Cooper-Standard Holdings Inc.
Form 10-Q
November 04, 2015

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
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: 000-54305

COOPER-STANDARD HOLDINGS INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 20-1945088<br>(I.R.S. Employer<br>Identification No.) |

39550 Orchard Hill Place Drive
Novi, Michigan 48375
(Address of principal executive offices)
(Zip Code)
(248) 596-5900
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ý |
| 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 Exchange Act). Yes ¨ No ý
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ý No ¨

As of October 29, 2015 there were 17,432,575 shares of the registrant's common stock, $0.001 par value, outstanding.

COOPER-STANDARD HOLDINGS INC.
Form 10-Q
For the period ended September 30, 2015

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

COOPER-STANDARD HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Dollar amounts in thousands except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 |
| Sales | $780,954 | $827,531 | $2,476,113 | $2,488,402 |
| Cost of products sold | 669,701 | 679,083 | 2,084,492 | 2,055,124 |
| Gross profit | 111,253 | 148,448 | 391,621 | 433,278 |
| Selling, administration & engineering expenses | 67,365 | 79,065 | 228,609 | 239,455 |
| Amortization of intangibles | 3,892 | 3,599 | 12,325 | 10,819 |
| Restructuring | 4,845 | 8,540 | 11,690 | 34,809 |
| Other operating profit | (18,385) | — | (18,385) | — |
| Operating profit | 53,536 | 57,244 | 157,382 | 148,195 |
| Interest expense, net of interest income | (9,405) | (9,487) | (35,332) | (27,912) |
| Equity earnings | 1,094 | 911 | 4,075 | 4,042 |
| Other income (expense), net | (4,129) | (3,281) | (32,932) | 9,907 |
| Income before income taxes | 41,096 | 45,387 | 93,193 | 134,232 |
| Income tax expense | 18,866 | 12,869 | 35,354 | 44,052 |
| Net income | 22,230 | 32,518 | 57,839 | 90,180 |
| Net (income) loss attributable to noncontrolling interests | 436 | 214 | (2,244) | 35 |
| Net income attributable to Cooper-Standard Holdings Inc. | $22,666 | $32,732 | $55,595 | $90,215 |
| | | | | |
| Earnings per share: | | | | |
| Basic | $1.33 | $1.89 | $3.29 | $5.26 |
| Diluted | $1.23 | $1.78 | $3.07 | $4.92 |
| | | | | |
| Comprehensive income (loss) | $(12,860) | $5,291 | $26,489 | $24,970 |
| Comprehensive (income) loss attributable to noncontrolling interests | 576 | 467 | (2,257) | 168 |
| Comprehensive income (loss) attributable to Cooper-Standard Holdings Inc. | $(12,284) | $5,758 | $24,232 | $25,138 |

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

COOPER-STANDARD HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands except share amounts)

| | December 31, 2014 | September 30, 2015 (unaudited) |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $267,270 | $231,984 |
| Accounts receivable, net | 377,032 | 474,757 |
| Tooling receivable | 124,015 | 150,726 |
| Inventories | 166,531 | 172,356 |
| Prepaid expenses | 25,626 | 30,486 |
| Other | 93,524 | 66,441 |
| Total current assets | 1,053,998 | 1,126,750 |
| Property, plant and equipment, net | 716,013 | 801,389 |
| Goodwill | 135,169 | 151,955 |
| Intangibles, net | 82,309 | 74,114 |
| Deferred tax assets | 41,059 | 47,451 |
| Other assets | 104,219 | 87,235 |
| Total assets | $2,132,767 | $2,288,894 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Debt payable within one year | $36,789 | $57,986 |
| Accounts payable | 322,422 | 345,216 |
| Payroll liabilities | 94,986 | 128,094 |
| Accrued liabilities | 75,005 | 128,773 |
| Total current liabilities | 529,202 | 660,069 |
| Long-term debt | 749,085 | 740,685 |
| Pension benefits | 191,805 | 171,358 |
| Postretirement benefits other than pensions | 60,287 | 57,630 |
| Deferred tax liabilities | 5,001 | 18,063 |
| Other liabilities | 44,692 | 35,846 |
| Total liabilities | 1,580,072 | 1,683,651 |
| Redeemable noncontrolling interest | 3,981 | — |
| 7% Cumulative participating convertible preferred stock, $0.001 par value, 10,000,000 shares authorized at December 31, 2014, and September 30, 2015; no shares issued and outstanding | — | — |
| Equity: | | |
| Common stock, $0.001 par value, 190,000,000 shares authorized at December 31, 2014 and September 30, 2015; 18,685,634 shares issued and 17,039,328 outstanding at December 31, 2014 and 19,063,350 shares issued and 17,417,044 outstanding at September 30, 2015 | 17 | 17 |
| Additional paid-in capital | 492,959 | 510,421 |
| Retained earnings | 195,233 | 285,149 |
| Accumulated other comprehensive loss | (139,243) | (204,320) |
| Total Cooper-Standard Holdings Inc. equity | 548,966 | 591,267 |

| | | |
|---|---|---|
| Noncontrolling interests | (252) | 13,976 |
| Total equity | 548,714 | 605,243 |
| Total liabilities and equity | $2,132,767 | $2,288,894 |

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

COOPER-STANDARD HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollar amounts in thousands)

| | Nine Months Ended September 30, 2014 | 2015 |
|---|---|---|
| Operating Activities: | | |
| Net income | $57,839 | $90,180 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 72,416 | 74,459 |
| Amortization of intangibles | 12,325 | 10,819 |
| Stock-based compensation expense | 10,748 | 8,348 |
| Equity earnings, net of dividends related to earnings | (1,806) | (2,125) |
| Loss on extinguishment of debt | 30,488 | — |
| Gain on divestiture | (18,385) | — |
| Gain on sale of investment | (1,882) | — |
| Gain on remeasurement of previously held equity interest | — | (14,199) |
| Deferred income taxes | 10,220 | 5,765 |
| Other | 294 | 127 |
| Changes in operating assets and liabilities | (83,539) | (63,401) |
| Net cash provided by operating activities | 88,718 | 109,973 |
| Investing activities: | | |
| Capital expenditures | (154,299) | (129,661) |
| Acquisition of business, net of cash acquired | (5,046) | (34,396) |
| Investment in joint ventures | — | (4,300) |
| Return on equity investments | 951 | — |
| Proceeds from divestiture | 44,937 | — |
| Proceeds from sale of investment | 3,216 | — |
| Proceeds from sale of fixed assets and other | 3,374 | 4,846 |
| Net cash used in investing activities | (106,867) | (163,511) |
| Financing activities: | | |
| Proceeds from issuance of long-term debt, net of debt issuance costs | 737,462 | — |
| Repurchase of Senior Notes and Senior PIK Toggle Notes | (675,615) | — |
| Increase (decrease) in short-term debt, net | (3,717) | 973 |
| Borrowings on long-term debt | 6,609 | — |
| Principal payments on long-term debt | (2,202) | (6,239) |
| Purchase of noncontrolling interests | — | (1,262) |
| Proceeds from exercise of warrants | 8,492 | 8,540 |
| Taxes withheld and paid on employees' share based payment awards | (4,175) | (1,330) |
| Other | (103) | (173) |
| Net cash provided by financing activities | 66,751 | 509 |
| Effects of exchange rate changes on cash and cash equivalents | 11,883 | 17,743 |
| Changes in cash and cash equivalents | 60,485 | (35,286) |
| Cash and cash equivalents at beginning of period | 184,370 | 267,270 |
| Cash and cash equivalents at end of period | $244,855 | $231,984 |

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

5

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

## 1. Overview

### Basis of presentation

Cooper-Standard Holdings Inc. (together with its consolidated subsidiaries, the “Company,” “Cooper-Standard,” “we,” “our,” or “us”), through its wholly-owned subsidiary Cooper-Standard Automotive Inc., is a leading manufacturer of sealing, fuel and brake delivery, fluid transfer and anti-vibration systems components, subsystems, and modules. The Company’s products are primarily for use in passenger vehicles and light trucks that are manufactured by global automotive original equipment manufacturers (“OEMs”) and replacement markets. The Company conducts substantially all of its activities through its subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) for interim financial information and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 Annual Report”), as filed with the SEC. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“U.S. GAAP”) for complete financial statements. These financial statements include all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of the Company. The operating results for the interim period ended September 30, 2015 are not necessarily indicative of results for the full year. In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

### Recent accounting pronouncements

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This ASU requires an acquirer to recognize adjustments to estimated amounts identified during the measurement period in the reporting period in which the adjustment is determined and not restate prior amounts disclosed. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's condensed consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU requires entities to measure most inventory at the lower of cost and net realizable value. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting this guidance on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest: Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU changes the presentation of debt issuance costs in financial statements from an asset to a direct deduction from the related debt liability. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company's condensed consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU amends the consolidation guidance under U.S. GAAP. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company's condensed consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement: Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates the concept of extraordinary items from U.S. GAAP. The guidance is effective for annual and interim reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's condensed consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements: Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU requires management to perform interim and annual assessments of an entity's ability to continue as a going concern. This guidance is effective for annual and interim reporting periods ending after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of this guidance is that a company should recognize revenue to depict the transfer of promised goods or services to a customer at

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

an amount reflecting the consideration it expects to receive in exchange for those goods or services. In July 2015, the FASB issued ASU 2015-14, which delays the effective date of this guidance to annual and interim reporting periods beginning after December 15, 2017. Early adoption will be permitted as of the original effective date of annual and interim reporting periods beginning after December 15, 2016. The guidance allows for companies to use either a full retrospective or a modified retrospective approach when adopting. The Company is currently evaluating the impact of adopting this guidance on its condensed consolidated financial statements.

In April 2014, FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU changes the criteria for reporting discontinued operations and requires expanded disclosures about discontinued operations. The Company adopted this guidance effective January 1, 2015. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

2. Acquisitions

In the first quarter of 2015, the Company acquired the remaining equity interests of Metzler Automotive Profiles India Private Limited (26%) and Cooper Standard Jingda Changchun Automotive Co., Ltd. (20%) for a combined cash consideration of $1,262. These acquisitions were accounted for as equity transactions in accordance with ASC Topic 810 “Consolidations.”

Also in the first quarter of 2015, the Company completed the acquisition of an additional 47.5% of Huayu-Cooper Standard Sealing Systems Co. (“Shenya”), increasing its ownership to 95%, for cash consideration of $59,320. The final payment of $9,954 related to this acquisition was made in the second quarter of 2015. The business acquired in the transaction is operated from Shenya’s manufacturing locations in China. Shenya primarily supplies sealing systems and components to the automotive industry. This acquisition is directly aligned with the Company’s growth strategy by strengthening important customer relationships in the automotive sealing systems market. This acquisition was accounted for under ASC 805, “Business Combinations,” and the results of operations of Shenya are included in the Company’s consolidated financial statements from the date of acquisition, February 27, 2015. This acquisition does not meet the thresholds for a significant acquisition and therefore no pro forma financial information is presented.

Prior to the acquisition, the Company held a 47.5% unconsolidated equity interest in Shenya. The estimated fair value of the equity interest at the date of acquisition was $41,378, resulting in a gain of $14,199 recorded in other income (expense), net for the nine months ended September 30, 2015. The fair value of the Company's previous 47.5% equity interest, 47.5% purchased and 5% noncontrolling interest in Shenya were estimated using income and market approaches based on financial analysis methodologies (including the discounted cash flow analysis), projected financial information, management's estimates, available information, and reasonable and supportable assumptions. These fair value measurements are classified within level 3 of the fair value hierarchy.

The following table summarizes the estimated fair value of Shenya assets acquired and liabilities assumed at the date of acquisition, updated as of September 30, 2015:

| | |
|---|---|
| Cash and cash equivalents | $7,079 |
| Accounts receivable | 24,197 |
| Inventories | 12,708 |
| Prepaid expenses | 12,924 |
| Other current assets | 21,189 |
| Property, plant, and equipment | 80,914 |
| Goodwill | 18,977 |
| Intangibles | 7,367 |
| Other assets | 14,311 |
| Total assets acquired | 199,666 |
| Debt payable within one year | 19,164 |
| Accounts payable | 41,428 |
| Other current liabilities | 16,855 |

| | |
|---|---|
| Other liabilities | 10,029 |
| Total liabilities assumed | 87,476 |
| Noncontrolling interest | 11,709 |
| Net assets acquired including noncontrolling interest | $100,481 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

Cash and cash equivalents, accounts receivable, other current assets, accounts payable, and other current liabilities were stated at historical carrying values, which management believes approximates fair value given the short-term nature of these assets and liabilities. Inventories were recorded at fair value which is estimated for finished goods and work-in-process based upon the expected selling price less costs to complete, selling, and disposal costs, and a normal profit to the buyer. Raw material inventory was recorded at carrying value as such value approximates the replacement cost. Deferred income taxes have been provided in the condensed consolidated balance sheet based on the Company's estimates of the tax versus book basis of the estimated fair value of the assets acquired and liabilities assumed. The Company has estimated the fair value of property, plant and equipment, intangibles, other long-lived assets, certain liabilities and noncontrolling interest based upon financial estimates and projections prepared in conjunction with the transaction. These estimates are preliminary and may change in the future as information becomes available from third party valuations. The value assigned to all assets and liabilities did not exceed the acquisition price, therefore goodwill was recorded related to this transaction.

In the third quarter of 2015, the Company contributed cash of $1,750 to establish a joint venture with Polyrub Extrusions (India) Private Limited. The joint venture, Polyrub Cooper Standard FTS Private Limited, is expected to increase market share and open new opportunities in the Company's fluid transfer business. The Company owns 35% of the joint venture with the remaining 65% of the joint venture owned by Polyrub Extrusions (India) Private Limited. This investment is accounted for under the equity method and is included in other assets in the accompanying condensed consolidated balance sheets.

Also in the third quarter of 2015, the Company contributed cash of $2,550 to establish a joint venture with Polyfoam Asia Pte. Ltd. The joint venture, Cooper-Standard INOAC Pte. Ltd., is expected to accelerate the Company's fluid transfer systems strategy and provide better access to Japanese OEMs and add further support to global platforms. The Company owns 51% of the joint venture with the remaining 49% of the joint venture owned by Polyfoam Asia Pte. Ltd. The operating results of this joint venture are included in the Company's consolidated financial statements from the date of formation.

3. Goodwill and Intangibles

The changes in the carrying amount of goodwill by reportable operating segment for the nine months ended September 30, 2015 are summarized as follows:

| | North America | Europe | South America | Asia Pacific | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2015 | $117,609 | $12,366 | $— | $5,194 | $135,169 |
| Acquisition | — | — | — | 18,977 | 18,977 |
| Foreign exchange translation | (767) | (1,001) | — | (423) | (2,191) |
| Balance at September 30, 2015 | $116,842 | $11,365 | $— | $23,748 | $151,955 |

Goodwill is not amortized, but is tested for impairment by reporting unit either annually or when events or circumstances indicate that impairment may exist. There were no indicators of potential impairment as of September 30, 2015.

The following table presents intangible assets and accumulated amortization balances of the Company as of December 31, 2014 and September 30, 2015, respectively:

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| Customer relationships | $133,471 | $(59,773) | $73,698 |
| Developed technology | 9,252 | (6,842) | 2,410 |
| Other | 6,701 | (500) | 6,201 |
| Balance at December 31, 2014 | $149,424 | $(67,115) | $82,309 |
| | | | |
| Customer relationships | $132,691 | $(66,050) | $66,641 |

| | | | |
|---|---|---|---|
| Developed technology | 8,948 | (7,475 ) | 1,473 |
| Other | 10,487 | (4,487 ) | 6,000 |
| Balance at September 30, 2015 | $152,126 | $(78,012 ) | $74,114 |

Amortization expense totaled $3,892 and $3,599 for the three months ended September 30, 2014 and 2015, respectively, and $12,325 and $10,819 for the nine months ended September 30, 2014 and 2015, respectively. Amortization expense is estimated to be approximately $14,400 for the year ending December 31, 2015.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

4. Restructuring
European Initiative
The Company has implemented a restructuring initiative of certain facilities in Europe based on current and anticipated market demands. The estimated cost of this initiative is approximately $125,000 and is expected to be completed by 2018. The Company has recognized $31,581 of costs related to this initiative since initiation in the first quarter of 2015. The restructuring effort aims to further improve the Company's European capability by removing excess capacity, improving cost structure and shifting some production to its Eastern European facilities. Actions include consolidation of operations to improve efficiencies and closure or downsizing of certain facilities with high costs and unutilized capacity in Western Europe, including Germany and France. A previous European restructuring initiative has been combined with this new initiative. The following table summarizes the restructuring expense for the three and nine months ended September 30, 2014 and 2015:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 |
| Employee separation costs | $1,730 | $2,204 | $2,773 | $17,271 |
| Other exit costs | 3,095 | 4,877 | 8,445 | 13,882 |
| Asset impairments | — | — | — | 428 |
| | $4,825 | $7,081 | $11,218 | $31,581 |

The following table summarizes the activity in the restructuring liability for this initiative for the nine months ended September 30, 2015:

| | Employee Separation Costs | Other Exit Costs | Asset Impairments | Total |
|---|---|---|---|---|
| Balance at January 1, 2015 | $10,824 | $— | $— | $10,824 |
| Expense | 17,271 | 13,882 | 428 | 31,581 |
| Cash payments and foreign exchange translation | (4,196) | (12,021) | (428) | (16,645) |
| Balance at September 30, 2015 | $23,899 | $1,861 | $— | $25,760 |

North America Initiative
In the first quarter of 2015, the Company initiated the restructure of a facility in North America. The estimated cost of this initiative is $8,500 and is expected to be completed in 2016. For the three and nine months ended September 30, 2015, the Company incurred costs of $1,144 and $2,864, respectively, related to this initiative. As of September 30, 2015, there was no liability recorded for this initiative.
Other Initiatives
The Company has implemented several restructuring initiatives in the current and prior years including the closure or consolidation of facilities throughout the world, the establishment of a centralized shared services function in Europe and the reorganization of the Company's operating structure. Several of these initiatives are substantially complete, however, the Company continues to incur costs on some of these initiatives related principally to the disposal of certain facilities. For the three and nine months ended September 30, 2014, the Company incurred costs of $20 and $472, respectively, related to these initiatives. For the three and nine months ended September 30, 2015, the Company incurred costs of $315 and $364, respectively, related to these initiatives.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

5. Inventories
Inventories were comprised of the following at December 31, 2014 and September 30, 2015:

| | December 31, 2014 | September 30, 2015 |
|---|---|---|
| Finished goods | $45,485 | $45,676 |
| Work in process | 36,498 | 39,475 |
| Raw materials and supplies | 84,548 | 87,205 |
| | $166,531 | $172,356 |

In connection with the acquisition of Shenya, inventory was written up by $1,414 to fair value in the first quarter of 2015. Such inventory was sold as of March 31, 2015 and recorded as an increase to cost of products sold.
6. Debt
Outstanding debt consisted of the following at December 31, 2014 and September 30, 2015:

| | December 31, 2014 | September 30, 2015 |
|---|---|---|
| Term loan | $742,902 | $737,679 |
| Other borrowings | 42,972 | 60,992 |
| Total debt | $785,874 | $798,671 |
| Less current portion | (36,789) | (57,986) |
| Total long-term debt | $749,085 | $740,685 |

Senior ABL Facility
On April 4, 2014, the Company and certain of its subsidiaries entered into the Second Amended and Restated Loan Agreement (the “Senior ABL Facility”), which amended and restated the then existing senior secured asset-based revolving credit facility of the Company, dated May 27, 2010, in order to permit the Term Loan Facility (described below) and other related transactions. The Senior ABL Facility provided for an aggregate revolving loan availability of up to $150,000, subject to borrowing base availability, including a $60,000 letter of credit sub-facility and a $25,000 swing line sub-facility. The Senior ABL Facility also provided for an uncommitted $105,000 incremental loan facility, for a potential total Senior ABL Facility of $255,000 (if requested by the Company and one or more new or existing lenders agreed to fund such increase).
On June 11, 2014, the Company and certain of its subsidiaries entered into Amendment No. 1 to the Senior ABL Facility, which increased the aggregate revolving loan availability to $180,000, subject to borrowing base availability, principally by expanding a tooling receivable category of eligible borrowing base availability for the U.S. borrower and Canadian borrower. The Senior ABL Facility, as amended, also provides for an uncommitted $75,000 incremental loan facility, for a potential total Senior ABL Facility of $255,000 (if requested by the Company and one or more new or existing lenders agreed to fund such increase). No consent of any lender (other than those participating in the increase) is required to effect any such increase. As of September 30, 2015, subject to borrowing base availability, the Company had $180,000 in availability under the Senior ABL Facility less outstanding letters of credit of $43,069.
Term Loan Facility
On April 4, 2014, certain subsidiaries of the Company entered into a term loan facility (the “Term Loan Facility”) in order to (i) refinance the Senior PIK Toggle Notes due 2018 of the Company (the “Senior PIK Toggle Notes”) and the 8 1/2% Senior Notes due 2018 of Cooper-Standard Automotive Inc. (the “Senior Notes”), including applicable call premiums and accrued and unpaid interest, (ii) pay related fees and expenses and (iii) provide for working capital and other general corporate purposes. The Term Loan Facility provides for loans in an aggregate principal amount of $750,000 and may be expanded (or a new term loan facility added) by an amount that will not cause the consolidated first lien debt ratio to exceed 2.25 to 1.00 plus $300,000. All obligations of the borrower are guaranteed jointly and severally on a senior secured basis by the direct parent company of the borrower and each existing and subsequently acquired or organized direct or indirect wholly-owned U.S. restricted subsidiary of the borrower. The obligations are secured by amongst other items (a) a first priority security interest (subject to permitted liens and other customary exceptions) on (i) all the capital stock in restricted subsidiaries directly held by the borrower and each of the guarantors, (ii) substantially all plant, material owned real property located in the U.S. and equipment of the borrower

and the guarantors and (iii) all other personal property of the borrower and the guarantors, and (b) a second priority security interest (subject to permitted liens and other customary exceptions) in accounts receivable of the borrowers and the guarantors arising from the sale of goods and services, inventory, excluding certain collateral and subject to certain

10

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

limitations. Loans under the Term Loan Facility bear interest at a rate equal to, at the Borrower's option, LIBOR, subject to a 1.00% LIBOR Floor or the base rate option (the highest of the Federal Funds rate, prime rate, or one-month Eurodollar rate plus the appropriate spread), in each case, plus an applicable margin of 3.00%. The Term Loan Facility matures on April 4, 2021. As of September 30, 2015, the principal amount of $740,625 was outstanding. Debt issuance costs of approximately $7,900 were incurred on this transaction, along with the original issue discount of $3,750. Both the debt issuance costs and the original issue discount will be amortized into interest expense over the term of the Term Loan Facility. As of September 30, 2015, the Company had $2,946 of unamortized original issue discount.

7. Pension and Postretirement Benefits other than Pensions

The following tables disclose the amount of net periodic benefit cost (income) for the three and nine months ended September 30, 2014 and 2015 for the Company's defined benefit plans and other postretirement benefit plans:

| | Pension Benefits | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | | |
| | 2014 | | 2015 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Service cost | $213 | $843 | $232 | $868 |
| Interest cost | 3,370 | 1,775 | 3,084 | 1,261 |
| Expected return on plan assets | (4,764) | (970) | (4,421) | (830) |
| Amortization of prior service cost and recognized actuarial loss | 16 | 222 | 276 | 665 |
| Other | — | — | — | 114 |
| Net periodic benefit cost (income) | $(1,165) | $1,870 | $(829) | $2,078 |

| | Pension Benefits | | | |
|---|---|---|---|---|
| | Nine Months Ended September 30, | | | |
| | 2014 | | 2015 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Service cost | $639 | $2,571 | $696 | $2,633 |
| Interest cost | 10,110 | 5,389 | 9,252 | 3,845 |
| Expected return on plan assets | (14,292) | (2,900) | (13,263) | (2,559) |
| Amortization of prior service cost and recognized actuarial loss | 48 | 683 | 828 | 2,012 |
| Other | — | — | — | 355 |
| Net periodic benefit cost (income) | $(3,495) | $5,743 | $(2,487) | $6,286 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

| | Other Postretirement Benefits | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | | |
| | 2014 | | 2015 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Service cost | $106 | $138 | $109 | $93 |
| Interest cost | 397 | 191 | 353 | 165 |
| Amortization of prior service credit and recognized actuarial gain | (481) | (73) | (396) | (5) |
| Other | 6 | — | 6 | — |
| Net periodic benefit cost | $28 | $256 | $72 | $253 |

| | Other Postretirement Benefits | | | |
|---|---|---|---|---|
| | Nine Months Ended September 30, | | | |
| | 2014 | | 2015 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Service cost | $318 | $412 | $327 | $290 |
| Interest cost | 1,191 | 569 | 1,059 | 516 |
| Amortization of prior service credit and recognized actuarial gain | (1,443) | (217) | (1,188) | (15) |
| Other | 18 | — | 18 | — |
| Net periodic benefit cost | $84 | $764 | $216 | $791 |

## 8. Income Taxes

The Company is required to determine its effective tax rate each quarter based upon its estimated annual effective tax rate. The Company is also required to record the tax impact of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur. In addition, jurisdictions with a projected loss for the year where no tax benefit can be recognized are excluded from the estimated annual effective tax rate.

The effective tax rate for the three and nine months ended September 30, 2015 was 28% and 33%, respectively. The effective rate for the three and nine months ended September 30, 2014 was 46% and 38%, respectively. The effective tax rate for the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 is lower primarily due to a discrete tax expense related to an uncertain tax position recorded in one of the Company's foreign subsidiaries in the three months ended September 30, 2014. The income tax rate for the three and nine months ended September 30, 2015 varies from statutory rates due primarily to the inability to record a tax benefit for pre-tax losses in certain foreign jurisdictions to the extent not offset by other categories of income, income taxes on foreign earnings taxed at rates lower than the U.S. statutory rate, tax credits, income tax incentives, and other permanent items. Further, the Company’s current and future provision for income taxes may be impacted by the recognition of valuation allowances in certain countries. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

9. Accumulated Other Comprehensive Income (Loss), Equity and Redeemable Noncontrolling Interests

The changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2014 and 2015, net of related tax, are as follows:

| | Three Months Ended September 30, 2014 | | | |
|---|---|---|---|---|
| | Cumulative currency translation adjustment | Benefit plan liability | Fair value change of derivatives | Accumulated other comprehensive loss |
| Balance at July 1, 2014 | $9,283 | $(33,489) | $99 | $(24,107) |
| Other comprehensive income (loss) before reclassifications | (37,048) | 1,864 | 396 | (34,788) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (114) | (48) | (162) |
| Net current period other comprehensive income (loss)[1] | (37,048) | 1,750 | 348 | (34,950) |
| Balance at September 30, 2014 | $(27,765) | $(31,739) | $447 | $(59,057) |

(1) Other comprehensive income (loss) related to the benefit plan liability is net of a tax effect of $(87). Other comprehensive income (loss) related to the fair value change of derivatives is net of a tax effect of $(113).

| | Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Cumulative currency translation adjustment | Benefit plan liability | Fair value change of derivatives | Accumulated other comprehensive loss |
| Balance at July 1, 2015 | $(92,364) | $(82,040) | $(2,942) | $(177,346) |
| Other comprehensive income (loss) before reclassifications[1] | (27,474) | 481 | (784) | (27,777) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 390 | 413 | 803 |
| Net current period other comprehensive income (loss)[2] | (27,474) | 871 | (371) | (26,974) |
| Balance at September 30, 2015 | $(119,838) | $(81,169) | $(3,313) | $(204,320) |

(1) Cumulative currency translation adjustment includes $4,332 of other comprehensive loss related to intra-entity foreign currency transactions that are of a long-term investment nature.

(2) Other comprehensive income (loss) related to the benefit plan liability is net of a tax effect of $(211). Other comprehensive income (loss) related to the fair value change of derivatives is net of a tax effect of $170.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

| | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Cumulative currency translation adjustment | Benefit plan liability | Unrealized gain on investment securities (1) | Fair value change of derivatives | Accumulated other comprehensive loss |
| Balance at January 1, 2014 | $5,712 | $(33,406) | $— | $— | $(27,694) |
| Other comprehensive income (loss) before reclassifications | (33,477) | 2,198 | 1,146 | 545 | (29,588) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (531) | (1,146) | (98) | (1,775) |
| Net current period other comprehensive income (loss)(2) | (33,477) | 1,667 | — | 447 | (31,363) |
| Balance at September 30, 2014 | $(27,765) | $(31,739) | $— | $447 | $(59,057) |

(1) The unrealized gain on investment securities that was reclassified out of accumulated other comprehensive income (loss) related to the gain on sale of investment of $1,882, which is recorded in other income (expense), net, less income tax expense of $736.

(2) Other comprehensive income (loss) related to the benefit plan liability is net of a tax effect of $(143). Other comprehensive income (loss) related to the fair value change of derivatives is net of a tax effect of $(194).

| | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Cumulative currency translation adjustment (1) | Benefit plan liability | Fair value change of derivatives | Accumulated other comprehensive loss |
| Balance at January 1, 2015 | $(50,371) | $(86,861) | $(2,011) | $(139,243) |
| Other comprehensive income (loss) before reclassifications(2) | (67,858) | 4,502 | (1,903) | (65,259) |
| Amounts reclassified from accumulated other comprehensive income (loss) | (1,609) | 1,190 | 601 | 182 |
| Net current period other comprehensive income (loss)(3) | (69,467) | 5,692 | (1,302) | (65,077) |
| Balance at September 30, 2015 | $(119,838) | $(81,169) | $(3,313) | $(204,320) |

(1) Includes $300 reclassed to paid-in capital related to the purchase of noncontrolling interests.

(2) Cumulative currency translation adjustment includes $18,265 of other comprehensive loss related to intra-entity foreign currency transactions that are of a long-term investment nature.

(3) Other comprehensive income (loss) related to the benefit plan liability is net of a tax effect of $(755). Other comprehensive income (loss) related to the fair value change of derivatives is net of a tax effect of $830.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

The reclassifications out of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2015 are as follows:

| | Gain (loss) reclassified | | | | |
|---|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | | |
| Details about accumulated other comprehensive income (loss) components | 2014 | 2015 | 2014 | 2015 | Location of gain (loss) reclassified into income |
| Cumulative currency translation adjustment | $— | $— | $— | $1,609 | Other income (expense), net |
| Fair value change of derivatives | | | | | |
| Foreign exchange contracts | $87 | $(635) | $161 | $(925) | Cost of products sold |
| | 87 | (635) | 161 | (925) | Income before income taxes |
| | (39) | 222 | (63) | 324 | Income tax expense |
| | $48 | $(413) | $98 | $(601) | Consolidated net income |
| Amortization of defined benefit and other postretirement benefit plans | | | | | |
| Prior service credits | $10 | $72 | $261 | $244 | (1) |
| Actuarial gains (losses) | 254 | (606) | 704 | (1,871) | (1) |
| | 264 | (534) | 965 | (1,627) | Income before income taxes |
| | (150) | 144 | (434) | 437 | Income tax expense |
| | $114 | $(390) | $531 | $(1,190) | Consolidated net income |
| Total reclassifications for the period | $162 | $(803) | $629 | $(182) | |

(1) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. (See Note 7. "Pension and Postretirement Benefits other than Pensions" for additional details.)

The following table summarizes the Company's equity and redeemable noncontrolling interest activity for the nine months ended September 30, 2015:

| | Cooper-Standard Holdings Inc. | Noncontrolling Interests | Total Equity | Redeemable Noncontrolling Interest |
|---|---|---|---|---|
| Equity at January 1, 2015 | $548,966 | $(252) | $548,714 | $3,981 |
| Net income (loss) | 90,215 | 10 | 90,225 | (45) |
| Warrant exercise[1] | 8,595 | — | 8,595 | — |
| Other comprehensive loss | (65,077) | (133) | (65,210) | — |
| Stock-based compensation, net | 5,814 | — | 5,814 | — |
| Acquisitions | — | 14,159 | 14,159 | — |
| Shares issued under stock option plans[1] | (108) | — | (108) | — |
| Purchase of noncontrolling interest | 2,862 | 192 | 3,054 | (3,936) |
| Equity at September 30, 2015 | $ | | | |