STONERIDGE INC
Form 10-Q
August 09, 2012

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 quarter ended June 30, 2012

Commission file number: 001-13337

STONERIDGE, INC.

(Exact name of registrant as specified in its charter)

Ohio	34-1598949
(*State or other jurisdiction of* incorporation or organization)	(I.R.S. Employer Identification No.)

9400 East Market Street, Warren, Ohio	44484
(Address of principal executive offices)	(Zip Code)

(330) 856-2443
Registrant's telephone number, including area code

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

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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).

x Yes ¨ No

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of Common Shares, without par value, outstanding as of July 27, 2012 was 28,053,761.

STONERIDGE, INC. AND SUBSIDIARIES

INDEX

PART I–FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,164	$ 78,731
Accounts receivable, less reserves of $2,397 and $1,485, respectively	160,329	162,354
Inventories, net	116,494	120,645
Prepaid expenses and other current assets	33,725	28,393
Total current assets	349,712	390,123
Long-term assets:		
Property, plant and equipment, net	121,279	124,802
Other assets:		
Intangible assets, net	92,367	102,731
Goodwill	64,706	68,808
Investments and other long-term assets, net	12,456	11,193
Total long-term assets	290,808	307,534
Total assets	$ 640,520	$ 697,657
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	$ 37,076	$ 44,246
Revolving credit facilities	26,065	39,181
Accounts payable	84,931	83,859
Accrued expenses and other current liabilities	54,032	91,417
Total current liabilities	202,104	258,703
Long-term liabilities:		
Long-term debt	181,807	183,711
Deferred income taxes	66,912	69,110
Other long-term liabilities	5,312	5,494
Total long-term liabilities	254,031	258,315
Shareholders' equity:		
Preferred Shares, without par value, authorized 5,000 shares, none issued	-	-

Common Shares, without par value, authorized 60,000 shares, issued 28,433 and 27,097 shares and outstanding 28,054 and 26,222 shares, respectively, with no stated value	-	-
Additional paid-in capital	182,373	170,775
Common Shares held in treasury, 379 and 875 shares, respectively, at cost	(1,866)	(1,870)
Accumulated deficit	(25,942)	(28,263)
Accumulated other comprehensive loss	(14,475)	(9,615)
Total Stoneridge Inc. and subsidiaries shareholders' equity	140,090	131,027
Noncontrolling interest	44,295	49,612
Total shareholders' equity	184,385	180,639
Total liabilities and shareholders' equity	$ 640,520	$ 697,657

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net sales	$234,265	$190,417	$496,532	$383,461
Costs and expenses:				
Cost of goods sold	180,606	152,699	377,735	306,453
Selling, general and administrative	52,042	30,305	105,331	62,895
Operating income	1,617	7,413	13,466	14,113
Interest expense, net	5,162	4,289	10,517	8,555
Equity in earnings of investees	(97)	(1,808)	(236)	(3,724)
Other expense, net	2,734	534	2,403	1,533
Income (loss) before income taxes	(6,182)	4,398	782	7,749
Provision (benefit) for income taxes	(884)	1,158	334	1,835
Net income (loss)	(5,298)	3,240	448	5,914
Net loss attributable to noncontrolling interest	(1,740)	(124)	(1,873)	(339)
Net income (loss) attributable to Stoneridge, Inc. and subsidiaries	$(3,558)	$3,364	$2,321	$6,253
Basic net income (loss) attributable to Stoneridge, Inc. and subsidiaries per share	$(0.13)	$0.14	$0.09	$0.26
Basic weighted average shares outstanding	26,424	24,162	26,322	24,090
Diluted net income (loss) attributable to Stoneridge, Inc. and subsidiaries per share	$(0.13)	$0.14	$0.09	$0.25
Diluted weighted average shares outstanding	26,424	24,606	26,999	24,545

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income (loss)	$ (5,298)	$ 3,240	$ 448	$ 5,914
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(17,456)	2,159	(10,345)	4,466
Unrealized loss on marketable securities	-	(29)	-	(35)
Unrealized gain (loss) on derivatives	(1,771)	584	5,485	704
Other comprehensive income (loss)	(19,227)	2,714	(4,860)	5,135
Consolidated comprehensive income (loss)	(24,525)	5,954	(4,412)	11,049
Comprehensive loss attributable to noncontrolling interest	(1,740)	(124)	(1,873)	(339)
Comprehensive income (loss) attributable to Stoneridge, Inc. and subsidiaries	$ (22,785)	$ 6,078	$ (2,539)	$ 11,388

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six months ended June 30 (in thousands)	2012	2011
OPERATING ACTIVITIES:		
Net income	$448	$5,914
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	14,337	9,924
Amortization, including accretion of debt discount	3,703	549
Deferred income taxes	(309)	323
Earnings of equity method investees	(236)	(3,724)
Loss on sale of fixed assets	(57)	11
Share-based compensation expense	2,461	2,247
Changes in operating assets and liabilities -		
Accounts receivable, net	(827)	(21,410)
Inventories, net	422	(17,559)
Prepaid expenses and other	(4,382)	(2,459)
Accounts payable	2,216	8,919
Accrued expenses and other	(2,460)	(5,848)
Net cash provided by (used for) operating activities	15,316	(23,113)
INVESTING ACTIVITIES:		
Capital expenditures	(14,370)	(14,117)
Proceeds from sale of fixed assets	301	3
Capital contribution from noncontrolling interest	-	271
Payment for additional interest in PST	(19,779)	-
Net cash used for investing activities	(33,848)	(13,843)
FINANCING ACTIVITIES:		
Revolving credit facility borrowings	11,310	893
Revolving credit facility payments	(24,426)	(457)
Proceeds from issuance of other debt	18,871	-
Repayments of other debt	(26,124)	(130)
Other financing costs	(111)	(96)
Repurchase of Common Shares to satisfy employee tax withholding	(1,119)	(744)
Net cash used for financing activities	(21,599)	(534)
Effect of exchange rate changes on cash and cash equivalents	564	1,964
Net change in cash and cash equivalents	(39,567)	(35,526)
Cash and cash equivalents at beginning of period	78,731	71,974
Cash and cash equivalents at end of period	$39,164	$36,448

Supplemental disclosure of non-cash financing activities:		
Change in fair value of interest rate swap	$754	$1,208
Issuance of Common Shares for acquisition of additional PST interest	$10,197	$-

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

5

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

(1) Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by Stoneridge, Inc. (the “Company”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “Commission” or “SEC”). The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the Commission’s rules and regulations. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year.

Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Form 10-K for the year ended December 31, 2011.

The Company has reclassified the presentation of certain prior period information to conform to the current presentation.

(2) Inventories

Inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method. The Company adjusts its excess and obsolescence reserve at least on a quarterly basis. Excess inventories are quantities of items that exceed anticipated sales or usage for a reasonable period. The Company has guidelines for calculating provisions for excess inventories based on the number of months of inventories on hand compared to anticipated sales or usage. Management uses its judgment to forecast sales or usage and to determine what constitutes a reasonable period. Inventory cost includes material, labor and overhead. Inventories consisted of the following:

	June 30, 2012	December 31, 2011
Raw materials	$68,102	$ 72,308
Work-in-progress	14,641	14,723
Finished goods	33,751	33,615
Total inventories, net	$116,494	$ 120,645

(3) Acquisition

PST Eletrônica Ltda.

As of December 31, 2011, the Company acquired a controlling interest in PST Eletrônica Ltda. ("PST"), increasing its interest from 50% to 74%. The PST joint venture was accounted for under the equity method of accounting prior to the acquisition of the additional interest. On the date of acquisition, PST became a consolidated subsidiary of the Company. PST's results of operations are consolidated and included in the Company's condensed consolidated statement of operations for the three and six month ended June 30, 2012. For the three and six months ended June 30, 2011, PST's results of operations are included in the Company's condensed consolidated statement of operations as equity earnings of investees. PST's financial position is included in the condensed consolidated balance sheet at June 30, 2012 and December 31, 2011. Effective December 31, 2011, PST represents a new reportable segment of the Company.

PST specializes in the design, manufacture and sale of electronic vehicle security alarms, convenience accessories, vehicle tracking devices and monitoring services and in-vehicle audio and video devices. PST sells its products through the aftermarket distribution channel, to factory authorized dealer installers, also referred to as original equipment services, direct to OEMs and through mass merchandisers. PST's sales are primarily to customers in South America.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

As a result of obtaining a controlling interest in PST, the Company's previously held equity interest in PST of 50% was remeasured to an acquisition date fair value of $104,118. The Company recognized a one-time non-cash pre-tax gain on previously held equity interest of $65,372 as a result of the remeasurment in the fourth quarter of 2011.

The acquisition date fair value of the remaining 26% noncontrolling interest in PST was measured at $48,727 at December 31, 2011. The noncontrolling interest was recorded as a component of total shareholder's equity on the condensed consolidated balance sheet at December 31, 2011. Noncontrolling interest in PST decreased to $43,749 at June 30, 2012 due to changes in foreign currency translation of approximately $3,446 and operating losses of $1,533 for the first six months of 2012.

The acquisition date fair value of the total consideration transferred consisted of the following:

Cash	$29,669
Common Shares (1,940,413 shares)	15,310
Fair value of consideration transferred	44,979
Fair value of the Company's previously held equity interest	104,118
Fair value of noncontrolling interest	48,727
Total fair value of PST	$197,824

Of the $44,979 consideration transferred for the additional 24% interest, $29,976 ($19,779 of cash and $10,197 of Company Common Shares) was transferred on January 5, 2012, in accordance with the terms of the purchase agreement. This amount was recorded as a liability owed to the sellers of the business and was included as a component of accrued expenses and other current liabilities on the condensed consolidated balance sheet as of December 31, 2011.

The fair value of the Common Shares transferred was based on the closing market price of the Company's Common Shares on the acquisition date, less a discount for a lack of short-term marketability as the Common Shares transferred were issued through a private placement.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. These values represent a revision to the initial allocation of the purchase price subject to finalization of post-closing procedures. The purchase price allocation is preliminary pending management's completion of the valuation of acquired intangible assets, inventory, property, plant and equipment, deferred income taxes and an assessment of contingencies.

7

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

As of December 31, 2011 (controlling interest acquired date)

	Initially Reported	Interim Revisions
Cash	$2,137	$2,137
Accounts receivable	48,993	48,993
Inventory	56,204	56,204
Prepaids and other current assets	9,547	9,257
Property, plant and equipment	42,389	42,482
Identifiable intangible assets	102,090	102,090
Other long-term assets	1,479	1,479
Total identifiable assets acquired	262,839	262,642
Accounts payable	9,825	9,825
Other current liabilities	25,801	25,917
Debt	54,068	54,068
Deferred tax liabilities	39,392	39,603
Total liabilities assumed	129,086	129,413
Net identifiable assets acquired	133,753	133,229
Goodwill	64,071	64,595
Net assets acquired	$197,824	$197,824

During the first half of 2012 goodwill was increased by $524, the net result of measurement period purchase accounting adjustments to the fair value of assets acquired and liabilities assumed resulting primarily from an increase in deferred tax liabilities from a refined estimate of differences in the U.S. GAAP and tax basis of assets and liabilities. The Company did not retrospectively adjust the provisional assets and liabilities previously recorded in the Company's Form 10-K as of December 31, 2011 for measurement period adjustments as they have been deemed immaterial.

Goodwill is calculated as the excess of the fair value of consideration transferred over the fair market value of the identifiable assets and liabilities and represents the future economic benefits arising from other assets acquired that could not be separately recognized. The goodwill is reported in the Company's PST segment and is not deductible for income tax purposes.

Of the $102,090 of acquired identifiable intangible assets, $51,818 was provisionally assigned to customer lists with a 15 year useful life; $31,400 was provisionally assigned to trademarks with a 20 year useful life; and $18,872 was provisionally assigned to technology with a 17 year weighted average useful life. The fair value of the identifiable intangible assets was determined using an income approach.

The following unaudited pro forma information reflects the Company's consolidated results of operations as if the acquisition had occurred on January 1, 2011. The unaudited pro forma information is not necessarily indicative of the results of operations that the Company would have reported had the transaction actually occurred at the beginning of these periods, nor is it necessarily indicative of future results.

	Three months ended June 30, 2011	Six months ended June 30, 2011
Net sales	$ 253,113	$ 499,395
Net income attributable to Stoneridge, Inc. and subsidiaries	$ 3,029	$ 5,516

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

The unaudited pro forma financial information presented in the previous table has been adjusted to give effect to adjustments that are directly related to the business combination and factually supportable. These adjustments include, but are not limited to depreciation and amortization related to fair value adjustments to property, plant, and equipment, intangible assets and inventory.

(4) Financial Instruments and Fair Value Measurements

Financial Instruments

A financial instrument is cash or a contract that imposes an obligation to deliver, or conveys a right to receive cash or another financial instrument. The carrying values of cash and cash equivalents, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. The estimated fair value of the Company's senior secured notes with a face value of $175,000 (fixed rate debt) at June 30, 2012 and December 31, 2011, per quoted market sources, was $186,048 and $179,156, respectively.

Derivative Instruments and Hedging Activities

On June 30, 2012, the Company had open foreign currency forward contracts, fixed price commodity contracts and an interest rate swap. These contracts are used solely for hedging and not for speculative purposes. Management believes that its use of these instruments to reduce risk is in the Company's best interest. The counterparties to these financial instruments are financial institutions with investment grade credit ratings.

Foreign Currency Exchange Rate Risk

The Company conducts business internationally and therefore is exposed to foreign currency exchange rate risk. The Company uses derivative financial instruments as cash flow and fair value hedges to mitigate its exposure to fluctuations in foreign currency exchange rates by reducing the effect of such fluctuations on foreign currency denominated intercompany transactions and other foreign currency exposures. The currencies currently hedged by the Company include the euro, Swedish krona and Mexican peso.

In certain instances, the foreign currency forward contracts do not qualify for hedge accounting and are marked to market, with gains and losses recognized in the Company's condensed consolidated statement of operations as a component of other expense, net.

The Company's foreign currency forward contracts offset the majority of the gains and losses on the underlying foreign currency denominated transactions as follows:

Euro-denominated and Swedish krona-denominated Foreign Currency Forward Contracts

As of June 30, 2012, the Company held foreign currency forward contracts with an underlying notional amount of $25,244 to reduce the exposure related to the Company's euro-denominated and Swedish krona-denominated intercompany loans. These contracts expire on or before September 28, 2012. Due to their short term nature, the euro-denominated and Swedish krona-denominated foreign currency forward contracts have not been designated as hedging instruments. For the three and six months ended June 30, 2012, the Company recognized a gain of $1,435 and $558, respectively, related to the euro and Swedish krona-denominated contracts. For the three and six months ended June 30, 2011, the Company recognized a loss of $746 and $2,654, respectively, related to these contracts.

Mexican peso-denominated Foreign Currency Forward Contracts – Cash Flow Hedge

The Company holds Mexican peso-denominated foreign currency contracts with notional amounts at June 30, 2012 totaling $64,000 which expire ratably on a monthly basis as follows:

$27,500 notional	Period from July 2012 through December 2012
$36,500 notional	Period from January 2013 through December 2013

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

These contracts were executed to hedge forecasted transactions and are accounted for as cash flow hedges. As such, the effective portion of the unrealized gain or loss is deferred and reported in the Company's condensed consolidated balance sheets as a component of accumulated other comprehensive loss. The Company's expectation is that the cash flow hedges will be highly effective in the future. The effectiveness of the transactions has been and will be measured on an ongoing basis using regression analysis.

Commodity Price Risk - Cash Flow Hedge

To mitigate the risk of future price volatility and, consequently, fluctuations in gross margins, the Company entered into fixed price commodity contracts with financial institutions to fix the cost of a portion of the Company's copper purchases as copper is a significant raw material.

The Company has fixed price commodity contracts at June 30, 2012 with an aggregate notional amount of $3,250, which expire ratably on a monthly basis over the period from July through December 2012, compared to an aggregate notional amount of $6,500 at December 31, 2011.

All of these contracts represent a portion of the Company's copper purchases. These contracts were executed to hedge a portion of forecasted transactions and the contracts are accounted for as cash flow hedges. The unrealized gain or loss for the effective portion of the hedges is deferred and reported in the Company's condensed consolidated balance sheets as a component of accumulated other comprehensive loss. Using regression analysis, the Company has concluded that these cash flow hedges are highly effective. The effectiveness of the transactions has been and will be measured on an ongoing basis using regression analysis.

Interest Rate Risk - Fair Value Hedge

The Company has a fixed-to-floating interest rate swap agreement (the "Swap") with a notional amount of $45,000 to hedge its exposure to fair value fluctuations on a portion of its senior secured notes. The Swap was designated as a fair value hedge of the fixed interest rate obligation under the Company's $175,000 9.5% senior secured notes due October

15, 2017. The critical terms of the Swap are aligned with the terms of the senior secured notes, including maturity of October 15, 2017, resulting in no hedge ineffectiveness. The unrealized gain or loss for the effective portion of the hedge is deferred and reported in the Company's condensed consolidated balance sheets as an asset or liability as applicable, with the offset to the carrying value of the senior secured notes.

Under the Swap, the Company pays a variable interest rate equal to the six-month London Interbank Offered Rate ("LIBOR") plus 7.2% and it receives a fixed interest rate of 9.5%. The Swap requires semi-annual settlements on April 15 and October 15. The difference between amounts to be received and paid under the Swap is recognized as a component of interest expense, net on the condensed consolidated statements of operations.

The Swap reduced interest expense by $168 and $175 for the three months ended June 30, 2012 and 2011, respectively, and by $393 and $380 for the six months ended June 30, 2012 and 2011, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

The notional amounts and fair values of derivative instruments in the condensed consolidated balance sheets are as follows:

	Notional amounts (A)		Prepaid expenses and other current assets / other long-term assets		Accrued expenses and other current liabilities	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Derivatives designated as hedging instruments:			`			
Cash Flow Hedge:						
Forward currency contracts	$ 64,000	$ 55,000	$ -	$ -	$ 607	$ 4,158
Fixed price commodity contracts	3,250	6,500	-	-	1,630	3,564
Fair Value Hedge:						
Interest rate swap contract	45,000	45,000	1,832	1,078	-	-
	112,250	106,500	1,832	1,078	2,237	7,722
Derivatives not designated as hedging instruments:						
Forward currency contracts	25,244	25,894	-	2	36	-
Total derivatives	$ 137,494	$ 132,394	$ 1,832	$ 1,080	$ 2,273	$ 7,722

(A) Notional amounts represent the gross contract / notional amount of the derivatives outstanding.

Amounts recorded for the cash flow hedges in other comprehensive income (loss) in shareholders' equity and in net income (loss) for the three months ended June 30 are as follows:

	Amount of loss recorded in other	Amount of gain recorded in other	Amount of loss reclassified from other	Amount of loss reclassified from other comprehensive

	comprehensive loss 2012	comprehensive income 2011	comprehensive loss into net loss 2012	income into net income 2011
Derivatives designated as cash flow hedges:				
Forward currency contracts	$ 1,497	$ -	$ 476	$ -
Fixed price commodity contracts	1,491	560	741	24
Total derivatives designated as cash flow hedges	$ 2,988	$ 560	$ 1,217	$ 24

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

Amounts recorded for the cash flow hedges in other comprehensive income (loss) in shareholders' equity and in net income for the six months ended June 30 are as follows:

	Amount of gain recorded in other comprehensive loss 2012	Amount of gain recorded in other comprehensive income 2011	Amount of loss reclassified from other comprehensive loss into net income 2012	Amount of loss reclassified from other comprehensive income into net income 2011
Derivatives designated as cash flow hedges:				
Forward currency contracts	$ 3,051	$ -	$ 500	$ -
Fixed price commodity contracts	841	680	1,093	24
Total derivatives designated as cash flow hedges	$ 3,892	$ 680	$ 1,593	$ 24

Gains and losses reclassified from comprehensive income (loss) into net income were recognized in cost of goods sold in the Company's condensed consolidated statement of operations.

These derivatives will be reclassified from other comprehensive income (loss) to the condensed consolidated statement of operations through December 2013. The Company has measured the ineffectiveness of the forward currency and commodity contracts and any amounts recognized in the condensed consolidated financial statements were immaterial for the three and six months ended June 30, 2012.

Fair Value Measurements

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

12

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

	June 30, 2012				December 31, 2011
		Fair value estimated using			
	Fair value	**Level 1 inputs (A)**	**Level 2 inputs (B)**	**Level 3 inputs (C)**	Fair value
Financial assets carried at fair value:					
Interest rate swap contract	$ 1,832	$ -	$ 1,832	$ -	$ 1,078
Forward currency contracts	-	-	-	-	2
Total financial assets carried at fair value	$ 1,832	$ -	$ 1,832	$ -	$ 1,080
Financial liabilities carried at fair value:					
Forward currency contracts	$ 643	$ -	$ 643	$ -	$ 4,158
Fixed price commodity contracts	1,630	-	1,630	-	3,564
Total financial liabilities carried at fair value	$ 2,273	$ -	$ 2,273	$ -	$ 7,722

(A) Fair values estimated using Level 1 inputs, which consist of quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. The Company did not have any fair value estimates using Level 1 inputs at June 30, 2012 or December 31, 2011.

(B) Fair values estimated using Level 2 inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly and include among other things, quoted prices for similar assets or liabilities in markets that are active or inactive as well as inputs other than quoted prices that are observable. For forward currency, fixed price commodity contracts and interest rate swap contracts, inputs include foreign currency exchange rates, commodity indexes and the six-month forward LIBOR.

(C) Fair values estimated using Level 3 inputs consist of significant unobservable inputs. The Company did not have any fair value estimates using Level 3 inputs at June 30, 2012 or December 31, 2011.

(5) Share-Based Compensation

Total compensation expense for share-based compensation arrangements recognized in the condensed consolidated statements of operations as a component of selling, general and administrative expenses was $1,111 and $1,254 for the three months ended June 30, 2012 and 2011, respectively. Of these amounts, $(155) and $89 for the three months ended June 30, 2012 and 2011, respectively, were related to the Long-Term Cash Incentive Plan Phantom Shares discussed in Note 10. For the six months ended June 30, 2012 and 2011, total compensation expense recognized in the condensed consolidated statements of operations for share-based compensation arrangements was $2,461 and $2,247, respectively. Of these amounts, $70 and $163 for the six months ended June 30, 2012 and 2011, respectively, were related to the Long-Term Cash Incentive Plan Phantom Shares discussed in Note 10.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

(6) Debt

	Principal Outstanding at		Weighted Average		
	June 30, 2012	**December 31, 2011**	**Interest as of June 30, 2012**		Maturity
Revolving Credit Facilities					
Asset-based credit facility	$ 25,000	$ 38,000	1.70	%	within 1 year
BCS revolver	1,065	1,181	5.25	%	Sept - 2012
Total revolving credit facilities	$ 26,065				