

Cooper-Standard Holdings Inc.
Form 10-Q
November 06, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

Commission File Number: 000-54305

COOPER-STANDARD HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware **20-1945088**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
39550 Orchard Hill Place Drive
Novi, Michigan 48375
(Address of principal executive offices)
(Zip Code)
(248) 596-5900
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

As of October 30, 2013 there were 13,148,169 shares of the registrant's common stock, \$0.001 par value, outstanding.

COOPER-STANDARD HOLDINGS INC.

Form 10-Q

For the period ended September 30, 2013

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements**COOPER-STANDARD HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)****(Dollar amounts in thousands except per share amounts)**

	Three Months Ended September 30,		One Month Ended September 30,	
	2012	2013	2012	2013
Sales	\$ 684,029	\$ 764,057	\$ 2,183,794	\$ 2,296,341
Cost of products sold	580,956	649,028	1,844,616	1,928,735
Gross profit	103,073	115,029	339,178	367,606
Selling, administration & engineering expenses	65,421	72,968	206,432	220,807
Amortization of intangibles	3,866	3,785	11,590	11,534
Restructuring	10,171	1,907	15,758	7,755
Operating profit	23,615	36,369	105,398	127,510
Interest expense, net of interest income	(11,325)	(15,171)	(33,326)	(39,953)
Equity earnings	2,342	2,595	5,891	8,693
Other income (expense), net	1,118	960	(449)	(5,385)
Income before income taxes	15,750	24,753	77,514	90,865
Income tax expense (benefit)	5,392	4,467	(32,772)	24,560
Net income	10,358	20,286	110,286	66,305
Net loss attributable to noncontrolling interests	1,266	310	2,441	2,424
Net income attributable to Cooper-Standard Holdings Inc.	\$ 11,624	\$ 20,596	\$ 112,727	\$ 68,729
Net income available to Cooper-Standard Holdings Inc. common stockholders	\$ 8,037	\$ 15,144	\$ 86,588	\$ 51,059
Earnings per share				
Basic	\$ 0.46	\$ 1.16	\$ 4.93	\$ 3.49
Diluted	\$ 0.44	\$ 1.08	\$ 4.63	\$ 3.26
Comprehensive income	\$ 18,790	\$ 33,913	\$ 104,998	\$ 57,714

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Comprehensive loss attributable to noncontrolling interests	825	535	2,758	2,365
Comprehensive income attributable to Cooper-Standard Holdings Inc.	\$ 19,615	\$ 34,448	\$ 107,756	\$ 60,079

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

COOPER-STANDARD HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands except share amounts)

	December 31, 2012	September 30, 2013 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 270,555	\$ 119,232
Accounts receivable, net	350,013	429,658
Tooling receivable	116,947	149,906
Inventories	143,253	186,758
Prepaid expenses	21,902	32,505
Other	87,802	93,909
Total current assets	990,472	1,011,968
Property, plant and equipment, net	628,608	700,922
Goodwill	133,716	133,993
Intangibles, net	116,724	102,892
Deferred tax assets	72,718	53,025
Other assets	83,739	90,717
	\$ 2,025,977	\$ 2,093,517
Liabilities and Equity		
Current liabilities:		
Debt payable within one year	\$ 32,556	\$ 30,264
Accounts payable	271,355	298,763
Payroll liabilities	102,857	115,843
Accrued liabilities	80,148	93,543
Total current liabilities	486,916	538,413
Long-term debt	450,809	648,968
Pension benefits	201,104	184,529
Postretirement benefits other than pensions	69,142	67,866
Deferred tax liabilities	10,801	5,994
Other liabilities	42,131	35,119
Total liabilities	1,260,903	1,480,889
Redeemable noncontrolling interests	14,194	12,511
7% Cumulative participating convertible preferred stock, \$0.001 par value, 10,000,000 shares authorized at December 31, 2012, and September 30, 2013; 964,247 shares issued and 958,333 outstanding at December 31, 2012 and	121,649	103,581

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820,659 shares issued and 810,382 outstanding at September 30, 2013

Equity:

Common stock, \$0.001 par value, 190,000,000 shares authorized at December 31, 2012 and September 30, 2013; 18,426,831 shares issued and 17,275,852 outstanding at December 31, 2012 and 14,696,592 shares issued and 13,146,908 outstanding at September 30, 2013	16	13
Additional paid-in capital	471,851	382,844
Retained earnings	201,907	167,924
Accumulated other comprehensive loss	(45,448)	(54,098)
Total Cooper-Standard Holdings Inc. equity	628,326	496,683
Noncontrolling interests	905	(147)
Total equity	629,231	496,536
Total liabilities and equity	\$ 2,025,977	\$ 2,093,517

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

COOPER-STANDARD HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollar amounts in thousands)

	Nine Months Ended September 30,	
	2012	2013
Operating Activities:		
Net income	\$ 110,286	\$ 66,305
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	79,640	71,741
Amortization of intangibles	11,590	11,534
Stock-based compensation expense	11,473	8,660
Equity earnings, net of dividends related to earnings	(5,009)	(3,345)
Deferred income taxes	(47,763)	14,604
Other	(334)	584
Changes in operating assets and liabilities	(182,401)	(152,510)
Net cash provided by (used in) operating activities	(22,518)	17,573
Investing activities:		
Capital expenditures, including other intangible assets	(91,537)	(132,794)
Acquisition of businesses, net of cash acquired	(1,084)	(13,504)
Return on equity investments		2,120
Proceeds from sale of fixed assets and other	8,997	3,584
Net cash used in investing activities	(83,624)	(140,594)
Financing activities:		
Proceeds from issuance of Senior PIK Toggle Notes, net of debt issuance costs		194,357
Increase (decrease) in short term debt, net	(2,833)	1,648
Principal payments on long-term debt	(4,310)	(3,825)
Preferred stock cash dividends paid	(5,135)	(4,747)
Purchase of noncontrolling interest		(1,911)
Repurchase of preferred stock	(4,870)	
Repurchase of common stock	(20,636)	(217,549)
Proceeds from exercise of warrants		11,252
Other	520	(5,302)
Net cash used in financing activities	(37,264)	(26,077)
Effects of exchange rate changes on cash and cash equivalents	(501)	(2,225)
Changes in cash and cash equivalents	(143,907)	(151,323)
Cash and cash equivalents at beginning of period	361,745	270,555
Cash and cash equivalents at end of period	\$ 217,838	\$ 119,232

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands except Note 16, per share and share amounts)

1. Overview

Basis of presentation

Cooper-Standard Holdings Inc. (together with its consolidated subsidiaries, the Company, Cooper-Standard, we, our or us) is a leading manufacturer of fluid handling, body sealing, and Anti-Vibration Systems (AVS) components, systems, subsystems, and modules. The Company's products are primarily for use in passenger vehicles and light trucks that are manufactured by global automotive original equipment manufacturers (OEMs) and replacement markets. The Company conducts substantially all of its activities through its subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These financial statements include all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of the Company. Certain prior period amounts have been reclassified to conform to the current period financial statement presentation. The operating results for the interim period ended September 30, 2013 are not necessarily indicative of results for the full year. In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Recent accounting pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This ASU requires that a liability related to an unrecognized tax benefit be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if certain criteria are met. The guidance is effective for fiscal years beginning after December 15, 2013. The adoption of this ASU is not expected to have a material impact on the condensed consolidated financial statements.

In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. This ASU permits use of the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes and removes the restriction on using different benchmark rates for similar hedges. The guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The initial adoption of this ASU had no impact on the condensed consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This ASU requires companies to present the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. generally accepted accounting principles (U.S. GAAP) to be reclassified to net income in its entirety in the same reporting period. The guidance is effective for fiscal years

beginning after December 15, 2012. The Company adopted this guidance effective January 1, 2013. The effects of adoption were not significant and the additional required disclosures are included in Note 9. Accumulated Other Comprehensive Income (Loss), Equity and Redeemable Noncontrolling Interests.

In July 2012, the FASB issued ASU 2012-02, *Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-lived Intangible Assets for Impairment*. This ASU permits companies to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired before performing the quantitative impairment test. This ASU is effective for fiscal years beginning after September 15, 2012. The Company adopted this guidance effective January 1, 2013. The impact of the adoption of this ASU did not have a material impact on the condensed consolidated financial statements.

2. Acquisitions

On July 31, 2013, the Company completed the acquisition of Jyco Sealing Technologies (Jyco) for cash consideration of \$14,382. The business acquired in the transaction is operated from Jyco s manufacturing locations in Canada, Mexico and China. Jyco provides Thermoplastic Vulcanizate (TPV) sealing technology and has primarily supplied sealing systems and components to the automotive industry. This directly aligns with the Company s growth strategy by strengthening important customer relationships in the automotive sealing systems. This acquisition was accounted for under ASC 805, *Business Combinations*, and the results of operations are included in the Company s condensed consolidated financial statements from the date of acquisition.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**(Unaudited)****(Dollar amounts in thousands except Note 16, per share and share amounts)**

The following table summarizes the estimated fair value of Jyco assets acquired and liabilities assumed at the date of acquisition:

Cash and cash equivalents	\$ 878
Accounts receivable	9,407
Tooling receivable	2,036
Inventories	6,593
Property, plant, and equipment	14,055
Other assets	886
Total assets acquired	33,855
Accounts payable	10,418
Other current liabilities	7,021
Other long-term liabilities	2,034
Total liabilities assumed	19,473
Net assets acquired	\$ 14,382

The estimated fair value of certain current assets, current liabilities, property, plant, and equipment, tooling and intangible assets, are preliminary and may change in the future as information becomes available from third party and other valuations.

3. Goodwill and Intangibles

Effective April 1, 2013, the Company changed its basis of presentation from two to four segments. The changes in the carrying amount of goodwill by reportable operating segment for the nine months ended September 30, 2013 are summarized as follows:

	North America	Europe	South America	Asia Pacific	Total
Balance at January 1, 2013	\$ 115,420	\$ 13,836	\$	\$ 4,460	\$ 133,716
Foreign exchange translation	(155)	354		78	277