The contracts we have entered into with most of our customers provide that we will provide wheels for a particular vehicle model, rather than for manufacturing a specific quantity of products. Such contracts range from one year to the life of the model (usually three to five years), typically are non-exclusive, and do not require the purchase by the customer of any minimum number of wheels from us. Therefore, a significant decrease in demand for certain key models or group of related models sold by any of our major customers, or a decision by a manufacturer not to purchase from us, or to discontinue purchasing from us, for a particular model or group of models, could have a material adverse effect on us.

Dependence on Third-Party Suppliers and Manufacturers - Generally, we obtain our raw materials, supplies and energy requirements from various sources. Although we currently maintain alternative sources, our business is subject to the risk of price increases and periodic delays in delivery. Fluctuations in the prices of raw materials may be driven by the supply/demand relationship for that commodity or governmental regulation. In addition, if any of our suppliers seek bankruptcy relief or otherwise cannot continue their business as anticipated, the availability or price of raw materials could be adversely affected.

Although we are able to periodically pass aluminum cost increases onto our customers, we may not be able to pass along all changes in aluminum costs and our customers are not obligated to accept energy or other supply cost increases that we may attempt to pass along to them. In addition, fixed price natural gas contracts that expire in the future may expose us to higher costs that cannot be immediately recouped in selling prices. This inability to pass on these cost increases to our customers could adversely affect our operating margins and cash flow, possibly resulting in lower operating income and profitability.

Existing Cost Structure – In recent years, we have implemented several cost cutting initiatives in order to reduce our overall costs and improve our margins in response to pricing pressures from our customers. However, our strategy of optimizing our cost structures may not be sufficient to offset future price pressures from our customers which may have an adverse impact on our financial performance. If North American production of passenger cars and light trucks using our wheel programs continues to decrease, it is possible that we will be unable to recover the full value of certain other production assets in our other plants in North America, possibly resulting in additional impairment charges. We will continue to monitor the recoverability of these assets to determine whether further impairment charges are appropriate.

Unexpected Production Interruptions - An interruption in production capabilities at any of our facilities as a result of equipment failure, interruption of raw material or other supplies, labor disputes or other reasons could result in our inability to produce our products, which would reduce our sales and operating results for the affected period. We have, from time to time, undertaken significant re-tooling and modernization initiatives at our facilities, which in the past have caused and in the future may cause, unexpected delays and plant underutilization, and such adverse consequences may continue to occur as we continue to modernize our production facilities. In addition, we generally deliver our products only after receiving the order from the customer and thus do not hold large inventories. In the event of a stoppage in production at any of our manufacturing facilities, even if only temporary, or if we experience delays as a result of events that are beyond our control, delivery times could be severely affected. Any significant delay in deliveries to our customers could lead to returns or cancellations and cause us to lose future sales, as well as expose us to claims for damages. Our manufacturing facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, earthquakes, explosions or violent weather conditions. We have in the past and may in the future experience plant shutdowns or periods of reduced production as a result of facility modernization initiatives, equipment failure, delays in deliveries or catastrophic loss, which could have a material adverse effect on our results of operations or financial condition.

Valuation of Deferred Tax Assets – During 2009, we established a valuation allowance against all of our domestic deferred tax assets and against our foreign net operating loss carryforwards. In considering whether a valuation

allowance was required for our U.S. federal deferred tax assets, we considered all available positive and negative evidence. Based on the weight of all available evidence, we have concluded that the negative evidence outweighs the positive and that it is more likely than not that 1) the federal U.S. and state deferred tax assets, net of valuation allowance, will not be realized within the carryforward period, and 2) the foreign net operating loss carryforwards will not be realized within the carryforward period. This is because we can not look to future taxable income as a source of income given our cumulative losses. We therefore established a full valuation allowance against this deferred tax asset. However, we will continue to assess the need for further valuation allowances in the future.

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Dependence on Key Personnel - Our success depends in part on our ability to attract, hire, train, and retain qualified managerial, engineering, sales and marketing personnel. We face significant competition for these types of employees in our industry. We may be unsuccessful in attracting and retaining the personnel we require to conduct our operations successfully.

In addition, key personnel may leave us and compete against us. Our success also depends to a significant extent on the continued service of our senior management team. We may be unsuccessful in replacing key managers who either resign or retire. The loss of any member of our senior management team or other experienced, senior employees could impair our ability to execute our business plans and strategic initiatives, cause us to lose customers and experience reduces net sales, or lead to employee morale problems and/or the loss of other key employees. In any such event, our financial condition, results of operations, internal control over financial reporting, or cash flows could be adversely affected.

Effective Internal Control Over Financial Reporting – Management is responsible for establishing and maintaining adequate internal control over financial reporting. Many of our key controls rely on maintaining a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of accounting principles generally accepted in the United States of America in order to operate effectively. If we are unable to attract, hire, train and retain a sufficient complement of qualified personnel required to operate these controls effectively, our financial statements may contain material misstatements, unintentional errors, or omissions and late filings with regulatory agencies may occur.

Impact of Aluminum Pricing - The cost of aluminum is a significant component in the overall production cost of a wheel. Additionally, a portion of our selling prices to OEM customers is tied to the cost of aluminum. Our selling prices are adjusted periodically to current aluminum market conditions based upon market price changes during specific pricing periods. Theoretically, assuming selling price adjustments and raw material purchase prices move at the same rate, as the price of aluminum increases, the effect is an overall decrease in the gross margin percentage, since the gross profit in absolute dollars would be the same. The opposite would then be true in periods during which the price of aluminum decreases.

However, since the pricing periods and pricing methodologies during which selling prices are adjusted for changes in the market prices of aluminum differ for each of our customers, and the selling price changes are fixed for various periods, our selling price adjustments may not entirely offset the increases or decreases experienced in our aluminum raw material purchase prices. This is especially true during periods of frequent increases or decreases in the market price of aluminum and when a portion of our aluminum purchases is via long-term fixed purchase agreements. Accordingly, our gross profit is subject to fluctuations, since the change in the product selling prices related to the cost of aluminum does not necessarily match the change in the aluminum raw material purchase prices during the period being reported, which may have a material adverse effect on our operating results for the period being reported.

Legal Proceedings - The nature of our business subjects us to litigation in the ordinary course of our business. We are exposed to potential product liability and warranty risks that are inherent in the design, manufacture and sale of automotive products, the failure of which could result in property damage, personal injury or death. Accordingly, individual or class action suits alleging product liability or warranty claims could result. Although we currently maintain what we believe to be suitable and adequate product liability insurance in excess of our self-insured amounts, we cannot assure you that we will be able to maintain such insurance on acceptable terms or that such insurance will provide adequate protection against potential liabilities. In addition, if any of our products prove to be defective, we may be required to participate in a recall involving such products. A successful claim brought against us in excess of available insurance coverage, if any, or a requirement to