SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-Q
August 03, 2012
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 24, 2012

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: 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)	(I.R.S. 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

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 þ No o

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 þ No o

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 o Accelerated Filer þ Non-Accelerated Filer o Smaller Reporting Company o

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

Number of shares of no par value common stock outstanding as of July 20, 2012: 27,226,638

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
NET SALES	$215,053	$208,734	$417,510	$398,268
Cost of sales	199,337	189,187	384,686	361,844
GROSS PROFIT	15,716	19,547	32,824	36,424
Selling, general and administrative expenses	7,490	6,354	14,375	13,046
Impairment of long-lived assets	—	340	—	340
INCOME FROM OPERATIONS	8,226	12,853	18,449	23,038
Interest income, net	216	358	516	649
Other income (expense), net	(4)	434	337	1,125
INCOME BEFORE INCOME TAXES	8,438	13,645	19,302	24,812
Income tax (provision) benefit	(2,024)	1,055	(6,155)	(2,058)
NET INCOME	$6,414	$14,700	$13,147	$22,754
INCOME PER SHARE - BASIC	$0.24	$0.54	$0.48	$0.84
INCOME PER SHARE - DILUTED	$0.23	$0.53	$0.48	$0.83
DIVIDENDS DECLARED PER SHARE	$0.16	$0.16	$0.32	$0.32

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

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Net income	$6,414	$14,700	$13,147	$22,754
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	(3,441)	366	(1,104)	2,861
Defined benefit pension plan:				
Amortization of amounts resulting from changes in actuarial assumptions	65	—	131	—
Tax benefit	(26)	—	(52)	—
Pension changes, net of tax	39	—	79	—
Other comprehensive income (loss), net of tax	(3,402)	366	(1,025)	2,861
Comprehensive Income	$3,012	$15,066	$12,122	$25,615

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

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

	June 24, 2012	December 25, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$207,494	$187,795
Short term investments	4,791	5,126
Accounts receivable, net	128,529	119,895
Inventories	67,211	66,933
Income taxes receivable	3,669	4,950
Deferred income taxes, net	5,641	5,299
Assets held for sale	1,500	1,500
Other current assets	7,963	12,785
Total current assets	426,798	404,283
Property, plant and equipment, net	142,237	145,747
Investment in and advances to unconsolidated affiliate	4,639	4,725
Non-current deferred income taxes, net	11,633	16,795
Non-current assets	22,550	21,681
Total assets	$607,857	$593,231
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$38,984	$29,018
Accrued expenses	43,171	39,532
Total current liabilities	82,155	68,550
Non-current income tax liabilities	29,212	33,102
Other non-current liabilities	31,140	31,064
Commitments and contingencies (Note 15)	—	—
Shareholders' equity:		
Preferred stock, no par value		
Authorized - 1,000,000 shares		
Issued - none	—	—
Common stock, no par value		
Authorized - 100,000,000 shares		
Issued and outstanding - 27,224,138 shares		
(27,164,013 shares at December 25, 2011)	70,193	68,775
Accumulated other comprehensive loss	(66,625)	(65,600)
Retained earnings	461,782	457,340
Total shareholders' equity	465,350	460,515
Total liabilities and shareholders' equity	$607,857	$593,231

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

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

	Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011
NET CASH PROVIDED BY OPERATING ACTIVITIES	$34,564	$9,316
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(8,661)	(9,480)
Proceeds from life insurance policy	1,726	—
Proceeds from sales and maturities of investments	3,142	20,757
Purchase of investments	(2,808)	(3,973)
Collection of amounts receivable from sale of unconsolidated affiliate	—	2,867
Loan to unconsolidated affiliate	—	(450)
Premiums paid for life insurance	—	(217)
Other	240	74
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(6,361)	9,578
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(8,703)	(8,665)
Proceeds from exercise of stock options	417	4,341
Excess tax benefits from exercise of stock options	—	273
NET CASH USED IN FINANCING ACTIVITIES	(8,286)	(4,051)
Effect of exchange rate changes on cash	(218)	—
Net increase in cash and cash equivalents	19,699	14,843
Cash and cash equivalents at the beginning of the period	187,795	129,631
Cash and cash equivalents at the end of the period	$207,494	$144,474

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

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

	Common Stock		Accumulated Other		
	Number of Shares	Amount	Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 25, 2011	27,164,013	$68,775	$(65,600)	$457,340	$460,515
Comprehensive income:					
Net income	—	—	—	13,147	13,147
Other comprehensive income (loss), net of tax	—	—	(1,025)	—	(1,025)
Stock options exercised	27,325	417	—	—	417
Issuance of restricted stock, net of forfeitures	32,800	—	—	—	—
Stock-based compensation expense	—	1,001	—	—	1,001
Cash dividends declared ($0.32 per share)	—	—	—	(8,705)	(8,705)
Balance at June 24, 2012	27,224,138	$70,193	$(66,625)	$461,782	$465,350

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

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Superior Industries International, Inc.
Notes to Condensed Consolidated Financial Statements
June 24, 2012
(Unaudited)

Note 1 – Nature of Operations

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

Ford Motor Company (Ford), General Motors Company (GM), Chrysler Group LLC (Chrysler), Nissan Motor Company (Nissan) and Toyota Motor Corporation (Toyota) were our customers individually accounting for more than 10 percent of our consolidated wheel sales in the first two quarters of 2012 and together represented approximately 93 percent of our total wheel sales during the first two quarters of 2012 and 2011. We also manufacture aluminum wheels for BMW, Subaru, Mitsubishi and Volkswagen. The loss of all or a substantial portion of our sales to Ford, GM, Chrysler, Nissan or Toyota would have a significant adverse impact on our operating results and financial condition. This risk is partially mitigated by our long-term relationships with these OEM customers and our supply arrangements which are generally for multi-year periods.

The North American market for automobiles and light-duty trucks (including SUV's and crossover vehicles) has experienced rather pronounced cyclicality over recent years. 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. Despite the improvement in the U.S. automotive industry since the latter part of 2009, vehicle production levels still remain below historical high points. There can be no guarantee that the improvements in recent years will be sustained or that reductions from current production levels will not occur in future periods. Vehicle demand is subject to many unpredictable factors such as changes in the general economy, gasoline prices, consumer credit availability and interest rates. Demand for aluminum wheels can be further affected by other factors, including pricing and performance comparisons to competitive materials such as steel. Finally, the demand for our products is influenced by shifts of market share between vehicle manufacturers and the specific market penetration of individual vehicle platforms being sold by our customers.

While we historically have had long-term relationships with our customers and our supply arrangements generally are for multi-year periods, maintaining such long-term arrangements on terms acceptable to us has become increasingly difficult. Despite recovery of the market for our products since the latter part of 2009, global competitive pricing pressures continue to affect our business negatively as our customers maintain and/or further develop alternative supplier options. Increasingly global procurement practices, the pace of new vehicle introduction and demand for price reductions may make it more difficult to maintain long-term supply arrangements with our customers, and there are no guarantees that we will be able to negotiate supply arrangements on terms acceptable to us in the future.

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

The raw materials used in producing our products are readily available and are obtained through numerous suppliers with whom we have established trade relations.

Note 2 – Presentation of Condensed Consolidated Financial Statements

During interim periods, we follow the accounting policies set forth in our Annual Report on Form 10-K for the fiscal year ended December 25, 2011 and apply appropriate interim financial reporting standards for a fair statement of our operating results and financial position in conformity with accounting principles generally accepted in the United States of America, as codified by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC) (referred to herein as U.S. GAAP), as indicated below. Users of financial information produced for interim periods in 2012 are encouraged to read this Quarterly

Report on Form 10-Q in conjunction with our consolidated financial statements and notes thereto filed with the Securities and Exchange Commission (SEC) in our 2011 Annual Report on Form 10-K.

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

We use a 4-4-5 convention for our fiscal quarters, which are thirteen week periods generally ending on the last Sunday of each calendar quarter. We refer to these thirteen week fiscal periods as “quarters” throughout this report. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the SEC’s requirements for Form 10-Q and contain all adjustments, of a normal and recurring nature, which are necessary for a fair statement of (i) the condensed consolidated income statements for the thirteen and twenty-six week periods ended June 24, 2012 and June 26, 2011, (ii) the condensed consolidated statements of comprehensive income for the thirteen and twenty-six week periods ended June 24, 2012 and June 26, 2011, (iii) the condensed consolidated balance sheets at June 24, 2012 and December 25, 2011, (iv) the condensed consolidated statements of cash flows for the twenty-six week periods ended June 24, 2012 and June 26, 2011, and (v) the condensed consolidated statement of shareholders’ equity for the twenty-six week period ended June 24, 2012. However, the accompanying unaudited condensed consolidated financial statements do not include all information and notes required by U.S. GAAP. The condensed consolidated balance sheet, included in this report, as of December 25, 2011 was derived from our 2011 audited financial statements, but does not include all disclosures required by U.S. GAAP.

New Accounting Pronouncement

In June 2011, the FASB modified the presentation of comprehensive income in the financial statements. The revised standard requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and must be applied retrospectively. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The revised standard does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The modification of the standard did not have an effect on our consolidated results of operations and financial position, when adopted, on December 26, 2011.

Note 3 – Investment in Unconsolidated Affiliate

On June 28, 2010, we executed a share subscription agreement (the Agreement) with Synergies Casting Limited (Synergies), a private aluminum wheel manufacturer based in Visakhapatnam, India, providing for our acquisition of a minority interest in Synergies. As of June 24, 2012, the total cash investment in Synergies amounted to $4.5 million, representing 12.6 percent of the outstanding equity shares of Synergies. Through September 22, 2011, the Agreement provided the company with rights to appoint a member to the Synergies board of directors and veto powers over significant financial policy and operating decisions, and as a result of these provisions, we were able to exert significant influence over Synergies and accounted for this investment under the equity method.

Effective September 23, 2011, the Agreement was amended for certain events and removed the company's rights to appoint a director and its veto powers over significant financial policy and operating decisions. As a result of the amendment, it was determined that the company no longer had the ability to exercise significant influence over Synergies' financial policies and operations, and that the equity method of accounting for our investment was no longer appropriate. Accordingly, effective with the amendment, the company began accounting for Synergies under the cost method of accounting on a prospective basis. Our proportionate share of Synergies operating results was immaterial from our original investment through September 23, 2011. During 2011, a group of existing equity holders, including the company, made a loan of $1.5 million to Synergies for working capital needs. The company's share of this unsecured advance was $450,000, with terms including repayment over 24 months, and bearing interest at 7 percent per annum, payable quarterly. The principal balance as of June 24, 2012 was $346,000.

Note 4 – Impairment of Long-Lived Assets and Assets Held for Sale

The excess property, plant and equipment associated with a closed facility that is being actively marketed for sale is included in assets held for sale. During 2011, the estimated fair value of the assets associated with the remaining closed facility declined to $1.5 million which was less than the book value of $2.5 million, resulting in an additional asset impairment charge of $1.0 million in the fourth quarter of 2011. The fair value of these assets was determined based upon comparable sales information and with

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the assistance of independent third party appraisers and we have classified the inputs to the nonrecurring fair value measurement of these assets as being level 2 within the fair value hierarchy in accordance with U.S. GAAP. On July 9, 2012, we entered an agreement to sell the closed facility in Pittsburg, Kansas; however, we do not expect the transaction to have a material impact on our consolidated financial statements. During the second quarter of 2011, a specific impairment charge of $0.3 million related to our closed Johnson City, Tennessee facility was recorded because its fair value was determined to be less than its remaining book value based on current negotiations for the sale of the asset. During 2011, the company completed the sale of the closed Johnson City, Tennessee facility for $1.7 million, and the purchase price less commission and fees was collected in cash, consistent with the carrying value.

Note 5 – Stock-Based Compensation

Our 2008 Equity Incentive Plan authorizes us to issue up to 3.5 million shares of common stock as incentive and non-qualified stock options, stock appreciation rights, restricted stock and performance units to our officers, key employees, non-employee directors and consultants. No more than 100,000 shares may be used under the plan as “full value” awards, which include restricted stock and performance units. It is our policy to issue shares from authorized but not issued shares upon the exercise of stock options. At June 24, 2012, there were 2.1 million shares available for future grants under this plan. Options are granted at not less than fair market value on the date of grant and expire no later than ten years after the date of grant. Options and restricted shares granted under this plan require no less than a three year ratable vesting period.

During the first two quarters of 2012 and 2011, we granted options for a total of 237,500 and 273,200 shares, respectively. The weighted average fair values at the grant dates for options issued during the first two quarters of 2012 and 2011 were $5.11 and $5.75 per option, respectively. The fair value of options at the grant date was estimated utilizing the Black-Scholes valuation model with the following weighted average assumptions for the first two quarters of 2012 and 2011, respectively: (i) dividend yield on our common stock of 3.75 percent and 3.86 percent; (ii) expected stock price volatility of 41.2 percent and 37.7 percent; (iii) a risk-free interest rate of 1.37 percent and 2.65 percent; and (iv) an expected option term of 6.9 years for both periods. During the first two quarters of 2012, the number of stock options exercised totaled 27,325 and 65,050 options were canceled. During the first two quarters of 2011, stock options totaling 273,723 were exercised, and 32,000 options were canceled.

During the first two quarters of 2012 and 2011, we also granted restricted shares, or “full value” awards, totaling 33,550 and 28,250 shares, respectively. The fair values of each issued restricted share on the dates of grant averaged $16.92 and $22.47 for the first two quarters of 2012 and 2011, respectively. Restricted share awards, which are subject to forfeiture if employment terminates prior to the shares vesting, are expensed ratably over the vesting period. Shares of restricted stock are considered issued and outstanding shares at the date of grant and have the same dividend and voting rights as other common stock. Dividends paid on the restricted shares are non-forfeitable if the restricted shares do not ultimately vest.

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

(Dollars in thousands)	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Cost of sales	$46	$129	$138	$230
Selling, general and administrative expenses	470	485	863	945
Stock-based compensation expense before income taxes	516	614	1,001	1,175
Income tax benefit	(89)	—	(180)	—

Total stock-based compensation expense after income taxes	$427	$614	$821	$1,175

As discussed in Note 9 – Income Taxes, we had previously provided valuation allowances on our U.S. deferred tax assets. Consequently, the income tax benefit on our stock-based compensation expense in the first two quarters of 2011 were entirely offset by changes in valuation allowances. As of June 24, 2012, a total of $3.6 million of unrecognized compensation cost related to non-vested awards is expected to be recognized over a weighted average period of approximately 2.3 years. There were no significant capitalized stock-based compensation costs at June 24, 2012 and December 25, 2011.

Note 6 – Business Segments

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

(Dollars in thousands)	Thirteen Weeks Ended		Twenty-six Weeks Ended	
Net sales:	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
U.S.	$86,099	$75,884	$167,755	$142,348
Mexico	128,954	132,850	249,755	255,920
Consolidated net sales	$215,053	$208,734	$417,510	$398,268

	June 24, 2012	December 25, 2011
Property, plant and equipment, net:		
U.S.	$48,071	$45,936
Mexico	94,166	99,811
Consolidated property, plant and equipment, net	$142,237	$145,747

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

We incur preproduction engineering and tooling costs related to the products produced for our customers under long-term supply agreements. We amortize the cost of the customer-owned tooling over the expected life of the wheel program on a straight line basis. Also, we defer any reimbursements made to us by our customers and recognize the tooling reimbursement revenue over the same period in which the tooling is in use. Recognized deferred tooling revenues included in net sales in the condensed consolidated income statements totaled $1.8 million and $2.1 million for the thirteen weeks ended June 24, 2012 and June 26, 2011, respectively, and $3.9 million and $4.6 million for the twenty-six weeks ended June 24, 2012 and June 26, 2011, respectively. The following table summarizes the unamortized customer-owned tooling costs included in our non-current assets, and the deferred tooling revenues included in accrued expenses and other non-current liabilities.

(Dollars in Thousands)	June 24, 2012	December 25, 2011
Unamortized Preproduction Costs		
Preproduction costs	$45,666	$42,118
Accumulated amortization	(34,890)	(31,548)
Net preproduction costs	$10,776	$10,570
Deferred Tooling Revenues		
Accrued expenses	$4,735	$5,158
Other non-current liabilities	1,874	2,401
Total deferred tooling revenues	$6,609	$7,559

Note 8 – Income Per Share

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

The computation of diluted earnings per share does not include stock option awards that were outstanding and anti-dilutive (i.e.,

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including such awards would result in higher earnings per share), since the exercise prices of these awards exceeded the average market price of the company's common stock during the respective periods. For the thirteen and twenty-six week periods ended June 24, 2012, 2.6 million and 2.0 million shares issuable under outstanding stock options were excluded from the computations, respectively. For the thirteen and twenty-six week periods ended June 26, 2011, 1.0 million and 1.1 million shares issuable under outstanding stock options were excluded from the computations, respectively. Summarized below are the calculations of basic and diluted earnings per share.

(In thousands, except per share amounts)	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Basic Income Per Share:				
Reported net income	$6,414	$14,700	$13,147	$22,754
Basic income per share	$0.24	$0.54	$0.48	$0.84
Weighted average shares outstanding - Basic	27,209	27,045	27,190	26,955
Diluted Income Per Share:				
Reported net income	$6,414	$14,700	$13,147	$22,754
Diluted income per share	$0.23	$0.53	$0.48	$0.83
Weighted average shares outstanding	27,209	27,045	27,190	26,955
Weighted average dilutive stock options	98	516	123	485
Weighted average shares outstanding - Diluted	27,307	27,561	27,313	27,440

Note 9 – Income Taxes

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

The effect on deferred taxes for a change in tax rates is recognized in income in the period that the tax rate change is enacted. In assessing the likelihood of realization of deferred tax assets, we consider whether it is more likely than not that some portion of the deferred tax assets will not be realized. A valuation allowance is provided for deferred income taxes when, in our judgment, based upon currently available information and other factors, it is more likely than not that all or a portion of such deferred income tax assets will not be realized. The determination of the need for a valuation allowance is based on an on-going evaluation of current information including, among other things, historical operating results, estimates of future earnings in different taxing jurisdictions and the expected timing of the reversals of temporary differences. We believe that the determination to record a valuation allowance to reduce a deferred income tax asset is a significant accounting estimate because it is based, among other things, on an estimate of future taxable income in the United States and certain other jurisdictions, which is susceptible to change and may or may not occur, and because the impact of adjusting a valuation allowance may be material.

During the fourth quarter of 2011, we determined that it was more likely than not that our deferred tax assets would be realized in future periods and reversed the valuation allowances carried against our federal and certain state net deferred tax assets in the U.S. In determining when to release the valuation allowances, we considered all available evidence, both positive and negative. Consistent with our policy, the valuation allowance against our U.S. net deferred income tax assets was not reversed until such time as we had generated three years of cumulative pre-tax income and had reached sustained profitability in the U.S., which we define as two consecutive one year periods of pre-tax income, which occurred in the fourth quarter of 2011. As of June 24, 2012 valuation allowances carried against our deferred tax assets totaled $2.5 million.

The company adopted the U.S. GAAP method of accounting for uncertain tax positions during 2007. The purpose of this method is to clarify accounting for uncertain tax positions recognized. The U.S. GAAP method of accounting for uncertain tax positions utilizes a two-step approach to evaluate tax positions. Step one, recognition, requires evaluation of the tax position to determine if based solely on technical merits it is more likely than not to be sustained upon examination. Step two, measurement, is addressed only if a position is more likely than not to be sustained. In step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement with tax

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authorities. If a position does not meet the more likely than not threshold for recognition in step one, no benefit is recorded until the first subsequent period in which the more likely than not standard is met, the issue is resolved with the taxing authority, or the statute of limitations expires. Positions previously recognized are derecognized when we subsequently determine the position no longer is more likely than not to be sustained. Evaluation of tax positions, their technical merits, and measurements using cumulative probability are highly subjective management estimates. Actual results could differ materially from these estimates.

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

For the thirteen weeks ended June 24, 2012 the provision for income taxes was $2.0 million, which was an effective income tax rate of 24 percent. The effective tax rate was favorably affected by a $6.3 million benefit from the reversal of a portion of our Mexican jurisdiction liability for unrecognized tax benefits, which was partially offset by a $4.2 million reduction in related deferred tax assets, resulting from the expiration of the statute of limitations for our 2006 tax year. This was partially offset by an increase in additional unrecognized tax positions, as well as reductions in certain state deferred taxes and unrecognized tax benefit increases. The income tax provision on income before income taxes for the twenty-six weeks ended June 24, 2012 was $6.2 million, which was an effective income tax rate of 32 percent. The effective tax rate was favorably affected by the net impact of the reversal of our Mexican jurisdiction unrecognized tax benefits related to our 2006 tax year and an increase in additional unrecognized tax positions, as described for the thirteen week period above and foreign income taxed at rates lower than the U. S. statutory rates, offset by unfavorable rate impacts of state taxes (net of federal tax benefit) and increases in our liability for unrecognized tax benefits.

The income tax provision for the thirteen weeks ended June 26, 2011 was a benefit of $1.1 million, which was an effective income tax rate of (8) percent. The income tax provision for the twenty-six weeks ended June 26, 2011 was $2.1 million expense, which was an effective income tax rate of 8 percent. In December 2010, tax laws were amended affecting the taxation of consignment contract manufactures in Mexico, which beginning in 2011, subjected certain income already subject to U.S. federal income taxes to income taxes in Mexico. The income tax provision recorded during the first quarter of fiscal 2011 included an estimate of these additional Mexican income taxes. During the second quarter of 2011, we were advised by the Mexican tax authorities that they would accept an alternative method of income allocation, resulting in a substantial decrease in income subject to Mexican income taxes. During the second quarter of 2011, this change in estimate resulted in our recording a reduction in our year to date income tax expense of $6.0 million. Also during the first six months of 2011, our federal, state and foreign valuation allowances have been reduced to the extent of taxable income generated in these jurisdictions. This reduction in the valuation allowances was approximately $7.4 million, reducing the aggregate amount of the valuation allowances to $35.9 million from $43.3 million at December 26, 2010. In addition, the effective tax rate is favorably impacted by foreign tax credits and research and development credits.

Within the next twelve month period ending June 30, 2013, we do not expect any of the unrecognized tax benefits to be recognized due to the expiration of certain statute of limitations or any income tax examinations to be completed, except as described below. During the first two quarters of 2012, the liability for uncertain tax positions decreased by $3.9 million, to $29.2 million, from $33.1 million at December 25, 2011, primarily as a result of the $6.3 million reversal of the liability as a result of the expiration of the statute of limitations for the 2006 tax year of our operations in Mexico, partially offset by $0.9 million of interest and penalties which were recognized in income tax expense, a $1.1 million increase for uncertain tax positions taken in prior periods and $0.4 million of foreign currency translation adjustments.

We conduct business internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities throughout the world, including taxing authorities in Mexico, the Netherlands, India and the United States. We are no longer under examination by taxing authorities regarding any U.S. federal income tax returns for years before 2009 while the years open for examination under various state and local jurisdictions varies. Mexico's Tax Administration Service (SAT) is currently examining the 2004 and 2007 tax years of Superior Industries de Mexico S.A. de C.V., our wholly-owned Mexican subsidiary, and we expect the 2004 audit to be completed in 2012. On February 21, 2012, we received an observation letter for the 2004 tax audit and on July 18, 2012, we received an observation letter for the 2007 tax audit from SAT. For 2004 and 2007, SAT has proposed certain adjustments related primarily to intercompany charges and we are currently providing responses to SAT regarding the 2004 audit notice and are evaluating the 2007 audit letter. We believe that we have adequately provided for any reasonably foreseeable outcomes related to these proposed adjustments and the ultimate resolution of these matters is unlikely to have a material effect on our consolidated financial position; however, there is still a possibility that an adverse outcome of these matters could have a material effect on our consolidated financial condition.

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Note 10 – Short-Term Investments

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

Restricted Deposits

We purchase certificates of deposit with maturity dates that expire within twelve months that are used to secure our workers' compensation obligations and collateralize letters of credit securing our forward natural gas contracts in Mexico. At June 24, 2012 and December 25, 2011, certificates of deposit totaling $4.8 million and $5.1 million, respectively, which were restricted in use, were classified as short-term investments on our condensed consolidated balance sheets.

Note 11 – Accounts Receivable
(Dollars in thousands)

	June 24, 2012	December 25, 2011
Trade receivables	$125,103	$114,811
Other receivables	4,125	5,423
	129,228	120,234
Allowance for doubtful accounts	(699)	(339)
Accounts receivable, net	$128,529	$119,895

Note 12 – Inventories
(Dollars in thousands)

	June 24, 2012	December 25, 2011
Raw materials	$20,268	$24,347
Work in process	28,563	26,921
Finished goods	18,380	15,665
Inventories	$67,211	$66,933

Service wheel inventory included in other non-current assets in the condensed consolidated balance sheets was $3.2 million and $2.8 million at June 24, 2012 and December 25, 2011, respectively.

Note 13 – Property, Plant and Equipment
(Dollars in thousands)

	June 24, 2012	December 25, 2011
Land and buildings	$67,988	$67,500
Machinery and equipment	397,451	390,304
Leasehold improvements and others	8,309	8,274
Construction in progress	8,413	8,908
	482,161	474,986
Accumulated depreciation	(339,924)	(329,239)
Property, plant and equipment, net	$142,237	$145,747

Depreciation expense was $6.3 million and $7.2 million for the thirteen weeks ended June 24, 2012 and June 26, 2011, respectively. Depreciation expense was $12.9 million and $14.2 million for the twenty-six weeks ended June 24, 2012 and June 26, 2011,

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respectively.

Note 14 – Retirement Plans

We have an unfunded supplemental executive retirement plan covering certain officers, key members of management and our non-employee directors. Subject to certain vesting requirements, the plan provides for retirement benefits based on the average of the final thirty-six months of base salary. Such benefits become payable upon attaining age sixty-five, or upon retirement, if later. The benefits are paid biweekly and continue for the retiree's remaining life or for a minimum of ten years. The plan was closed to new participants effective February 3, 2011.

For the twenty-six weeks ended June 24, 2012, payments to retirees or their beneficiaries totaled approximately $588,000. We presently anticipate benefit payments in 2012 to total approximately $1.3 million. The following table summarizes the components of net periodic pension cost for the first two quarters of 2012 and 2011.

(Dollars in thousands)	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Service cost	$61	$74	$122	$148
Interest cost	306	329	610	658
Net amortization	65	—	131	—
Net periodic pension cost	$432	$403	$863	$806

Note 15 – Commitments and Contingencies

We are party to various legal and environmental proceedings incidental to our business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against us. Based on facts now known, we believe all such matters are adequately provided for, covered by insurance, are without merit and/or involve such amounts that would not materially adversely affect our consolidated results of operations, cash flows or financial position. For additional information concerning contingencies, risks and uncertainties, see Note 16 – Risk Management.

Note 16 – Risk Management

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

The functional currency of certain foreign operations in Mexico is the Mexican peso. The settlement of accounts receivable and accounts payable for our operations in Mexico requires the transfer of funds denominated in the Mexican peso, the value of which in the first and second quarter of 2012, increased 7 percent