SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-Q
November 07, 2008
Table of Contents

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 September 28, 2008

OR

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

For the transition period from to

Commission file number: 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 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 October 26, 2008: 26,668,440

TABLE OF CONTENTS

				Page
PART I	-	FINANCIAL INFORMATION		
	Item 1	-	Financial Statements	
			Condensed Consolidated Statements of Operations	1
			Condensed Consolidated Balance Sheets	2
			Condensed Consolidated Statements of Cash Flows	3
			Condensed Consolidated Statement of Shareholders' Equity	4
			Notes to Condensed Consolidated Financial Statements	5
	Item 2	-	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
	Item 3	-	Quantitative and Qualitative Disclosures About Market Risk	19
	Item 4	-	Controls and Procedures	19
PART II	-	OTHER INFORMATION		
	Item 1	-	Legal Proceedings	21
	Item 1A	-	Risk Factors	21
	Item 2	-	Unregistered Sales of Equity Securities and Use of Proceeds	22
	Item 6	-	Exhibits	22
	Signatures			23

Table of Contents

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Superior Industries International, Inc.
Condensed Consolidated Statements of Operations
(Thousands of dollars, except per share data)
(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2008	September 30, 2007 As restated	September 28, 2008	September 30, 2007 As restated
NET SALES	$ 163,354	$ 227,557	$ 602,977	$ 727,649
Cost of sales	174,545	222,281	592,729	706,650
GROSS PROFIT (LOSS)	(11,191)	5,276	10,248	20,999
Selling, general and administrative expenses	6,187	7,777	19,297	23,729
Impairment of long-lived assets	5,044	-	5,044	-
LOSS FROM OPERATIONS	(22,422)	(2,501)	(14,093)	(2,730)
Interest income, net	649	820	2,335	2,708
Other income, net	2,015	581	109	2,469
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY EARNINGS	(19,758)	(1,100)	(11,649)	2,447
Income tax benefit (provision)	5,694	(826)	3,153	(639)
Equity in earnings (loss) of joint ventures	(143)	1,187	2,562	2,736
NET INCOME (LOSS)	$ (14,207)	$ (739)	$ (5,934)	$ 4,544
EARNINGS (LOSS) PER SHARE - BASIC	$ (0.53)	$ (0.03)	$ (0.22)	$ 0.17
EARNINGS (LOSS) PER SHARE - DILUTED	$ (0.53)	$ (0.03)	$ (0.22)	$ 0.17
DIVIDENDS DECLARED PER SHARE	$ 0.16	$ 0.16	$ 0.48	$ 0.48

See notes to condensed consolidated financial statements.

Table of Contents

Superior Industries International, Inc.
Condensed Consolidated Balance Sheets
(Thousands of dollars, except per share data)
(Unaudited)

	September 28, 2008	December 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 110,359	$ 106,769
Accounts receivable, net	124,176	125,704
Inventories, net	96,173	107,170
Income taxes receivable	2,555	6,677
Deferred income taxes	6,940	6,569
Other current assets	13,085	3,190
Total current assets	353,288	356,079
Property, plant and equipment, net	272,870	302,253
Investments	52,611	51,055
Noncurrent deferred income taxes	29,539	12,673
Other assets	5,477	7,862
Total assets	$ 713,785	$ 729,922
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 34,340	$ 51,603
Accrued expenses	44,903	43,993
Total current liabilities	79,243	95,596
Noncurrent tax liabilities	61,246	62,223
Noncurrent deferred income taxes	15,345	-
Executive retirement liabilities	21,691	21,530
Commitments and contingencies (Note 16)		
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 - 26,668,440 shares		
(26,633,440 shares at December 30, 2007)	53,877	51,833
Accumulated other comprehensive loss	(26,206)	(28,578)
Retained earnings	508,589	527,318
Total shareholders' equity	536,260	550,573
Total liabilities and shareholders' equity	$ 713,785	$ 729,922

See notes to condensed consolidated financial statements.

Table of Contents

Superior Industries International, Inc.
Condensed Consolidated Statements of Cash Flows
(Thousands of dollars)
(Unaudited)

	Thirty-Nine Weeks Ended	
	September 28, 2008	September 30, 2007
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 24,369	$ 31,415
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from dissolution of TSL joint venture	152	-
Proceeds from sales of fixed assets	133	-
Proceeds from a held-to-maturity security	-	9,750
Proceeds from sale of available-for-sale securities	-	5,397
Additions to property, plant and equipment	(8,886)	(33,812)
NET CASH USED IN INVESTING ACTIVITIES	(8,601)	(18,665)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(12,795)	(12,769)
Proceeds from stock options exercised	617	350
NET CASH USED IN FINANCING ACTIVITIES	(12,178)	(12,419)
Net increase in cash and cash equivalents	3,590	331
Cash and cash equivalents at the beginning of the period	106,769	68,385
Cash and cash equivalents at the end of the period	$ 110,359	$ 68,716

See notes to condensed consolidated financial statements.

Table of Contents

Superior Industries International, Inc.
Condensed Consolidated Statement of Shareholders' Equity
(Thousands of dollars, except per share data)
(Unaudited)

	Common Stock		Accumulated Other		
	Number of Shares	Amount	Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE AT DECEMBER 30, 2007	26,633,440	$ 51,833	$ (28,578)	$ 527,318	$ 550,573
Comprehensive income (loss):					
Net loss	-	-	-	(5,934)	$ (5,934)
Other comprehensive income, net of tax:					
Foreign currency translation adjustment	-	-	2,302	-	$ 2,302
Net actuarial gain on pension obligation	-	-	70	-	$ 70
Total comprehensive loss (a)					(3,562)
Stock-based compensation expense	-	1,731	-	-	$ 1,731
Stock options exercised	35,000	617	-	-	$ 617
Tax impact of stock options exercised	-	(304)	-	-	$ (304)
Cash dividend declared ($0.48 per share)	-	-	-	(12,795)	(12,795)
BALANCE AT SEPTEMBER 28, 2008	26,668,440	$ 53,877	$ (26,206)	$ 508,589	$ 536,260

(a) Comprehensive income, net of tax, was $5,879,000 for the thirty-nine weeks ended September 30, 2007, which included: net income of $4,544,000, foreign currency translation adjustment gain of $2,810,000, a reclassification of realized gain on available-for-sale securities of $(1,498,000), an unrealized loss on available-for-sale securities of $26,000 and net actuarial loss on pension obligation of $(3,000).

See notes to condensed consolidated financial statements.

Table of Contents

Superior Industries International, Inc.
Notes to Condensed Consolidated Financial Statements
September 28, 2008
(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", "Superior" or in the first person notation "we", "us" and "our") is the design and manufacture 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.

Ford Motor Company (Ford), General Motors Corporation (GM) and Chrysler LLC (Chrysler) together represented approximately 78 percent of our total wheel sales during the first three fiscal quarters of 2008 and 82 percent of annual wheel sales for the 2007 fiscal year. The loss of all or a substantial portion of our sales to Ford, GM or Chrysler would have a significant adverse impact on our financial results, unless the lost volume could be replaced. This risk is partially mitigated due to the long term relationships with these customers and the fact that our supply arrangements with them are generally for multi-year periods. However, situations such as the recent consumer shift away from SUVs and trucks to more fuel-efficient vehicles and continued global competitive pricing pressures may make it more difficult to maintain these long-term arrangements and there are no guarantees that similar arrangements could be negotiated in the future. We expect this recent shift to more fuel-efficient vehicles and the global competitive pricing pressures to continue in the foreseeable future. Including our 50 percent owned joint venture in Europe, we also manufacture aluminum wheels for Audi, BMW, Fiat, Jaguar, Land Rover, Mazda, Mercedes Benz, Mitsubishi, Nissan, Seat, Skoda, Subaru, Suzuki, Toyota, Volkswagen and Volvo.

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.

Note 2 – Impairment of Long-lived Assets and Other Charges

On August 19, 2008, we announced the planned closure of our wheel manufacturing facility located in Pittsburg, Kansas, that will result in a lay off of approximately 600 employees. The planned closure of the Pittsburg facility, which will be effective December 19, 2008, was approved by our Board of Directors on August 15, 2008. Also included in this announcement was the elimination of 155 positions at our other U.S. facilities, of which 90 were open positions and 65 were layoffs which resulted in recording $0.2 million in severance costs in the current quarter. These two actions will result in a reduction of 755 positions, or 29 percent of Superior's U.S. workforce. These actions were necessary in order to manage costs and balance our manufacturing capacity in the face of reduced demand for SUVs and light trucks.

Due to the announced closure of the Pittsburg facility, we recorded in the current quarter an asset impairment charge against pretax earnings totaling $5.0 million, reducing the carrying value of certain long-lived assets to their respective fair values. We estimated the fair value of long-lived assets considering independent appraisals of the assets. These assets are classified as held and used, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", until they are available for immediate sale, at which time they will be classified as held for sale. In addition, we recorded severance and other one-time benefit costs totaling $0.7 million which are included in the cost of sales line item of our statement of operations. We expect to incur additional severance and

other one-time benefit costs related to the closure of this facility of approximately $1.3 million over the next three months.

Note 3 – Presentation of Condensed Consolidated Financial Statements

The condensed consolidated balance sheet as of December 30, 2007 is derived from the audited financial statements as of that date; however, during the current quarter, we determined that our charter filed with the State of California in 1994 as part of our reincorporation from Delaware to California does not state a par value for our common or preferred stock. Our prior charter filed with the state of Delaware did include par values for our common stock and preferred stock of $0.50 and $25.00, respectively. We have revised our condensed consolidated balance sheets and our condensed consolidated statement of shareholders' equity to eliminate the references to par value and to eliminate the line item "Additional paid-in capital", which is now combined with the line item "Common stock, no par value". These changes had no impact on our results of operations, our statements of financial position or the underlying economics of our business.

Table of Contents

Accordingly, the December 30, 2007 balance has been revised as follows:

Balance sheet as of December 30, 2007 (Thousands of dollars)	As reported	Adjustments	As revised
Common stock	$ 13,317	$ 38,516	$ 51,833
Additional paid-in capital	$ 38,516	$ (38,516)	$ -

As discussed in Exhibit 99.1 of our 2007 Annual Report on Form 10-K, we discovered during the preparation and review of our 2007 income tax provision that we had not properly reconciled our tax liabilities related to the differences between the net book basis and the net tax basis of our depreciable property, plant and equipment. As a result of completing the necessary reconciliations for each year since 2002, we identified errors that impacted our previously filed financial statements for the fiscal years 2003 through 2006 and our previously filed interim financial statements for those years and the first three quarters of 2007 related to our tax liabilities and our income tax provisions.

During the fourth quarter of 2007, we also determined the cumulative impact of known differences in our accounting for our equity method investment in Suoftec Light Metal Products Production and Distribution, Ltd. (Suoftec) and our summary financial information presented for Suoftec, which we considered to be immaterial to any individual reporting period, required restatement. The errors related to the quantification and recording of the adjustments to report the Suoftec earnings on the basis of accounting principles generally accepted in the United States of America (U.S. GAAP) versus the Hungarian accounting rules followed by Suoftec. These differences principally relate to overhead cost capitalization into inventory and deferred income taxes on property, plant and equipment. The 2007 U.S. GAAP differences were immaterial to any one interim period and were recorded in the fourth quarter of 2007.

The following tables summarize the impact of the tax basis error corrections to our condensed consolidated statements of operations for the thirteen and thirty-nine week periods ended September 30, 2007 and to our condensed consolidated balance sheet as of September 30, 2007 as previously presented in Exhibit 99.1 of our 2007 Annual Report on Form 10-K. There was no impact to our 2007 interim Net Cash provided by Operating Activities due to the correction of the above errors.

Statement of Operations (Thousands of dollars)	For Thirteen Weeks Ended September 30, 2007			For Thirty-Nine Weeks Ended September 30, 2007		
	As reported	Adjustment	As restated	As reported	Adjustment	As restated
Income tax (provision) benefit	$ (731)	$ (95)	$ (826)	$ (938)	$ 299	$ (639)
Net income	$ (644)	$ (95)	$ (739)	$ 4,245	$ 299	$ 4,544
Earnings per share:						
Basic	$ (0.02)	$ (0.01)	$ (0.03)	$ 0.16	$ 0.01	$ 0.17
Diluted	$ (0.02)	$ (0.01)	$ (0.03)	$ 0.16	$ 0.01	$ 0.17

Balance Sheet as of September 30, 2007 (Thousands of dollars)	As reported	Adjustments	As restated
Income tax receivable	$ 13,668	$ 1,027	$ 14,695
Investments	$ 47,009	$ 528	$ 47,537
	$ 10,409	$ 1,706	$ 12,115

Noncurrent deferred tax asset, net						
Accumulated other comprehensive loss	$	(35,798)	$	4	$	(35,794)
Retained earnings	$	523,576	$	3,257	$	526,833

During interim periods, we follow the accounting policies set forth in our 2007 Annual Report on Form 10-K and apply appropriate interim financial reporting standards for a fair statement of our operating results and financial position in conformity with U.S. GAAP as indicated below. Users of financial information produced for interim periods in 2008 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 2007 Annual Report on Form 10-K.

Table of Contents

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 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 statements of operations for the thirteen week periods ended September 28, 2008 and September 30, 2007, (ii) the condensed consolidated balance sheets at September 28, 2008 and December 30, 2007, (iii) the condensed consolidated statements of cash flows for the thirty-nine week periods ended September 28, 2008 and September 30, 2007, and (iv) the condensed consolidated statement of shareholders' equity for the thirty-nine week period ended September 28, 2008. The condensed consolidated balance sheet as of December 30, 2007 was derived from our 2007 audited financial statements, but does not include all disclosures required by U.S. GAAP.

Note 4 – Stock-Based Compensation

Our 2008 Equity Incentive Plan authorizes us to issue incentive and non-qualified stock options, as well as stock appreciation rights, restricted stock and performance units to our non-employee directors, officers, employees and consultants totaling up to 3.5 million shares of common stock. No more than 100,000 shares may be used under such 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 September 28, 2008, there were 3.5 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 granted under this plan to employees and non-employee directors require no less than a three year ratable vesting period.

During the first three quarters of 2008, we granted options for a total of 616,000 shares, while in the first three quarters of 2007, we granted options for a total of 120,000 shares. The weighted average fair value at the grant date for options issued during the first three quarters of 2008 and 2007 was $5.30 and $6.07 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 2008 and 2007, respectively: (a) dividend yield on our common stock of 3.23 percent and 3.32 percent; (b) expected stock price volatility of 30.5 percent and 30.8 percent; (c) a risk-free interest rate of 3.41 percent and 4.72 percent; and (d) an expected option term of 7.0 years and 7.3 years. For the thirty-nine weeks ended September 28, 2008, options for 35,000 shares were exercised compared to 18,749 options exercised during the same fiscal period in year 2007.

Stock-based compensation expense related to our stock option plans under Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), was allocated as follows:

(Thousands of dollars)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
Cost of sales	$ 34	$ 87	$ 243	$ 519
Selling, general and administrative	490	544	1,488	2,124

Stock-based compensation expense before income taxes	524	631	1,731	2,643
Income tax benefit	(154)	(222)	(508)	(950)
Stock-based compensation expense after income taxes	$ 370	$ 409	$ 1,223	$ 1,693

As of September 28, 2008, a total of $5.4 million of unrecognized compensation cost related to non-vested awards is expected to be recognized over a weighted average period of approximately 3.0 years. There were no significant capitalized stock-based compensation costs at September 28, 2008 and December 30, 2007. We received cash totaling $617,000 and $350,000 from stock options exercised during the first three quarters of 2008 and 2007, respectively.

Note 5 - New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of the applicable provisions of SFAS No. 157 as of January 1 2008, did not have an impact on our consolidated results of operations or statement of financial position or disclosures. In February 2008, the FASB decided to issue a final Staff Position to allow a one-year deferral of adoption of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB also decided to amend SFAS No. 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. We do not expect that the adoption of the provisions of SFAS No. 157 for nonfinancial assets and liabilities measured on a nonrecurring basis will have a material impact on our consolidated results of operations or statement of financial position.

Table of Contents

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." This Statement replaces SFAS No. 141, "Business Combinations," (SFAS No. 141), and defines the acquirer as the entity that obtains control of one or more business in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This Statement's scope is broader than that of SFAS No. 141, which applied only to business combinations in which control was obtained by transferring consideration. This Statement applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

Note 6 – Business Segments

We have only one reportable segment – automotive road wheels. Each of our plants manufactures similar aluminum automotive road wheels, utilizes similar production processes and distribution methods, sells to many of the same OEM customers and faces similar variations in product demand levels. In order to effectively manage our overall business, we must maintain the ability to allocate production and resources interchangeably among our plants, as necessary. We assess operating performance and make operating decisions at this segment level and allocate resources among individual plants as deemed necessary to meet both customer requirements and our overall segment financial objectives.

Net sales and net property, plant and equipment by geographic area are summarized below:

(Thousands of dollars)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
Net sales:	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
U.S.	$ 96,568	$ 132,501	$ 342,030	$ 430,421
Mexico	66,786	95,056	260,947	297,228
Consolidated net sales	$ 163,354	$ 227,557	$ 602,977	$ 727,649

Property, plant and equipment, net:	September 28, 2008	December 30, 2007
U.S.	$ 96,326	$ 116,599
Mexico	176,544	185,654
Consolidated property, plant and equipment, net	$ 272,870	$ 302,253

Note 7 - Revenue Recognition

Sales of products and any related costs are recognized when title and risk of loss transfers to the purchaser, generally upon shipment. Tooling reimbursement revenues, representing internal development expenses and initial tooling that are reimbursable by our customers, are recognized as such related costs and expenses are incurred and recoverability is probable, generally upon receipt of a customer purchase order. Tooling reimbursement revenues totaled $4.0 million and $2.5 million for the third quarter of 2008 and 2007, respectively; and $14.3 million and $8.7 million for the thirty-nine weeks ended September 28, 2008 and September 30, 2007, respectively.

Note 8 – Earnings Per Share

In accordance with the provisions of SFAS No. 128, "Earnings Per Share," basic net income (loss) per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share includes the dilutive effect of outstanding stock options, calculated using the

treasury stock method.

Of the 3.5 million stock options outstanding at September 28, 2008, 2.7 million shares had an exercise price greater than the weighted average market price of the stock for the thirteen weeks ended September 28, 2008, and 2.4 million shares had an exercise price greater than the weighted average price of the stock for the thirty-nine week period ending September 28, 2008. Accordingly, these options were excluded in the calculations of diluted earnings per share for these periods. In addition, options to purchase the remaining 0.8 million shares and 1.1 million shares for the thirteen and thirty-nine week periods ended September 28, 2008, respectively, were excluded from diluted loss per share calculation, because they were anti-dilutive due to the net loss for those periods.

Of the 3.0 million stock options outstanding at September 30, 2007, 2.2 million shares had an exercise price greater than the weighted average market price of the stock and were excluded in the calculations of diluted earnings (loss) per share for both the thirteen week and thirty-nine week periods ended September 30, 2007. In addition, options to purchase the remaining 0.8 million shares were excluded from diluted loss per share calculation for the thirteen week period ended September 30, 2007, because they were anti-dilutive due to the net loss for the period.

Table of Contents

Summarized below are the calculations of basic and diluted earnings per share for the respective periods:

(In thousands, except per share amounts)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
Basic Earnings (Loss) per Share:				
Reported net income (loss)	$ (14,207)	$ (738)	$ (5,934)	$ 4,544
Weighted average shares outstanding - Basic	26,661	26,614	26,650	26,612
Basic earnings (loss) per share	$ (0.53)	$ (0.03)	$ (0.22)	$ 0.17
Diluted Earnings (Loss) per Share:				
Reported net income (loss)	$ (14,207)	$ (738)	$ (5,934)	$ 4,544
Weighted average shares outstanding	26,661	26,614	26,650	26,612
Weighted average dilutive stock options	-	-	-	19
Weighted average shares outstanding - Diluted	26,661	26,614	26,650	26,631
Diluted earnings (loss) per share	$ (0.53)	$ (0.03)	$ (0.22)	$ 0.17

Note 9 – Income Taxes

The income tax (provision) benefit on income before income taxes and equity earnings for the third quarter of 2008 was a benefit of $5.7 million compared to a provision of $(0.8) million for the same period in 2007.

For the first three quarters of 2008, the income tax benefit was $3.2 million, comprised of a benefit on losses of $1.8 million and reversal of discrete items totaling $1.4 million. These discrete items were principally a $0.7 million reversal of uncertain tax positions and a reduction of $0.8 million in valuation reserves. For the first three quarters of 2007, we recorded an income tax provision of $(0.6) million comprised of provision on earnings of $(2.0) million, offset by a benefit of $1.4 million consisting primarily of tax return and prior year adjustments and changes in valuation reserves and uncertain items.

We conduct business internationally and, as a result, some of our subsidiaries file income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities in Hungary, Mexico, the Netherlands and the United States. We are no longer subject to U.S. federal, state and local, or Mexico (our major filing jurisdictions) income tax examinations for years before 1999.

We are under audit for 2004 through 2006 tax years by the Internal Revenue Service. The examination phase of the audit concluded early in the fourth quarter of 2008. We anticipate receiving a tax refund of approximately $1.2 million, and the release of approximately $0.8 million of general business and alternative minimum tax credits. The examination is subject to final review by the taxing authorities.

In addition, the 2003 income tax return of Superior Industries de Mexico S.A. de C.V is under review by Mexico's Tax Administration Service (Servicio de Administracion Tributaria). However, it is not reasonably possible at this time to quantify any adjustments related to this audit or to predict the date of completion.

Within the next twelve month period ending September 27, 2009, we anticipate that unrecognized tax benefits in the amount of $8.5 million will be recognized due to the expiration of statutes of limitations and completion of related tax examinations.

We currently believe that we are likely to have taxable income in the future sufficient to realize the benefit of our deferred tax assets (consisting primarily of foreign tax credits, competent authority adjustments, reserves and accruals that are not currently deductible for tax purposes, as well as net operating loss carryforwards from losses we previously incurred). However, some or all of these deferred tax assets could expire unused if we are unable to generate taxable income in the future sufficient to utilize them or we enter into transactions that limit our right to use them. If it becomes more likely than not that our deferred tax assets will expire unused, we will have to recognize a valuation allowance, which may materially increase our income tax expense, and therefore adversely affect our results of operations and financial condition in the period in which it is recorded.

Table of Contents

At December 30, 2007 and September 30, 2008, our net deferred tax asset was $19.2 million and $23.2 million, respectively. Based upon our assessment, it appears more likely than not that the net deferred tax asset will be realized through future taxable earnings. Accordingly, no valuation allowance has been established for our net deferred tax asset. We will continue to assess the need for a valuation allowance in the future.

Note 10 – Equity in Earnings of Joint Ventures

Included below are summary statements of operations for Suoftec, our 50 percent owned joint venture in Hungary, which manufactures cast and forged aluminum wheels principally for the European automobile industry. Being 50 percent owned and non-controlled, Suoftec is not consolidated, but accounted for using the equity method.

(Thousands of dollars)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
Net sales	$ 30,350	$ 35,695	$ 113,495	$ 106,853
Cost of sales	30,658	31,963	106,804	98,095
Gross profit (loss)	(308)	3,732	6,691	8,758
Selling, general and administrative expenses	623	487	2,084	1,509
Income (loss) from operations	(931)	3,245	4,607	7,249
Other income (expense), net	(331)	145	702	264
Income (loss) before income taxes	(1,262)	3,390	5,309	7,513
Income tax benefit (provision)	291	(676)	(930)	(1,480)
Net income (loss)	$ (971)	$ 2,714	$ 4,379	$ 6,033
Superior's share of Suoftec net income (loss)	$ (485)	$ 1,357	$ 2,189	$ 3,017
Intercompany profit elimination	342	(235)	373	(456)
Superior's equity in earnings (loss) of Suoftec	(143)	1,122	2,562	2,561
Equity in earnings of Topy-Superior Ltd	-	65	-	175
Total equity in earnings (loss) of joint ventures	$ (143)	$ 1,187	$ 2,562	$ 2,736

As of March 31, 2008, the Topy-Superior Limited joint venture with Topy Industries was terminated. The termination of the joint venture did not have a material impact on our financial condition or results of operations.

Note 11 – Other Income

Foreign currency transaction gains (losses), which are included in other income, net, were $1.2 million for the thirteen weeks ended September 28, 2008 compared to $0.4 million for the same period a year ago and a loss of $(0.5) million for the thirty-nine weeks ended September 28, 2008 compared to a gain of $0.6 million for the same thirty-nine week period in 2007. In the first quarter of 2007, we sold available-for-sale corporate equity securities realizing a $2.4 million gain that was included in other income, net.

Table of Contents

Note 12 – Accounts Receivable