

SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-K
March 07, 2014

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

FORM 10-K

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

For the fiscal year ended December 29, 2013

Commission file number: 1-6615

SUPERIOR INDUSTRIES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)
California
(State or Other Jurisdiction of Incorporation or
Organization)

95-2594729

(I.R.S. Employer Identification No.)

7800 Woodley Avenue

Van Nuys, California

91406

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (818) 781-4973

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, no par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

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 if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes [] No [X]

The aggregate market value of the registrant's no par value common equity held by non-affiliates as of the last business day of the registrant's most recently completed second quarter was \$472,070,000, based on a closing price of \$17.21. On February 21, 2014, there were 27,108,065 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2014 Annual Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

SUPERIOR INDUSTRIES INTERNATIONAL, INC.
ANNUAL REPORT ON FORM 10-K

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We have included or incorporated by reference in this Annual Report on Form 10-K (including in the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations), and from time to time our management may make, statements that may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange 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. These statements include our belief and statements regarding general automotive industry and market conditions and growth rates, as well as general domestic and international economic conditions.

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. These risks, uncertainties and other factors include, but are not limited to those described in Item 1A - Risk Factors of this Annual Report on Form 10-K and elsewhere in the Annual Report and those described from time to time in our future 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 risks described herein 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.

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PART I

ITEM 1 - BUSINESS

General Development and Description of Business

Headquartered in Van Nuys, California, 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 truck manufacturers, with wheel manufacturing operations in the United States and Mexico. Products made in our North American facilities are delivered primarily to automotive assembly operations in North America, both for domestic and internationally branded customers. Our OEM aluminum road wheels primarily are sold for factory installation, as either optional or standard equipment, on many vehicle models manufactured by Ford, General Motors (“GM”), Toyota, Chrysler Group LLC (“Chrysler”), BMW, Mitsubishi, Nissan, Subaru, Volkswagen and Tesla.

Production levels of the U.S. automotive industry for 2013 were 16.1 million vehicles, a 5 percent, or 0.7 million unit, increase over 2012. We track annual production rates based on information from Ward's Automotive Group. The North American annual production levels of automobiles and light-duty trucks (including SUV's, vans and "crossover vehicles") continue the trend of growth since the 2009 recession. Current economic conditions and low consumer interest rates have been generally supportive of market growth and, in addition, the relatively high average age of vehicles on the road appears to be contributing to higher rates of vehicle replacement. It was reported in 2013 that the average age of an automobile in the U.S. reached 11.4 years, a new record according to Polk Automotive Research.

In 2012, production of automobiles and light-duty trucks in North America reached 15.4 million units, an increase of 18 percent over 2011. Production in 2011 reached 13.1 million units, an increase of 1.2 million, or 10 percent, from 11.9 million vehicles in 2010. Continued improvement in the U.S. economy, low consumer interest rates and pent-up demand for vehicles following the 2009 recession all contributed to market demand recovery.

The 2013 rate of vehicle production increase was strongest in the light-duty truck category with the domestic brands gaining market share in 2013. Consistent with the overall market, the company's unit sales were stronger in light-duty trucks than passenger cars and domestic brands held firmer than international brands.

Raw Materials

The raw materials used in producing our products are readily available and are obtained through numerous suppliers with whom we have established trade relations. We purchase aluminum for the manufacture of our aluminum road wheels, which accounted for the vast majority of our total raw material requirements during 2013. The majority of our aluminum requirements are met through purchase orders with certain major domestic and foreign producers. Generally, the orders are fixed as to minimum and maximum quantities of aluminum, which the producers must supply during the term of the orders. During 2013, we were able to successfully secure aluminum commitments from our primary suppliers to meet production requirements and we anticipate being able to source aluminum requirements to meet our expected level of production in 2014. We procure other raw materials through numerous suppliers with whom we have established trade relationships.

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 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. See Note 11 - Commitments and Contingent Liabilities in Notes to Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data of this Annual Report for further discussion of natural gas contracts.

Customer Dependence

We have proven our ability to be a consistent producer of quality aluminum wheels with the capability to meet our customers' price, quality, delivery and service requirements. We strive to continually enhance our relationships with our customers through

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continuous improvement programs, not only through our manufacturing operations but in the engineering, wheel development and quality areas as well. These key business relationships have resulted in multiple vehicle supply contract awards with our key customers over the past year.

Ford, GM, Toyota and Chrysler were our only customers accounting for more than 10 percent of our consolidated net sales in 2013. Net sales to these customers in 2013, 2012 and 2011 were as follows (dollars in millions):

	2013		2012		2011	
	Percent of Net Sales	Dollars	Percent of Net Sales	Dollars	Percent of Net Sales	Dollars
Ford	45%	\$349.7	38%	\$313.3	35%	\$286.5
GM	24%	\$186.4	27%	\$217.5	30%	\$245.7
Toyota	12%	\$92.1	9%	\$77.0	8%	\$66.8
Chrysler	10%	\$78.1	12%	\$95.4	11%	\$90.3

The loss of all or a substantial portion of our sales to Ford, GM, Toyota or Chrysler would have a significant adverse effect on our financial results. See also Item 1A - Risk Factors - Customer Concentration of this Annual Report.

Foreign Operations

We manufacture a significant portion of our products in Mexico that are sold both in the United States and Mexico. Net sales of wheels manufactured in our Mexico operations in 2013 totaled \$503.2 million and represented 64 percent of our total net sales. Net property, plant and equipment used in our operations in Mexico totaled \$157.1 million at December 31, 2013, including \$67.0 million related to our new wheel plant under construction. The overall cost for us to manufacture wheels in Mexico currently is lower than in the U.S., in particular because of reduced labor cost due to lower prevailing wage rates. Current advantages to manufacturing our product in Mexico can be affected by changes in cost structures, trade protection laws, policies and other regulations affecting trade and investments, social, political, labor, or general economic conditions in Mexico. Other factors that can affect the business and financial results of our Mexican operations include, but are not limited to, valuation of the peso, availability and competency of personnel and tax regulations in Mexico. See also Item 1A- Risk Factors - International Operations and Item 1A - Risk Factors - Foreign Currency Fluctuations.

Net Sales Backlog

We receive OEM purchase orders to produce aluminum road wheels typically for multiple model years. These purchase orders are for vehicle wheel programs that usually last three to five years. However, competitive price clauses in such purchase orders can affect our profit margins or the share of volume we are awarded under those purchase orders. We manufacture and ship based on customer release schedules, normally provided on a weekly basis, which can vary in part due to changes in demand, industry and/or customer maintenance cycles, new program introductions or dealer inventory levels. Accordingly, even though customer purchase orders cover multiple model years, our management does not believe that our firm backlog is a meaningful indicator of future operating results.

Competition

Competition in the market for aluminum road wheels is based primarily on price, technology, quality, delivery and overall customer service. We are one of the leading suppliers of aluminum road wheels for OEM installations in the world, and currently are the largest producer in North America. We currently supply approximately 23 percent of the aluminum wheels installed on passenger cars and light-duty trucks in North America. Competition is global in nature with growing exports from Asia into North America. There are several competitors with facilities in North America, none of which represent greater than 12 percent individually of the total North American production capacity based on our current estimation. See also Item 1A - Risk Factors - Competition of this Annual Report. Other types of road

wheels, such as those made of steel, also compete with our products. According to Ward's Automotive Group, the aluminum wheel penetration rate on passenger cars and light-duty trucks in the U.S. was 80 percent for the 2013 model year and 78 percent for the 2012 model year, compared to 74 percent for the 2011 model year. We expect the ratio of aluminum to steel wheels to remain relatively stable. However, several factors can affect this rate including price, fuel economy requirements and styling preference. Although aluminum wheels currently are more costly than steel, aluminum is a

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lighter material than steel, which is desirable for fuel efficiency and generally viewed as aesthetically superior to steel, and thus more desirable to the OEMs and customers.

Research and Development

Our policy is to continuously review, improve and develop our engineering capabilities to satisfy our customer requirements in the most efficient and cost effective manner available. We strive to achieve this objective by attracting and retaining top engineering talent and by maintaining the latest state-of-the-art computer technology to support engineering development. A fully staffed engineering center, located in Fayetteville, Arkansas, supports our research and development manufacturing needs. We also have a technical center in Detroit, Michigan, that maintains a complement of engineering staff centrally located near some of our largest customers' headquarters, engineering and purchasing offices.

Research and development costs (primarily engineering and related costs), which are expensed as incurred, are included in cost of sales in our consolidated income statements. Amounts expended on research and development costs during each of the last three years were \$4.8 million in 2013; \$5.8 million in 2012; and \$5.3 million in 2011.

Government Regulation

Safety standards in the manufacture of vehicles and automotive equipment have been established under the National Traffic and Motor Vehicle Safety Act of 1966. We believe that we are in compliance with all federal standards currently applicable to OEM suppliers and to automotive manufacturers.

Environmental Compliance

Our manufacturing facilities, like most other manufacturing companies, are subject to solid waste, water and air pollution control standards mandated by federal, state and local laws. Violators of these laws are subject to fines and, in extreme cases, plant closure. We believe our facilities are in material compliance with all standards presently applicable. However, costs related to environmental protection may grow due to increasingly stringent laws and regulations. The cost of environmental compliance was approximately \$0.5 million in 2013; \$0.3 million in 2012; and \$0.5 million in 2011. We expect that future environmental compliance expenditures will approximate these levels and will not have a material effect on our consolidated financial position. Furthermore, climate change legislation or regulations restricting emission of "greenhouse gases" could result in increased operating costs and reduced demand for the vehicles that use our products. See also Item 1A - Risk Factors - Environmental Matters of this Annual Report.

Employees

As of December 31, 2013, we had approximately 3,700 full-time employees compared to approximately 3,900 employees at December 31, 2012. None of our employees are covered by a collective bargaining agreement.

Fiscal Year End

Our fiscal year is the 52- or 53-week period ending generally on the last Sunday of the calendar year. The fiscal years 2013 and 2011 comprised the 52-week periods ended on December 29, 2013, and December 25, 2011, respectively. The 2012 fiscal year comprised the 53-week period ended December 30, 2012. For convenience of presentation, all fiscal years are referred to as beginning as of January 1, and ending as of December 31, but actually reflect our financial position and results of operations for the periods described above.

Segment Information

We operate as a single integrated business and, as such, have only one operating segment - automotive wheels. Financial information about this segment and geographic areas is contained in Note 2 - Business Segments in Notes to Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data of this Annual Report.

Seasonal Variations

The automotive industry is cyclical and varies based on the timing of consumer purchases of vehicles, which in turn vary based on a variety of factors such as general economic conditions, availability of consumer credit, interest rates and fuel costs. While there have been no significant seasonal variations in the past few years, production schedules in our industry can vary significantly from quarter to quarter to meet the scheduling demands of our customers.

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Available Information

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other information statements, and any amendments thereto are available, without charge, on or through our website, www.supind.com, under "Investor," as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website, www.sec.gov, which contains these reports, proxy and information statements and other information regarding the company. Also included on our website, www.supind.com under "Investor," is our Code of Conduct, which, among others, applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, and our SEC filings. Copies of all SEC filings and our Code of Conduct are also available, without charge, upon request from Superior Industries International, Inc., Shareholder Relations, 7800 Woodley Avenue, Van Nuys, CA 91406.

The content on any web site referred to in this Annual Report on Form 10-K is not incorporated by reference in this Annual Report on Form 10-K unless expressly noted.

ITEM 1A - RISK FACTORS

The following discussion of risk factors contains "forward-looking" statements, which may be important to understanding any statement in this Annual Report or elsewhere. The following information should be read in conjunction with Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and Item 8 - Financial Statements and Supplementary Data of this Annual Report.

Our business routinely encounters and addresses risks and uncertainties. Our business, results of operations and financial condition could be materially adversely affected by the factors described below. Discussion about the important operational risks that our business encounters can also be found in the MD&A section and in the business description in Item 1 - Business of this Annual Report. Below, we have described our present view of the most significant risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently do not consider significant, could also potentially impair our business, results of operations and financial condition. Our reactions to these risks and uncertainties as well as our competitors' reactions will affect our future operating results.

Risks Relating To Our Company

Automotive Industry Trends - The majority of our sales are made in domestic U.S. markets and almost exclusively within North America. Therefore, our financial performance depends largely on conditions in the U.S. automotive industry, which in turn can be affected significantly by broad economic and financial market conditions. Consumer demand for automobiles is subject to considerable volatility as a result of consumer confidence in general economic conditions, levels of employment, prevailing wages, fuel prices and the availability and cost of consumer credit. Despite the improvement in the U.S. automotive industry since the global recession that began in 2008, vehicle production levels still remain below historical highs. There can be no guarantee that the improvements in recent years will be sustained or that reductions from current production levels will not occur in future periods. Demand for aluminum wheels can be further affected by other factors, including pricing and performance comparisons 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.

Customer Concentration - Ford, GM, Toyota and Chrysler, together represented approximately 91 percent of our total wheel sales in 2013. Our OEM customers are not required to purchase any minimum amount of products from us. Increasingly global procurement practices, the pace of new vehicle introduction and demand for price reductions may make it more difficult to maintain long-term supply arrangements with our customers, and there are no guarantees that we will be able to negotiate supply arrangements on terms acceptable to us in the future. The contracts we have entered into with most of our customers provide that we will manufacture wheels for a particular vehicle model, rather than for manufacturing a specific quantity of products. Such contracts range from one year to the life of the model (usually three to five years), typically are non-exclusive, and do not require the purchase by the customer of any minimum number of wheels from us. Therefore, a significant decrease in demand for certain key models or group of related models sold by any of our major customers, or a decision by a manufacturer not to purchase from us, or to discontinue purchasing from us, for a particular model or group of models, could adversely affect our results of operations and financial condition.

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Fixed Capacity Levels - As a result of increased consumer demand for automobiles, as well as actions previously taken by us to rationalize the costs associated with our business, we operated our business at near full capacity levels for most of 2012 and 2013. Our ability to increase manufacturing capacity requires significant investments in facilities, equipment and personnel. Although we have chosen to make investments to increase manufacturing capacity (see "Future Expansion" below), our ability to meet customer demand for our products and increase revenues will be delayed due to the length of time required before additional manufacturing capacity becomes available. Additionally, operating our facilities at near full capacity levels may cause us to incur labor cost at premium rates in order to meet customer requirements, experience increased maintenance expenses or require us to replace our machinery and equipment on an accelerated basis, each of which could cause our results of operations and financial condition to be adversely affected.

Future Expansion - Due to the anticipation of continued growth in demand for aluminum wheels in the North American market, in 2013 we began construction of a new manufacturing facility in Mexico with an estimated cost of \$125 million to \$135 million. The construction of a new manufacturing facility entails a number of risks, including the ability to begin production within the cost and timeframe estimated and to attract a sufficient number of skilled workers to meet the needs of the new facility. Additionally, our assessment of the projected benefits associated with the construction of a new manufacturing facility is subject to a number of estimates and assumptions, including future demand for our products, which in turn are subject to significant economic, competitive and other uncertainties that are beyond our control. If we experience delays or increased costs, our estimates and assumptions are incorrect, or other unforeseen events occur, our business, financial condition and results of operations could be adversely impacted. Operating results could be unfavorably impacted by start-up costs until production levels at the new facility reach planned levels. Additionally, our overall ability to increase total company revenues in the future can be affected by factors affecting the volume of product manufactured at our existing factories.

Although our existing liquidity is currently adequate to fund the project, dedication of our financial resources to this project will reduce our liquidity and working capital, which in turn may limit our flexibility to pursue other initiatives to grow our business or to return capital to our shareholders. After making such an investment, a significant change in our business, the economy or an unexpected decrease in our cash flow for any reason could result in the need for outside financing.

Customer Leverage Over Suppliers - Our OEM customers typically attempt to qualify more than one wheel supplier for the programs we participate in and for programs we may bid on in the future. To the extent that supplier capacity and other factors permit, our customers exerting leverage may result in decreased sales volumes and unit price reductions, resulting in lower revenues, gross profit, operating income and cash flows.

Additionally, the vehicle market is highly competitive at the OEM level, which drives continual cost-cutting initiatives by our customers. Our OEM customers historically have reacted by exerting significant leverage over their outside suppliers. Customer concentration, relative supplier fragmentation and product commoditization have translated into continual pressure from OEMs to reduce the price of our products. If we are unable to generate sufficient production cost savings in the future to offset price reductions, our gross margin, rate of profitability and cash flows would be adversely affected. In addition, changes in OEMs' purchasing policies or payment practices could have an adverse effect on our business.

Competition - The automotive component supply industry is highly competitive, both domestically and internationally. Competition is based primarily on price, technology, quality, delivery and overall customer service. Some of our competitors are companies, or divisions or subsidiaries of companies, which are larger and have greater financial and other resources than we do. We cannot ensure that our products will be able to compete successfully with the products of these competitors. Furthermore, the nature of the markets in which we compete has attracted new entrants, particularly from low cost countries. As a result, our sales levels and margins continue to be adversely

affected by pricing pressures reflective of significant competition from producers located in low-cost foreign markets, such as China. Such competition with lower cost structures pose a significant threat to our ability to compete internationally and domestically. These factors have led to our customers awarding business to foreign competitors in the past and they may continue to do so in the future. In addition, any of our competitors may foresee the course of market development more accurately than we are able to, develop products that are superior to our products, have the ability to produce similar products at a lower cost than we do, or adapt more quickly than we do to new technologies or evolving customer requirements. Consequently, our products may not be able to compete successfully with competitors' products.

Dependence on Third-Party Suppliers and Manufacturers - Generally, we obtain our raw materials, supplies and energy requirements from various sources. Although we currently maintain alternative sources, our business is subject to the risk of price increases and periodic delays in delivery. Fluctuations in the prices of raw materials may be driven by the supply/demand relationship for that commodity or governmental regulation. In addition, if any of our suppliers seek bankruptcy relief or otherwise cannot continue their business as anticipated, the availability or price of raw materials could be adversely affected.