

SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-Q
November 04, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended September 27, 2015

Commission file number: 1-6615

SUPERIOR INDUSTRIES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 95-2594729
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)
Organization)

26600 Telegraph Road, Suite 400 48033
Southfield, Michigan (Zip Code)
(Address of Principal Executive Offices)
Registrant's Telephone Number, Including Area Code: (248) 352-7300

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of common stock outstanding as of October 29, 2015: 26,292,409

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1 - <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated</u> Statements of Operations	1
<u>Condensed Consolidated Statements of Comprehensive</u> (Loss) Income	2
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u>	4
<u>Condensed Consolidated Statement of Shareholders' Equity</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2 - <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3 - <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4 - <u>Controls and Procedures</u>	36
PART II - OTHER INFORMATION	
Item 1 - <u>Legal Proceedings</u>	36
Item 1A - <u>Risk Factors</u>	36
Item 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 6 - <u>Exhibits</u>	37
<u>Signatures</u>	38

Table of ContentsPART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
NET SALES	\$ 175,656	\$ 176,419	\$ 533,325	\$ 558,775
Cost of sales:				
Cost of sales	158,004	164,939	481,093	515,927
Restructuring costs (Note 3)	1,168	4,162	4,606	4,162
	159,172	169,101	485,699	520,089
GROSS PROFIT	16,484	7,318	47,626	38,686
Selling, general and administrative expenses	8,425	9,955	24,858	25,176
INCOME (LOSS) FROM OPERATIONS	8,059	(2,637)	) 22,768	13,510
Interest (expense) income, net	(55)	) 233	87	893
Other expense, net	(389)	) (336)	) (933)	) (422)
INCOME (LOSS) BEFORE INCOME TAXES	7,615	(2,740)	) 21,922	13,981
Income tax (provision) benefit	(2,669)	) 321	(6,108)	) (6,539)
NET INCOME (LOSS)	\$ 4,946	\$ (2,419)	) \$ 15,814	\$ 7,442
INCOME (LOSS) PER SHARE - BASIC	\$ 0.19	\$ (0.09)	) \$ 0.59	\$ 0.28
INCOME (LOSS) PER SHARE - DILUTED	\$ 0.19	\$ (0.09)	) \$ 0.59	\$ 0.27
DIVIDENDS DECLARED PER SHARE	\$ 0.18	\$ 0.18	\$ 0.54	\$ 0.54

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

Table of Contents

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Net income (loss)	\$4,946	\$(2,419)	\$15,814	\$7,442
Other comprehensive (loss) income, net of tax:				
Foreign currency translation loss, net of tax	(9,098)	(3,837)	(15,134)	(3,419)
Change in unrecognized (losses) gains on derivative instruments:				
Unrealized hedging losses, net of tax	(6,826)	—	(9,844)	—
Reclassification of realized losses to net income, net of tax	1,935	—	4,144	—
Change in unrecognized losses on derivative instruments, net of tax	(4,891)	—	(5,700)	—
Defined benefit pension plan:				
Amortization of amounts resulting from changes in actuarial assumptions	134	30	402	89
Tax provision	(51)	(11)	(151)	(33)
Pension changes, net of tax	83	19	251	56
Other comprehensive loss, net of tax	(13,906)	(3,818)	(20,583)	(3,363)
Comprehensive (loss) income	\$(8,960)	\$(6,237)	\$(4,769)	\$4,079

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

Table of Contents

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

	September 27, 2015	December 28, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$49,948	\$62,451
Short term investments	950	3,750
Accounts receivable, net	118,954	102,493
Inventories	61,822	74,677
Income taxes receivable	2,663	3,740
Deferred income taxes, net	9,571	9,897
Other current assets	15,264	19,003
Total current assets	259,172	276,011
Property, plant and equipment, net	239,803	255,035
Investment in unconsolidated affiliate	2,000	2,000
Non-current deferred income taxes, net	17,481	17,852
Non-current assets	30,404	29,012
Total assets	\$548,860	\$579,910
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$26,228	\$23,938
Accrued expenses	44,117	48,024
Total current liabilities	70,345	71,962
Non-current income tax liabilities	8,229	13,621
Non-current deferred income tax liabilities, net	13,951	15,122
Other non-current liabilities	43,079	40,199
Commitments and contingencies (Note 17)	—	—
Shareholders' equity:		
Preferred stock, \$0.01 par value		
Authorized - 1,000,000 shares		
Issued - none	—	—
Common stock, \$0.01 par value		
Authorized - 100,000,000 shares		
Issued and outstanding - 26,386,913 shares (26,730,247 shares at December 28, 2014)	86,848	81,473
Accumulated other comprehensive loss	(102,008	) (81,425
Retained earnings	428,416	438,958
Total shareholders' equity	413,256	439,006
Total liabilities and shareholders' equity	\$548,860	\$579,910

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

Table of Contents

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

	Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$39,205	\$5,693
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(32,629)	(92,043)
Proceeds from life insurance policy	278	352
Proceeds from sales and maturities of investments	3,750	3,750
Purchase of investments	(950)	(3,750)
Proceeds from sale of property, plant and equipment	1,815	1,973
Premiums paid for life insurance	(333)	(340)
Other	37	158
NET CASH USED IN INVESTING ACTIVITIES	(28,032)	(89,900)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(14,371)	(14,605)
Cash paid for common stock repurchase	(14,374)	(21,790)
Proceeds from exercise of stock options	7,265	5,568
Excess tax benefits from exercise of stock options	—	47
NET CASH USED IN FINANCING ACTIVITIES	(21,480)	(30,780)
Effect of exchange rate changes on cash	(2,196)	(1,181)
Net decrease in cash and cash equivalents	(12,503)	(116,168)
Cash and cash equivalents at the beginning of the period	62,451	199,301
Cash and cash equivalents at the end of the period	\$49,948	\$83,133

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

Table of Contents

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

	Common Stock		Accumulated Other Comprehensive (Loss) Income			Retained Earnings	Total
	Number of Shares	Amount	Unrecognized Gains/Losses on Derivative Instruments	Pension Obligations	Cumulative Translation Adjustment		
Balance at December 28, 2014	26,730,247	\$81,473	\$(4,765)	\$(5,186)	\$(71,474)	\$438,958	\$439,006
Net income						15,814	15,814
Change in gains/losses on derivative instruments, net of tax			(5,700)	—	—	—	(5,700)
Change in employee benefit plans, net of taxes				251	—	—	251
Net foreign currency translation adjustment				—	(15,134)	—	(15,134)
Stock options exercised	420,142	7,265		—	—	—	7,265
Restricted stock awards granted, net of forfeitures	6,455	—		—	—	—	—
Stock-based compensation expense	—	2,059		—	—	—	2,059
Tax impact of stock options	—	(1,464)		—	—	—	(1,464)
Common stock repurchased (769,931)	(769,931)	(2,485)		—	—	(11,889)	(14,374)
Cash dividends declared (\$0.54 per share)	—	—		—	—	(14,467)	(14,467)
Balance at September 27, 2015	26,386,913	\$86,848	\$(10,465)	\$(4,935)	\$(86,608)	\$428,416	\$413,256

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

Table of Contents

Superior Industries International, Inc.
Notes to Condensed Consolidated Financial Statements
September 27, 2015
(Unaudited)

Note 1 – Nature of Operations

Headquartered in Southfield, Michigan, 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 (“OEMs”). We are one of the largest suppliers of cast aluminum wheels to the world’s leading automobile and light-duty 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”) and Toyota Motor Company (“Toyota”) were our customers individually accounting for more than 10 percent of our consolidated sales in the first three quarters of 2015 and together represented approximately 83 percent of our total sales during the first three quarters of 2015. Additionally, Fiat Chrysler Automotive N.V. (“FCA”) individually accounted for more than 10 percent of our consolidated sales during the first three quarters of 2014 and together with Ford, GM and Toyota represented approximately 90 percent of our total sales during the first three quarters of 2014. We also manufacture aluminum wheels for BMW, Mazda, Nissan, Subaru, Tesla and Volkswagen. The loss of all or a substantial portion of our sales to Ford, GM 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.

Demand for automobiles and light-duty trucks (including SUV’s and crossover vehicles) in the North American market 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 compared 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. 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 and competition, and the pressure for price reductions, may make it more difficult to maintain long-term supply arrangements with our customers. As a result, there can be no guarantees that we will be able to negotiate supply arrangements with our customers 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 difficult to reduce our costs. It is also possible that as we incur costs to implement improvement strategies, the initial impact of these strategies 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 suppliers with whom we have, in many cases, relatively long-standing 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 28, 2014 (the "2014 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 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 2015 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 2014 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

Table of Contents

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, in our opinion, 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 and thirty-nine week periods ended September 27, 2015 and September 28, 2014, (ii) the condensed consolidated statements of comprehensive (loss) income for the thirteen and thirty-nine week periods ended September 27, 2015 and September 28, 2014, (iii) the condensed consolidated balance sheets at September 27, 2015 and December 28, 2014, (iv) the condensed consolidated statements of cash flows for the thirty-nine week periods ended September 27, 2015 and September 28, 2014, and (v) the condensed consolidated statement of shareholders’ equity for the thirty-nine week period ended September 27, 2015. 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 as of December 28, 2014, included in this report, was derived from our 2014 audited financial statements, but does not include all disclosures required by U.S. GAAP.

New Accounting Pronouncements

In May 2014, the FASB issued an Accounting Standards Update (“ASU”) entitled “Revenue from Contracts with Customers.” The ASU requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In August 2015, the FASB approved a one-year deferral of the effective date. Under the standard it is required to be adopted by public business entities in annual periods beginning on or after December 15, 2017. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In June 2014, the FASB issued an ASU entitled “Compensation - Stock Compensation.” The ASU provides guidance on when the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance becomes effective for annual reporting periods beginning after December 15, 2015, and early adoption is permitted. We are currently evaluating the impact this guidance will have on our financial position and results of operations.

In January 2015, the FASB issued an ASU entitled “Income Statement - Extraordinary and Unusual Items.” The ASU requires that an entity simplify Income Statement presentation by eliminating the concept of “Extraordinary Items”. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In February 2015, the FASB issued an ASU entitled “Consolidation.” The ASU includes amendments to the consolidation analysis which are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption, including adoption in interim periods, is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In April 2015, the FASB issued an ASU entitled “Interest - Imputation of Interest.” The ASU requires that an entity simplify the presentation of debt issuance costs. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is allowed for all entities for financial statements that have not been previously issued. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In April 2015, the FASB issued an ASU entitled “Compensation - Retired Benefits.” The ASU provides practical expedients for the measurement date of an employer's defined benefit obligation and plan assets. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, and early adoption is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In June 2015, the FASB issued an ASU entitled “Technical Corrections and Improvements.” The ASU provides changes to clarify the ASC, correct unintended application of guidance, and make minor improvements to the ASC. The amendments in this ASU that require transition guidance are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted, including adoption in an interim period. All other amendments

Table of Contents

will be effective upon the issuance of this update. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In July 2015, the FASB issued an ASU entitled "Simplifying the Measurement of Inventory." The ASU replaces the current lower of cost or market test with a lower of cost or net realizable value test when cost is determined on a first-in, first-out or average cost basis. The standard is effective for public entities for annual reporting periods beginning after December 15, 2016, and interim periods therein. It is to be applied prospectively and early adoption is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

Note 3 – Restructuring

During the second half of 2014, we completed a review of initiatives to reduce costs and enhance our competitive position. Based on this review, we committed to a plan to close operations at our Rogers, Arkansas manufacturing facility. During the fourth quarter of 2014 we shifted production to our other locations and closed operations at the Rogers facility. The closure resulted in a workforce reduction of approximately 500 employees. Additional restructuring actions taken in 2014 included a reduction in our Mexico workforce and the sale of one of the company's aircraft. In 2015, the company continued its efforts to reduce costs by further reducing our labor costs in the U.S., completing the final sale of our remaining aircraft and selling an idle warehousing facility in West Memphis, Arkansas. The results for the first nine months of 2015 reflect \$4.6 million of additional costs charged to cost of sales due to the closure of our Rogers facility, charges totaling \$0.2 million in SG&A for the write-down of the carrying value of the aircraft we sold in February 2015 and a \$0.5 million gain on the sale of the idle warehousing facility located in West Memphis, Arkansas. Additional expenses related to the Rogers facility fixed assets and other closing costs are expected to continue throughout 2015.

The total cost expected to be incurred as a result of the Rogers facility closure is \$14.0 million, of which \$5.9 million is expected to be paid in cash. As of September 27, 2015, estimated remaining cash payments total \$0.4 million.

The following table summarizes the Rogers, Arkansas plant closure costs and classification in the condensed consolidated statements of operations as of September 27, 2015:

(Dollars in thousands)	Costs Incurred Through December 28, 2014	Costs Incurred During the Thirty-nine Week Period Ended September 27, 2015	Costs Remaining	Total Expected Costs	Classification
Depreciation of assets to be abandoned and depreciation on idled assets	\$5,365	\$1,366	\$808	\$7,539	Cost of sales, Restructuring costs
One-time severance costs	1,897	195	—	2,092	Cost of sales, Restructuring costs
Equipment removal, inventory write-down, lease termination and other costs	1,167	3,045	204	4,416	Cost of sales, Restructuring costs
	\$8,429	\$4,606	\$1,012	\$14,047	

Changes in the accrued expenses related to restructuring liabilities during the thirty-nine weeks ended September 27, 2015 are summarized as follows:

Table of Contents

(Dollars in thousands)

Balance December 29, 2013	\$—	
Restructuring accruals	1,897	
Cash payments	(1,682))
Balance December 28, 2014	215	
Restructuring accruals	2,427	
Cash payments	(2,606))
Balance September 27, 2015	\$36	

Note 4 - Fair Value Measurements

The company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis, while other assets and liabilities are measured at fair value on a nonrecurring basis, such as when we have an asset impairment. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The carrying amounts for cash and cash equivalents, investments in certificates of deposit, accounts receivable, accounts payable and accrued expenses approximate their fair values due to the short period of time until maturity.

Cash and Cash Equivalents

Included in Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as Cash and cash equivalents. Time deposits, certificates of deposit, and money market accounts that meet the above criteria are reported at par value on our balance sheet and are excluded from the table below.

Derivative Financial Instruments

Our derivatives are over-the-counter customized derivative transactions and are not exchange traded. We estimate the fair value of these instruments using industry-standard valuation models such as a discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates, commodity prices, and the contractual terms of the derivative instruments. The discount rate used is the relevant interbank deposit rate (e.g., LIBOR) plus an adjustment for non-performance risk. In certain cases, market data may not be available and we may use broker quotes and models (e.g., Black-Scholes) to determine fair value. This includes situations where there is lack of liquidity for a particular currency or commodity or when the instrument is longer dated.

Investment in Unconsolidated Affiliate

In October 2014, a typhoon caused significant damage to the facilities and operations of Synergies Castings Limited ("Synergies"), a private aluminum wheel manufacturer based in Visakhapatnam, India, a company in which we hold

an investment carried on the cost method of accounting (see Note 11 - Investment in Unconsolidated Affiliate). In the fourth quarter of 2014 we tested the \$4.5 million carrying value of our investment in Synergies for impairment. Based on our evaluation, we determined there was an other-than-temporary impairment and wrote the investment down to its estimated fair value of \$2.0 million, with the \$2.5 million loss recognized in income. The valuation was based on an income approach using current financial forecast data and rates and assumptions market participants would use in pricing the investment using level 3 inputs. The investment in Synergies is \$2.0 million as of September 27, 2015.

The following table categorizes items measured at fair value, on a recurring basis, at September 27, 2015:

Table of Contents

		Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 27, 2015 (Dollars in thousands)	Total			
Assets				
Certificates of deposit	\$950	\$—	\$950	\$—
Derivative contracts	201	—	201	—
Total	\$1,151	\$—	\$1,151	\$—
Liabilities				
Derivative contracts	\$16,877	\$—	\$16,877	\$—
Total	\$16,877	\$—	\$16,877	\$—

The following table categorizes items measured at fair value, on a recurring and nonrecurring basis at December 28, 2014:

		Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 28, 2014 (Dollars in thousands)	Total			
Assets				
Certificates of deposit	\$3,750	\$—	\$3,750	\$—
Investment in unconsolidated affiliate	2,000	—	—	2,000
Total	\$5,750	\$—	\$3,750	\$2,000
Liabilities				
Derivative contracts	\$7,552	\$—	\$7,552	\$—
Total	\$7,552	\$—	\$7,552	\$—

Note 5 - Derivative Financial Instruments

We use derivatives to partially offset our business exposure to foreign currency risk. We may enter into forward contracts, option contracts, swaps, collars or other derivative instruments to offset some of the risk on expected future cash flows and on certain existing assets and liabilities. However, we may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of our subsidiaries whose functional currency is the U.S. dollar hedge a portion of forecasted foreign currency costs. Generally, we may hedge portions of our forecasted foreign currency exposure associated with costs, for up to approximately 40 months.

We record all derivatives in the consolidated balance sheets at fair value. Our accounting treatment for these instruments is based on the hedge designation. The effective portions of cash flow hedges are recorded in

Accumulated Other Comprehensive Income ("AOCI") until the hedged item is recognized in earnings. The ineffective portions of cash flow hedges are recorded in cost of sales. Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates.

Deferred gains and losses associated with cash flow hedges of foreign currency costs are recognized as a component of cost of sales in the same period as the related cost is recognized. Our foreign currency transactions hedged with cash flow hedges as of September 27, 2015, are expected to occur monthly through December 2018.

Table of Contents

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in AOCI associated with such derivative instruments are reclassified immediately into other income and expense. Any subsequent changes in fair value of such derivative instruments are reflected in other income and expense unless they are re-designated as hedges of other transactions. We have not recognized any net gains or losses related to the loss of hedge designation on discontinued cash flow hedges.

We had no gains or losses recognized in other income and expense for foreign currency forward and option contracts not designated as hedging instruments during the thirteen week period ended September 27, 2015 or the year ended December 28, 2014.

The following table displays the fair value of derivatives by balance sheet line item:

(Dollars in thousands)	September 27, 2015			December 28, 2014	
	Other Non-current Assets	Accrued Liabilities	Other Non-current Liabilities	Accrued Liabilities	Other Non-current Liabilities
Foreign exchange forward contracts and collars designated as hedging instruments	\$201	\$(10,445)	\$(6,432)	\$(5,598)	\$(1,954)
Total derivative instruments	\$201	\$(10,445)	\$(6,432)	\$(5,598)	\$(1,954)

The following table summarizes the notional amount and estimated fair value of our derivative financial instruments:

(Dollars in thousands)	September 27, 2015			December 28, 2014		
	Local Currency Notional Amount	U.S. Dollar Notional Amount	Fair Value	Local Currency Notional Amount	U.S. Dollar Notional Amount	Fair Value
Mexico Pesos (Collars) (1)	\$131,500	\$780	\$(591)	\$—	\$—	\$—
Mexico Pesos (Forwards)	2,503,415	157,518	(16,085)	1,620,386	115,442	(7,552)
Total derivative financial instruments	\$2,634,915	\$158,298	\$(16,676)	\$1,620,386	\$115,442	\$(7,552)

(1) The collars include Mexico peso call options with a notional amount of MXN 131.5 million and Mexico peso put options with a notional amount of MXN 131.5 million, as of September 27, 2015.

Notional amounts are presented on a gross basis. The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates, or commodity volumes and prices. The hedging contracts mature monthly through December 2018.

The following table provides the impact of derivative instruments designated as cash flow hedges on our consolidated income statement:

Thirty-nine Week Period Ended September 27, 2015	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
(Thousands of dollars)			

Foreign exchange forward contracts and collars	\$ (15,753	)	\$ (6,630)	\$ —
Total	\$ (15,753	)	\$ (6,630)	\$ —

Note 6 – Business Segments

11

Table of Contents

Our 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, and 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		Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Net sales:				
U.S.	\$41,935	\$58,569	\$127,431	\$196,637
Mexico	133,721	117,850	405,894	362,138
Consolidated net sales	\$175,656	\$176,419	\$533,325	\$558,775
Property, plant and equipment, net:			September 27, 2015	December 28, 2014
U.S.			\$48,806	\$55,120
Mexico			190,997	199,915
Consolidated property, plant and equipment, net			\$239,803	\$255,035

Note 7 – 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 appears 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 directly secure or collateralize letters of credit securing our workers' compensation obligations. At September 27, 2015 and December 28, 2014, certificates of deposit totaling \$1.0 million and \$3.8 million, respectively were restricted in use and were classified as short-term investments on our condensed consolidated balance sheets.

Note 8 – Accounts Receivable

(Dollars in thousands)

	September 27, 2015	December 28, 2014
Trade receivables	\$110,747	\$96,177
Other receivables	8,865	6,830
	119,612	103,007
Allowance for doubtful accounts	(658)	(514)
Accounts receivable, net	\$118,954	\$102,493

Table of Contents

Note 9 – Inventories

(Dollars in thousands)

	September 27, 2015	December 28, 2014
Raw materials	\$14,462	\$19,427
Work in process	31,132	30,797
Finished goods	16,228	24,453
Inventories	\$61,822	\$74,677

Service wheel and supplies inventory included in other non-current assets in the condensed consolidated balance sheets totaled \$6.4 million and \$6.4 million at September 27, 2015 and December 28, 2014, respectively. Included in raw materials was supplies inventory totaling \$8.6 million and \$8.8 million on September 27, 2015 and December 28, 2014, respectively.

Note 10 – Property, Plant and Equipment

(Dollars in thousands)

	September 27, 2015	December 28, 2014
Land and buildings	\$73,699	\$91,209
Machinery and equipment	481,271	447,880
Leasehold improvements and others	5,253	6,865
Construction in progress	23,831	59,600
	584,054	605,554
Accumulated depreciation	(344,251)	(350,519)
Property, plant and equipment, net	\$239,803	\$255,035

Construction in progress includes \$7.1 million and \$47.8 million of costs related to our new wheel plant under construction in Mexico, at September 27, 2015 and December 28, 2014, respectively. The majority of the manufacturing lines for the new plant were put into operation in 2015. Depreciation expense was \$25.7 million and \$25.9 million for the thirty-nine weeks ended September 27, 2015 and September 28, 2014, respectively. Depreciation expense for the thirty-nine weeks ended September 28, 2014 includes \$3.1 million of additional charges for depreciation accelerated due to shorter useful lives for assets abandoned when operations ceased at our Rogers facility and \$1.0 million of additional charges to reduce the carrying value of an aircraft (see Note 3 - Restructuring).

Note 11 – Investment in Unconsolidated Affiliate

On June 28, 2010, we executed a share subscription agreement with Synergies, a private aluminum wheel manufacturer based in Visakhapatnam, India, providing for our acquisition of a minority interest in Synergies. As of September 27, 2015, the total cash investment in Synergies amounted to \$4.5 million, representing 12.6% of the outstanding equity shares of Synergies. Our Synergies investment is accounted for using the cost method. 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 \$0.5 million. The remaining principal balance of the unsecured advance was paid in full during the first quarter of 2015.

In October 2014, a typhoon caused significant damage to the facilities and operations of Synergies, and in the fourth quarter of 2014 we tested the \$4.5 million carrying value of our investment for impairment. Based on our evaluation, we determined there was an other-than-temporary impairment and wrote the investment down to its estimated fair value of \$2.0 million, with the \$2.5 million loss recognized in income for the year ended December 28, 2014. The valuation was based on an income approach using current financial forecast data, and rates and assumptions market participants would use in pricing the investment.

Note 12 – Preproduction Costs Related to Long-Term Supply Arrangements

We incur preproduction engineering and tooling costs related to the products manufactured 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 statements of operations totaled \$1.3 million and \$2.0 million for the thirteen weeks ended September 27, 2015 and

Table of Contents

September 28, 2014, respectively, and \$4.5 million and \$6.1 million for the thirty-nine weeks ended September 27, 2015 and September 28, 2014, 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)	September 27, 2015	December 28, 2014
Unamortized Preproduction Costs		
Preproduction costs	\$70,932	\$65,621
Accumulated amortization	(57,571	) (53,408
Net preproduction costs	\$13,361	\$12,213
Deferred Tooling Revenues		
Accrued expenses	\$3,183	\$4,833
Other non-current liabilities	1,397	2,449
Total deferred tooling revenues	\$4,580	\$7,282
Note 13 – 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 income per share includes the dilutive effect of outstanding stock options calculated using the treasury stock method.

The computation of diluted income per share does not include stock option awards that were outstanding and anti-dilutive (i.e., including such awards would result in higher income 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 thirty-nine week periods ended September 27, 2015 there were 0.2 million and 0.2 million shares issuable under outstanding stock options excluded from the computations, respectively. For the thirteen and thirty-nine week periods ended September 28, 2014, there were 2.0 million and 0.9 million shares issuable under outstanding stock options excluded from the computations, respectively. In addition, the performance shares discussed in Note 18 - Stock Based Compensation, are not included in the diluted income per share because the performance metrics had not been met as of September 27, 2015. Summarized below are the calculations of basic and diluted income per share.

(In thousands, except per share amounts)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Basic Income (Loss) Per Share:				
Reported net income (loss)	\$4,946	\$(2,419	) \$15,814	\$7,442
Basic income (loss) per share	\$0.19	\$(0.09	) \$0.59	\$0.28
Weighted average shares outstanding - Basic	26,557	26,652	26,708	26,991
Diluted Income (Loss) Per Share:				
Reported net income (loss)	\$4,946	\$(2,419	) \$15,814	\$7,442
Diluted income (loss) per share	\$0.19	\$(0.09	) \$0.59	\$0.27
Weighted average shares outstanding	26,557	26,652	26,708	26,991
Weighted average dilutive stock options	27	—	37	137
Weighted average shares outstanding - Diluted	26,584	26,652	26,745	27,128

Note 14 – Income Taxes

Table of Contents

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 of 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. Our valuation allowances totaled \$3.9 million as of December 28, 2014, and relates to state deferred tax assets for net operating loss and tax credit carryforwards that are not expected to be realized due to changes in tax law, and cessation of business in Kansas.

We record uncertain tax positions in accordance with U.S. GAAP on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. 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.

The provision for income taxes for the thirteen weeks ended September 27, 2015 was \$2.7 million, which resulted in an effective income tax rate of 35 percent. For the thirty-nine weeks ended September 27, 2015 the provision for income taxes was \$6.1 million, which resulted in an effective income tax rate of 28 percent. The effective tax rate for the thirty-nine weeks ended September 27, 2015 was lower than the statutory rate due to the release of certain liabilities related to uncertain tax positions as a result of the expiration of a statute of limitations, partially offset by state income taxes (net of federal tax benefit) and interest and penalties on unrecognized tax benefits.

For the thirteen weeks ended September 28, 2014, the income tax benefit was \$0.3 million, which was an effective income tax rate of 12 percent. For the thirty-nine weeks ended September 28, 2014 the provision for income taxes was \$6.5 million, which was an effective income tax rate of 47 percent. The tax benefit for the thirteen weeks ended September 28, 2014 was lower than the benefit calculated using the U.S. federal statutory rate due to interest and

penalties on unrecognized tax benefits and the write-down of a tax refund receivable, partially offset by the release of certain liabilities related to uncertain tax positions due to the expiration of a statute of limitations. The effective tax rate for the thirty-nine weeks ended September 28, 2014 was higher than the federal statutory rate as a result of non-deductible expenses primarily related to compensation deduction limitations and recent tax law changes in Mexico, interest and penalties on unrecognized tax benefits, the write-down of a tax refund receivable and state income taxes (net of federal tax benefit), partially offset by the release of a reserve due to the expiration of a statute of limitations and foreign income taxed at rates that are lower than the U. S. statutory rates.

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 open for examination by taxing authorities regarding any U.S. federal income tax returns for years before 2012 while the years open for examination under various state and local jurisdictions vary. We expect approximately \$1.0 million of unrecognized

Table of Contents

tax benefits related to our U.S. and Mexico operations will be recognized in the twelve month period ending September 25, 2016 due to the expiration of certain statutes of limitations or due to settlement of uncertain tax positions.

Note 15 – 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 remainder of the retiree's life or for a minimum of ten years. The plan was closed to new participants effective February 3, 2011.

For the thirty-nine weeks ended September 27, 2015, payments to retirees or their beneficiaries totaled approximately \$1.3 million. We presently anticipate benefit payments in 2015 to total approximately \$2.5 million. The following table summarizes the components of net periodic pension cost for the third quarter of 2015 and 2014.

(Dollars in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Service cost	\$11	\$21	\$33	\$346
Interest cost	307	293	923	879
Net amortization	134	30	401	89
Net periodic pension cost	\$452	\$344	\$1,357	\$1,314

Note 16 - Line of Credit

On December 19, 2014, we entered into a senior secured credit agreement (the "Credit Agreement") with J.P. Morgan Securities LLC, JP Morgan Chase Bank, N.A. ("JPMCB") and Wells Fargo Bank, National Association (together with JPMCB, the "Lenders").

The Credit Agreement consists of a senior secured revolving credit facility in an initial aggregate principal amount of \$100.0 million (the "Facility"). In addition, the company is entitled to request, subject to certain terms and conditions and the agreement of the Lenders, an increase in the aggregate revolving commitments under the Facility or to obtain incremental term loans in an aggregate amount not to exceed \$50.0 million, which currently is uncommitted to by any lenders. We intend to use the proceeds of the Facility to finance the working capital needs, and for the general corporate purposes of the company and its subsidiaries.

The Credit Agreement expires on December 19, 2019 and borrowings under the Facility accrue interest at (i) a London interbank offered rate plus a margin of between 0.75 percent and 1.25 percent based on the total leverage ratio of Superior and its subsidiaries on a consolidated basis, (ii) a rate based on JPMCB's prime rate plus a margin of between 0.00 percent and 0.25 percent based on the total leverage ratio of the company and its subsidiaries on a consolidated basis or (iii) a combination thereof. Commitment fees are 0.2 percent on the unused portion of the facility. The commitment fees are included as interest expense in our consolidated financial statements.

Generally, all amounts under the Facility are guaranteed by certain of the U.S. subsidiaries of the company and are secured by a first priority security interest in and lien on the personal property of the company and the U.S. guarantors (as defined in the Credit Agreement) and a pledge of and first perfected security interest in the equity interests of the company's existing and future U.S. subsidiaries and 65 percent of the equity interests in certain non-U.S. direct material subsidiaries of the company and the U.S. guarantors under the Facility.

The Credit Agreement contains certain customary restrictive covenants, including, among others, financial covenants requiring the maintenance of a maximum total leverage ratio and a minimum fixed charge coverage ratio, and also includes, without limitation, covenants, in each case with certain exceptions and allowances, limiting the ability of the company and its subsidiaries to incur indebtedness, grant liens, make investments, dispose of assets, make certain restrictive payments, make optional payments and modifications of subordinated debt instruments, enter into certain transactions with affiliates, enter into swap agreements, make capital expenditures or make changes to its lines of business. At September 27, 2015, we were in compliance with all covenants contained in the Credit Agreement. At September 27, 2015, we had no borrowings under this facility.

Table of Contents

The Credit Agreement contains customary default provisions, representations and warranties and restrictive covenants. The Credit Agreement also contains a provision permitting the lenders to accelerate the repayment of all loans outstanding under the Facility during an event of default.

Note 17 – Commitments and Contingencies

Steven J. Borick Separation Agreement

On October 14, 2013, the company and Steven J. Borick entered into a Separation Agreement (the "Separation Agreement"), providing for Mr. Borick's separation from employment as the company's President and Chief Executive Officer. Mr. Borick's separation was effective March 31, 2014. In accordance with the Separation Agreement, in addition to payment of his salary and accrued vacation through his separation date, the company paid or provided Mr. Borick with the following upon his separation:

• A lump-sum cash payment of \$1,345,833,

• Mr. Borick's 2013 annual incentive bonus,

A grant of a number of shares of company common stock equal to the Black-Scholes value of an annual award of 20,000 stock options divided by the company's closing stock price on the separation date (See Note 18 - Stock-Based Compensation), and

• Vesting of all of Mr. Borick's unvested stock options and unvested restricted stock.

During 2014, the company recognized \$1.1 million of compensation expense in connection with the Separation Agreement.

Donald J. Stebbins, Executive Employment Agreement

On April 30, 2014, we entered into an Executive Employment Agreement (the "Employment Agreement") with Donald J. Stebbins in connection with his appointment as President and Chief Executive Officer of the company. The Employment Agreement became effective May 5, 2014 and is for a 3 year term that expires on April 30, 2017, with additional one-year automatic renewals unless either Mr. Stebbins or the company provides advance notice of nonrenewal of the Employment Agreement. The Employment Agreement provides for an annual base salary of \$900,000. Mr. Stebbins may receive annual bonuses based on attainment of performance goals, determined by the company's independent compensation committee, in the amount of 80 percent of annual base salary at threshold level performance, 100 percent of annual base salary at target level performance, and up to 200 percent of annual base salary for performance substantially above target level.

Mr. Stebbins received inducement grants of restricted stock for 50,000 shares vesting April 30, 2017, and an additional number of shares of 82,455 determined by dividing \$1,602,920 by the per share value of the company's common stock on May 5, 2014, with the additional shares vesting on December 31, 2016. Beginning in 2015, Mr. Stebbins will be granted restricted stock unit awards each year under Superior's 2008 Equity Incentive Plan, or any successor equity plan. Under the Employment Agreement, Mr. Stebbins is to be granted time-vested restricted stock units each year, cliff vesting at the third fiscal year end following grant, for a number of shares equal to 66.7 percent of his annual base salary divided by the per share value of Superior's common stock on the date of grant. In addition, Mr. Stebbins is to be granted performance-vested restricted stock units each year, vesting based on company performance goals established by the independent compensation committee during the three fiscal years following grant, for a maximum number of shares equal to 200 percent of his annual base salary divided by the per share value of Superior's common stock on the date of grant. In general, the equity awards vest only if Mr. Stebbins continues in employment with the company through the vesting date or end of the performance period.

The Employment Agreement also contains provisions for severance benefits including lump sum payments calculated based on Mr. Stebbins' base salary and bonus, as well as health care continuation, if he is terminated without "cause" or

resigns for “good reason.” In addition, if Mr. Stebbins is terminated without “cause” or resigns for “good reason” within one year following a change in control of the company, the severance benefits are increased 100 percent.

Stock Repurchase Program

As discussed in Note 19 - Common Stock Repurchase Programs, in October 2014, our Board of Directors approved a new stock repurchase program authorizing the repurchase of up to \$30.0 million of our common stock. As of December 31, 2014, additional shares of our common stock with a total cost of \$30.0 million may be repurchased under the new stock repurchase program.

Derivatives and Purchase Commitments

Table of Contents

In order to hedge exposure related to fluctuations in foreign currency rates and the cost of certain commodities used in the manufacture of our products, we periodically may purchase derivative financial instruments such as forward contracts, options or collars to offset or mitigate the impact of such fluctuations. Programs to hedge currency rate exposure may address ongoing transactions including, foreign-currency-denominated receivables and payables, as well as, specific transactions related to purchase obligations. Programs to hedge exposure to commodity cost fluctuations would be based on underlying physical consumption of such commodities.

Historically, we have not actively engaged in substantial exchange rate hedging activities and, prior to 2014, we had not entered into any significant foreign exchange contracts. However, as a result of customer requirements, a significant shift is occurring in the currency denominated in our contracts with our customers. As a result of this change, we currently project that in 2015 and beyond the vast majority of our revenues will be denominated in the U.S. dollar, rather than a more balanced mix of U.S. dollar and Mexican peso. In the past we have relied upon significant revenues denominated in the Mexican peso to provide a "natural hedge" against foreign exchange rate changes impacting our peso denominated costs incurred at our facilities in Mexico. Accordingly, the foreign exchange exposure associated with peso denominated costs is a growing risk factor that could have a material adverse effect on our operating results.

In accordance with our corporate risk management policies, we may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions and forecasted future cash flows. We have implemented a program to hedge a portion of our material foreign exchange exposures, for up to approximately 40 months. We do not use derivative contracts for trading, market-making, or speculative purposes. For additional information on our derivatives, see Note 5 - Derivative Financial Instruments.

When market conditions warrant, we may also enter into purchase commitments to secure the supply of certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. We currently have several purchase commitments in place for the delivery of natural gas through 2015. These natural gas contracts are considered to be derivatives under U.S. GAAP, and when entering into these contracts, it was expected that we would take full delivery of the contracted quantities of natural gas over the normal course of business. Accordingly, at inception, these contracts qualified for the normal purchase, normal sale ("NPNS") exemption provided for under U.S. GAAP. As such, we do not account for these purchase commitments as derivatives unless there is a change in facts or circumstances in regard to the company's intent or ability to use the contracted quantities of natural gas over the normal course of business. Based on the quarterly analysis of our estimated future production levels, we believe that our remaining natural gas purchase commitments that were in effect as of September 27, 2015 will continue to qualify for the NPNS exemption since we can assert that it is probable we will take full delivery of the contracted quantities.

Other

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 20 – Risk Management.

Note 18 – Stock-Based Compensation

2008 Equity Incentive Plan

Our 2008 Equity Incentive Plan (the "Plan") was amended and restated effective May 22, 2013 upon approval by our shareholders at our annual shareholders meeting. As amended, the plan authorizes us to issue up to 3.5 million shares of common stock, along with non-qualified stock options, stock appreciation rights, restricted stock and performance units to our officers, key employees, non-employee directors and consultants. At September 27, 2015, there were 1.7 million shares available for future grants under this plan. No more than 600,000 shares may be used under the plan as "full value" awards, which include restricted stock and performance stock units. It is our policy to issue shares from authorized but not issued shares upon the exercise of stock options. 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 the plan generally require no less than a three year ratable vesting period.

During the first nine months of 2015 no stock options were granted, 420,142 stock options were exercised and 998,069 options were canceled.

Table of Contents

During the third quarter of 2015, no restricted shares were granted. During the second quarter of 2015 we granted 23,814 restricted shares to our Board of Directors vesting May 5, 2016. During the first quarter of 2015, the company implemented a long term incentive program for the benefit of certain members of company management. The program was designed to strengthen employee retention and to provide a more structured incentive program to stimulate improvement in future company results. Per the terms of the program, participants were granted time value restricted stock units ("RSUs"), vesting ratably over a three year time period, and performance restricted stock units ("PSUs"), with a three year cliff vesting. Upon vesting, each restricted stock unit is exchangeable for one share of the company's common stock, with accrued dividends. The PSUs are categorized further into three individual categories whose vesting is contingent upon the achievement of certain targets as follows:

- 40% of the PSUs vest upon certain Return on Capital targets
- 40% of the PSUs vest upon certain EBITDA margin targets
- 20% of the PSUs vest upon certain market based Shareholder Return targets.

In the aggregate the company granted, net of forfeitures, a total of 190,772 RSUs and PSUs in 2015, net of forfeitures, comprising:

- 53,575 time value based RSUs with a grant date fair value of \$18.78 per unit
- 409,758 PSUs with an initial grant date fair value of \$18.78 per unit
- 27,439 market based PSUs with a grant date fair value of \$24.81 per unit.

During the first three quarters of 2014, no stock options were granted, 346,835 stock options were exercised and 145,417 options were canceled.

During the first three quarters of 2014 we granted restricted shares, or "full value" awards under our Plan, totaling 90,750 shares. The fair values of each issued restricted share on the applicable date of grant averaged \$19.21 for the first three quarters of 2014.

In addition, during the second quarter of 2014, we granted 35,081 restricted shares in connection with Mr. Steven J. Borick's, our former company President and Chief Executive Officer's, separation agreement (see Note 17 - Commitments and Contingencies). These shares fully vested on the grant date (March 31, 2014) and the cost was recognized from the date of the separation agreement (October 14, 2013) through March 31, 2014, the separation date. The shares issued also were net of an amount equal to required tax withholdings. The cash equivalent of the withheld shares was remitted by the company to the tax authorities. Restricted share awards, which are generally subject to forfeiture if employment terminates prior to the shares vesting, are expensed ratably over the vesting period. Shares of restricted stock granted under the Plan are considered issued and outstanding at the date of grant and have the same dividend and voting rights as other common stock. Dividends paid on the restricted shares granted under the Plan are non-forfeitable if the restricted shares do not ultimately vest.

Other Awards

During the second quarter of 2014 we granted 132,455 restricted shares, including 50,000 shares vesting April 30, 2017, and 82,455 shares vesting on December 31, 2016. The fair value of each of these restricted shares was \$19.44. These grants were made outside of the Plan as inducement grants in connection with the appointment of our new CEO and company President (see Note 17 - Commitments and Contingencies).

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

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(Dollars in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Cost of sales	\$97	\$18	\$293	\$98
Selling, general and administrative expenses	692	505	1,766	1,734
Stock-based compensation expense before income taxes	789	523	2,059	1,832
Income tax benefit	(277	) (180	) (577	) (568
Total stock-based compensation expense after income taxes	\$512	\$343	\$1,482	\$1,264

19

Table of Contents

As of September 27, 2015, a total of \$4.4 million of unrecognized compensation cost related to non-vested awards is expected to be recognized over a weighted average period of approximately 1.9 years. There were no significant capitalized stock-based compensation costs at September 27, 2015 and December 28, 2014.

Note 19 - Common Stock Repurchase Programs

In March 2013, our Board of Directors approved a stock repurchase program (the "2013 Repurchase Program") authorizing the repurchase of up to \$30.0 million of our common stock. This 2013 Repurchase Program replaced the previously existing share repurchase program. Shares repurchased under the 2013 Repurchase Program totaled 1,510,759 at a cost of \$30.0 million through December 28, 2014, which included 1,089,560 shares repurchased at a cost of \$21.8 million during fiscal 2014. Accordingly, no additional shares may be repurchased under the 2013 Repurchase Program.

In October 2014, our Board of Directors approved a new stock repurchase program (the "2014 Repurchase Program") authorizing the repurchase of up to \$30.0 million of our common stock. Under the 2014 Repurchase Program, we may repurchase common stock from time to time on the open market or in private transactions. Currently, we expect to fund the repurchases through available cash, although credit options are being evaluated in the context of total capital needs. The timing and extent of the repurchases under the 2014 Repurchase Program will depend upon market conditions and other corporate considerations in our sole discretion. Shares repurchased under the 2014 Repurchase Program totaled 769,931 at a cost of \$14.4 million during the first nine months of 2015.

Table of Contents

Note 20 – 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 decreased 15 percent in relation to the U.S. dollar in the nine months of 2015. Foreign currency transaction losses totaled \$0.4 million and \$0.4 million in the third quarter of 2015 and 2014, respectively. Foreign currency transaction losses totaled \$0.9 million and \$0.6 million in the nine months of 2015 and 2014, respectively. All transaction gains and losses are included in other income (expense) in the condensed consolidated statements of operations.

As it relates to foreign currency translation gains and losses, however, since 1990, the Mexican peso has experienced periods of relative stability followed by periods of major declines in value. The impact of these changes in value relative to our Mexico operations resulted in a cumulative unrealized translation loss at September 27, 2015 of \$86.6 million. Translation gains and losses are included in other comprehensive income in the condensed consolidated statements of comprehensive (loss) income.

When market conditions warrant, we may also enter into purchase commitments to secure the supply of certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. At September 27, 2015 we have several purchase commitments in place for the delivery of natural gas in 2014 through 2015 for a total remaining cost of \$0.3 million. These natural gas contracts are considered to be derivatives under U.S. GAAP, and when entering into these contracts, we expected to take full delivery of the contracted quantities of natural gas over the normal course of business. Accordingly, at inception, these contracts qualified for the NPNS exemption provided for under U.S. GAAP. As such, we do not account for these purchase commitments as derivatives unless there is a change in facts or circumstances in regard to the company's intent or ability to use the contracted quantities of natural gas over the normal course of business. Based on the quarterly analysis of our estimated future production levels, we believe that our remaining natural gas purchase commitments in effect as of September 27, 2015 will continue to qualify for the NPNS exemption since we can assert that it is probable we will take full delivery of the contracted quantities.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We may from time to time make written or oral statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report which constitute "forward-looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Act of 1934. These forward-looking statements are based upon management's current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and costs and potential liability for environmental-related matters. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as "expects," "anticipates," "believes," "will," "will likely result," "will continue," "plans to" and similar expressions.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the company, which could cause actual results to differ materially from such statements and from the company's historical results and experience. The principal factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, changes in the automotive industry, including the financial condition of our OEM customers and changes in consumer preferences for end products, fluctuations in production schedules for vehicles for which we are a supplier, fluctuations in anticipated demand for aluminum wheels in the North American market, increased global competitive pressures and pricing pressures, our dependence on major customers and third party suppliers and manufacturers, cost, capacity and the ramp-up of production at our new manufacturing facility and the related impact on our operating performance and financial condition, our future liquidity and credit options, our future capital spending for existing operations, our ongoing ability to achieve cost savings and other operational improvements, our ability to introduce new products to meet our customers' demand in a timely manner, the impact on our relationship with customers and our market position due to limitations in our manufacturing capacity, increased repair and maintenance costs and costs to replace machinery and equipment on an accelerated basis due to continued operation of our plants at near full capacity levels, our exposure to foreign currency fluctuations, increasing fuel and energy costs, regulatory changes and other factors or conditions described in Item 1A - Risk Factors in Part I of our 2014 Annual Report on Form 10-K and from time to time in our reports filed with the Securities and Exchange Commission.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Any forward-looking statement speaks only as of the date on which such statement is made, and the company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and notes thereto and with the audited Consolidated Financial Statements, notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2014 Annual Report on Form 10-K.

Executive Overview

During the second half of 2014, we completed a review of initiatives to reduce costs and enhance our competitive position. Based on this review, we committed to a plan to close operations at our Rogers, Arkansas manufacturing facility. During the fourth quarter of 2014 we shifted production to our other locations and closed operations at the Rogers facility. The closure resulted in a workforce reduction of approximately 500 employees. Additional actions taken in 2014 included a reduction in our Mexico workforce and the sale of one of the company's aircraft.

In 2015, the company continued its efforts to reduce costs by further reducing our labor costs in the U.S., completing the sale of our one remaining aircraft and selling an idle warehousing facility in West Memphis, Arkansas. The results for the first nine months of 2015 reflect \$4.6 million of additional costs charged to cost of sales due to the closure of our Rogers facility, charges totaling \$0.2 million in SG&A for the write-down of the carrying value of the aircraft we sold in February 2015 and a \$0.5 million gain on the sale of the idle warehousing facility located in West Memphis, Arkansas. The results for the third quarter of 2015 reflect \$1.2 million of additional costs charged to gross profit due to the closure of our Rogers facility. Additional charges related to the Rogers facility fixed assets and other closing costs are expected to continue throughout 2015.

Table of Contents

The total cost expected to be incurred as a result of the Rogers facility closure is \$14.0 million, which includes \$5.9 million expected to be paid in cash. As of September 27, 2015, estimated remaining cash payments total \$0.4 million.

The Company continues its strategic initiatives by embarking on the process of moving its headquarters to Southfield, Michigan. The Company will bring all of its corporate departments together in one location in order to be closer to and better serve its customers. The total estimated costs related to the move are approximately \$2 million and will be mainly incurred during the third and fourth quarters of 2015.

North American production of passenger cars and light-duty trucks in the third quarter of 2015 was reported by industry publications as increasing by approximately 4 percent overall versus the comparable period a year ago, continuing the trend of growth since the 2009 recession. Production of light-duty trucks -- the light-duty truck category includes pick-up trucks, SUV's, vans and "crossover vehicles"-- increased 9 percent, while production of passenger cars declined 2 percent. The production level for the North American automotive industry for the third quarter of 2015 was 4.3 million vehicles. Factors contributing to the continued market recovery include general economic conditions, low consumer interest rates and the continued high average age of vehicles, which may be an indicator of pent-up demand.

Net sales in the third quarter of 2015 decreased \$0.7 million, or 0.4 percent, to \$175.7 million from \$176.4 million in the same period a year ago. The decline primarily reflected lower value for aluminum in the current year period. Wheel sales in the third quarter of 2015 decreased to \$174.2 million from \$174.3 million in the comparable period a year ago, while wheel unit shipments increased 6 percent in 2015 to 2.8 million.

Gross profit in the third quarter of 2015 was \$16.5 million, or 9 percent of net sales, compared to \$7.3 million, or 4 percent of net sales, in the comparable period a year ago. Income from operations for the third quarter of 2015 was \$8.1 million, a \$10.7 million increase from an operating loss of \$2.6 million for the third quarter of 2014.

Net income for the third quarter of 2015 was \$4.9 million, or \$0.19 per diluted share. In comparison, the net loss in the third quarter of 2014 was \$2.4 million, or \$0.09 per diluted share.

Committed to enhancing shareholder value, in March 2013, our Board of Directors approved a stock repurchase program (the "2013 Repurchase Program"), authorizing the repurchase of up to \$30.0 million of our common stock. Under the 2013 Repurchase Program, we repurchased 1,510,759 shares of company stock at a cost of \$30.0 million of which 1,089,560 shares were repurchased for \$21.8 million in 2014. In October 2014, our Board of Directors approved a new stock repurchase program (the "2014 Repurchase Program"), authorizing the repurchase of up to \$30.0 million of our common stock. Under the 2014 Repurchase Program, we repurchased 375,218 shares of company stock at a cost of \$6.8 million in the third quarter of 2015. As of the end of the first nine months of 2015, the total investment under the 2014 Repurchase Program was \$14.4 million or 769,931 shares repurchased.

In the fourth quarter of 2015, we repurchased another 94,504 shares of our company stock under the 2014 Repurchase Program through November 4, 2015, at a cost of \$1.7 million. At November 4, 2015, total repurchases under the 2014 Repurchase Program were 864,435 shares at a cost of \$16.1 million.

We established a senior secured revolving credit facility in December 2014. The facility provides an initial aggregate principal amount of \$100.0 million. In addition, the company is entitled to request under the terms and conditions of the agreement an increase in the aggregate revolving commitments under the facility or to obtain incremental term loans in an aggregate amount not to exceed \$50.0 million, which currently is uncommitted to by any lenders. At September 27, 2015, we had no borrowings under the facility.

Table of Contents

Results of Operations

(Dollars in thousands, except per share amounts)