SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-Q
August 04, 2017

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

FORM 10-Q

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

For the quarterly period ended June 25, 2017

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________.

Commission file number: 1-6615

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

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

26600 Telegraph Road, Suite 400	
Southfield, Michigan	48033
(Address of Principal Executive Offices)	(Zip Code)

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 þ No o

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 þ No o

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

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o Smaller Reporting Company o
Emerging Growth Company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Number of shares of common stock outstanding as of July 31, 2017: 24,904,545

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PART 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		Twenty-six Weeks Ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
NET SALES	$240,628	$182,709	$414,848	$368,774
Cost of sales:				
Cost of sales	220,601	153,012	375,409	311,332
Restructuring costs (Note 4)	(78)	157	130	187
	220,523	153,169	375,539	311,519
GROSS PROFIT	20,105	29,540	39,309	57,255
Selling, general and administrative expenses	22,103	10,000	37,363	18,993
INCOME (LOSS) FROM OPERATIONS	(1,998)	19,540	1,946	38,262
Interest (expense) income, net	(14,729)	79	(15,025)	111
Other income (expense), net	7,486	(372)	7,138	(105)
CONSOLIDATED (LOSS) INCOME BEFORE INCOME TAXES	(9,241)	19,247	(5,941)	38,268
Income tax benefit (provision)	1,722	(6,082)	1,524	(10,640)
CONSOLIDATED NET (LOSS) INCOME	(7,519)	13,165	(4,417)	27,628
Less: Net loss attributable to non-controlling interest	247	—	247	—
NET (LOSS) INCOME ATTRIBUTABLE TO SUPERIOR	$(7,272)	$13,165	$(4,170)	$27,628
(LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO SUPERIOR- BASIC	$(0.41)	$0.52	$(0.28)	$1.08
(LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO SUPERIOR- DILUTED	$(0.41)	$0.52	$(0.28)	$1.08
DIVIDENDS DECLARED PER SHARE	$0.09	$0.18	$0.27	$0.36

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

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Net (loss) income attributable to Superior	$(7,272)	$13,165	$(4,170)	$27,628
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss), net of tax	14,295	(6,821)	23,345	(8,666)
Change in unrecognized gains (losses) on derivative instruments:				
Change in fair value of derivatives	10,568	(6,734)	27,962	(5,416)
Tax provision	—	—	(335)	(266)
Change in unrecognized gains (losses) on derivative instruments, net of tax	10,568	(6,734)	27,627	(5,682)
Defined benefit pension plan:				
Actuarial gains on pension obligation, net of curtailments and amortization	93	84	185	168
Tax provision	(25)	(30)	(49)	(62)
Pension changes, net of tax	68	54	136	106
Other comprehensive income (loss), net of tax	24,931	(13,501)	51,108	(14,242)
Comprehensive income (loss) attributable to Superior	$17,659	$(336)	$46,938	$13,386

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

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

	June 25, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$58,732	$ 57,786
Short-term investments	750	750
Restricted cash	62,488	—
Accounts receivable, net	179,127	99,331
Inventories	172,623	82,837
Income taxes receivable	6,353	3,682
Other current assets	28,551	9,695
Total current assets	508,624	254,081
Property, plant and equipment, net	501,607	227,403
Investment in unconsolidated affiliate	2,000	2,000
Goodwill	310,728	—
Intangibles, net	212,961	—
Non-current deferred income tax assets, net	53,397	28,838
Other non-current assets	37,013	30,434
Total assets	$1,626,330	$ 542,756
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$96,809	$ 37,856
Accrued expenses	64,470	46,315
Current portion of long-term debt	18,800	—
Income taxes payable	1,504	1,793
Total current liabilities	181,583	85,964
Long-term debt (less current portion)	721,056	—
Non-current income tax liabilities	5,816	5,301
Non-current deferred income tax liabilities, net	33,225	3,628
Other non-current liabilities	43,323	49,637
Commitments and contingencies (Note 18)	—	—
Mezzanine equity:		
Redeemable preferred shares, $0.01 par value, 1,000,000 shares authorized, 150,000 shares outstanding at June 25, 2017	147,492	—
Shareholders' equity:		
Common stock, $0.01 par value		
Authorized - 100,000,000 shares; Issued and outstanding - 24,906,000 shares		
(25,143,950 shares at December 25, 2016)	88,669	89,916
Accumulated other comprehensive loss	(73,817)	(124,925)
Retained earnings	415,086	433,235
Superior shareholders' equity	429,938	398,226

Noncontrolling interests	63,897	—
Total shareholders' equity	493,835	398,226
Total liabilities, mezzanine and shareholders' equity	$1,626,330	$ 542,756

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

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

	Twenty-six Weeks Ended	
	June 25, 2017	June 26, 2016
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$(10,093)	$24,522
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(29,982)	(17,692)
Acquisition of Uniwheels, net of cash acquired	(690,704)	—
Proceeds from sales and maturities of investments	—	200
Proceeds from sale of property, plant and equipment	2	1
NET CASH USED IN INVESTING ACTIVITIES	(720,684)	(17,491)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	975,571	—
Proceeds from issuance of redeemable preferred shares	150,000	—
Debt repayment	(282,322)	—
Cash dividends paid	(8,985)	(9,232)
Cash paid for common stock repurchase	(5,014)	(13,098)
Payments related to tax withholdings for stock-based compensation	(1,457)	—
Proceeds from exercise of stock options	—	898
Excess tax benefits from exercise of stock options	—	—
Redeemable preferred shares issuance costs	(3,737)	—
Financing costs paid	(30,460)	—
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	793,596	(21,432)
Effect of exchange rate changes on cash	615	(160)
Net increase (decrease) in cash and cash equivalents	63,434	(14,561)
Cash and cash equivalents and restricted cash at the beginning of the period	57,786	52,036
Cash and cash equivalents and restricted cash at the end of the period	$121,220	$37,475

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

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Superior Industries International, Inc.
Condensed Consolidated Statement of Shareholders’ Equity
(Dollars in thousands)
(Unaudited)

	Common Stock		Accumulated Other Comprehensive (Loss) Income					
	Number of Shares	Amount	Unrecognized Gains (Losses) on Derivative Instruments	Pension Obligations	Cumulative Translation Adjustment	Retained Earnings	Non-controlling Interest	Total
Balance at December 31, 2016	25,143,950	$89,916	$(16,101)	$(3,636)	$(105,188)	$433,235	$—	$398,226
Net loss attributable to Superior						(4,170)	(247)	(4,417)
Change in unrecognized gains (losses) on derivative instruments, net of tax			27,627	—	—	—	—	27,627
Change in employee benefit plans, net of taxes				136	—	—	—	136
Net foreign currency translation adjustment				—	23,345	—	—	23,345
Stock options exercised	—	—		—	—	—	—	—
Restricted stock awards granted, net of forfeitures	33,692	—		—	—	—	—	—
Stock-based compensation expense	(55,801)	(470)		—	—	—	—	(470)
Common stock repurchased	(215,841)	(777)		—	—	(4,237)	—	(5,014)
Cash dividends declared ($0.27 per share)	—	—		—	—	(6,860)	—	(6,860)
Redeemable preferred dividend						(2,882)		(2,882)
Non-controlling interest							64,144	64,144
Balance at June 25, 2017	24,906,000	$88,669	$11,526	$(3,500)	$(81,843)	$415,086	$ 63,897	$493,835

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

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Superior Industries International, Inc.
Notes to Condensed Consolidated Financial Statements
June 25, 2017
(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 “we,” “us” and “our”) is the design and manufacture of aluminum 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 manufacturing operations in North America and Europe. Customers in North America and Europe represent the principal market for our products.

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 half of 2017 and together represented approximately 69 percent of our trade sales during the first half of 2017. Additionally, Nissan Motor Co., Ltd. ("Nissan") and Fiat Chrysler Automotive N.V. ("FCA") individually accounted for 7 percent and 5 percent, respectively of our consolidated sales during the first half of 2017 and together with Ford, GM and Toyota represented approximately 81 percent of our trade sales during the first half of 2017. We also manufacture aluminum wheels for BMW, Mazda, 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. Additionally, the acquisition of Uniwheels AG ("Uniwheels") on May 30, 2017 diversifies our OEM customer base to include Audi AG ("Audi"), Mercedes-Benz, and other European customers and also provides new aftermarket customers.

Demand for automobiles and light trucks (including SUVs and crossover vehicles) in the North American and European markets 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. Additionally, 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.

We have had long-term relationships with our customers and our supply arrangements generally are for multi-year periods however, maintaining such long-term arrangements on terms acceptable to us remains challenging due to global competitive pricing pressures. 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 25, 2016 (the "2016 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. For convenience of presentation, the 2016 fiscal year is referred to as December 31, but actually reflects our financial position and results of operations for the period described below. Users of financial information produced for interim periods in 2017 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 2016 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 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. Uniwheels uses a regular calendar close with months ending on the last day of the month. Therefore, during the second and third quarters there will be a slight difference in timing of close, but the year ends will align on December 31, 2017. Thereafter, we will go to a consolidated close with each month ending on the last day of the month. The slight difference in timing is not considered to be significant to the consolidated financial statements. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the SEC's requirements for quarterly reports on Form 10-Q and U.S. GAAP 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 twenty-six week period ended June 25, 2017, (ii) the condensed consolidated statements of comprehensive income for the thirteen and twenty-six week period ended June 25, 2017, (iii) the condensed consolidated balance sheets at June 25, 2017 and December 31, 2016, (iv) the condensed consolidated statements of cash flows for the twenty-six week period ended June 25, 2017, and (v) the condensed consolidated statement of shareholders' equity for the twenty-six week period ended June 25, 2017. 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 31, 2016, included in this report, was derived from our 2016 audited financial statements but does not include all disclosures required by U.S. GAAP.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") "Revenue from Contracts with Customers." This update outlines a single, comprehensive model for accounting for revenue from contracts with customers. We plan to adopt this update on January 1, 2018. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). We anticipate adopting the standard using the modified retrospective method. There may be differences in timing of revenue recognition under the new standard compared to recognition under ASC 605 - Revenue Recognition.

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 was applied prospectively in the first quarter of 2017 and the adoption of this ASU had no impact on our financial position and statement of operations.

In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In March 2016, the FASB issued an ASU entitled "Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The objective of the ASU is to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The adoption of this ASU in the first quarter of 2017 had no significant impact on our financial position and statement of operations. Also, certain disclosures in the statement of cash flows were modified in accordance with this ASU.

In August 2016, the FASB issued an ASU entitled "Statement of Cash Flows (Topic 740): Classification of Certain Cash Receipts and Cash Payments." The objective of the ASU is to address the diversity in practice in the presentation of certain cash receipts and cash payments in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact this guidance will have on our statement of cash flows.

In October 2016, the FASB issued an ASU entitled "Income Taxes (Topic 230): Intra-Entity Transfers of Assets Other than Inventory." The objective of the ASU is to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In November 2016, the FASB issued an ASU entitled "Statement of Cash Flows (Topic 230): Restricted Cash." The objective of the ASU is to address the diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact this guidance will have on our statement of cash flows.

In January 2017, the FASB issued an ASU entitled "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The objective of the ASU is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In January 2017, the FASB issued an ASU entitled "Business Combinations (Topic 805): Clarifying the Definition of a Business." The objective of the ASU is to add guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In March 2017, the FASB issued an ASU entitled "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The objective of the ASU is to improve the reporting of net benefit cost in the financial statements. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

Note 3 – Acquisition

On March 23, 2017, Superior announced that it had entered into various agreements to commence a tender offer to acquire 100% of the outstanding equity interests of Uniwheels (the "Acquisition") through a newly-formed, wholly-owned subsidiary (the "Acquisition Sub"). The Acquisition was effected through a multi-step process as more fully described below.

In the first step of the Acquisition, on March 23, 2017, Superior obtained a commitment from the owner of approximately 61 percent of the outstanding stock of Uniwheels, Uniwheels Holding (Malta) Ltd. (the "Significant Holder"), evidenced by an irrevocable undertaking agreement (the "Undertaking Agreement") to tender such stock in the second step of the Acquisition. In connection with the Undertaking Agreement, on March 23, 2017: (i) Superior entered into a business combination agreement with Uniwheels pursuant to which, subject to the provisions of the German Stock Corporation Act, Uniwheels and its subsidiaries undertook to, among other things, cooperate with the financing of the Acquisition; and (ii) Superior and the Significant Holder entered into a guarantee and indemnification agreement pursuant to which Superior will hold the Significant Holder harmless for claims that may arise relating to its involvement with Uniwheels. As Uniwheels is a company listed on the Warsaw Stock Exchange, the Acquisition was required to be carried out in accordance with the Polish Act of 29 July 2005 on Public Offerings and the Conditions for Introducing Financial Instruments to Organized Trading and Public Companies (the "Public Offering Act").

Following the publication of a formal tender offer document by Superior, as required by the Public Offering Act, Superior commenced the acceptance period for the tender offer (the "Tender Offer") on April 12, 2017, pursuant to which, Superior offered to purchase all (but not less than 75 percent of) the outstanding stock of Uniwheels and, upon the consummation of the Tender Offer, agreed to purchase the stock of the Significant Holder along with all other stock of Uniwheels tendered pursuant to the Tender Offer. On May 30, 2017, Superior acquired 92.3 percent of the outstanding stock of Uniwheels for approximately $703.0 million (based on an exchange rate of 1.00 Dollar = 3.74193 Polish Zloty). We refer to this acquisition as the “First Step Acquisition.”

Under the terms of the Tender Offer:

• the Significant Holder received cash consideration of Polish Zloty 226.5 per share; and

• Uniwheels’ other shareholders received cash consideration of Polish Zloty 247.87 per share, equivalent to the volume weighted-average-price of Uniwheels’ shares for the three months prior to commencement of the Tender Offer, plus 5.0 percent.

On June 30, 2017, the company announced that it had commenced the delisting and associated tender process for the remaining outstanding shares of Uniwheels. As of July 31, 2017, 109,959 additional shares were tendered. Following or simultaneously with the approval of the delisting by the Polish regulator, Superior anticipates (i) consummating an upstream merger of Uniwheels into Acquisition Sub pursuant to which fair cash compensation will be paid to Uniwheels’ minority stockholders and (ii) entering

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into a Domination and Profit Loss Transfer Agreement ("DPLTA"). Superior anticipates that the process of acquiring the remaining 7.7 percent of Uniwheels' outstanding shares will take approximately eight to ten months. We refer to this acquisition as the "Second Step Acquisition." The aggregate equity purchase price of the Acquisition (assuming the remaining 7.7 percent of Uniwheels' stock is acquired for cash consideration of Polish Zloty 247.87 per share (the price paid to Uniwheels' shareholders in the Tender Offer) and an exchange rate of 1.00 Dollar = 3.74193 Polish Zloty) will be approximately $778.0 million. We entered into foreign currency hedges prior to the closing of the First Step Acquisition intended to reduce currency risk associated with the settlement of the Tender Offer (the "Hedging Transactions"). The net benefit of such Hedging Transactions to Superior reduced the total anticipated purchase price of the Acquisition to $766.2 million.

The company's condensed consolidated financial statements for the thirteen and twenty-six week periods ended June 25, 2017 and June 26, 2016 include Uniwheels results of operations from May 30, 2017 through June 30, 2017 (please see Note 7, "Business Segments" for the geographic segment results included within the condensed consolidated financial statements for the thirteen and twenty-six week periods ended June 25, 2017 and June 26, 2016, which include Uniwheels results of operations from May 30, 2017 through June 30, 2017). The company's condensed consolidated financial statements reflect the purchase accounting adjustments in accordance with ASC 805 "Business Combinations", whereby the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the acquisition date.

During the second quarter of 2017, the company determined a preliminary valuation of the identifiable assets acquired and the liabilities assumed. The following is the allocation of the purchase price:

(Dollars in thousands)	
Estimated purchase price	
Cash consideration	$703,000
Non-controlling interest	63,200
Preliminary purchase price allocation	
Cash and cash equivalents	12,296
Accounts receivable	60,580
Inventories	82,402
Prepaid expenses and other current assets	11,479
Total current assets	166,757
Property and equipment	250,000
Intangible assets (1)	212,000
Goodwill	306,154
Other assets	20,937
Total assets acquired	955,848
Accounts payable	61,883
Other current liabilities	40,361
Total current liabilities	102,244
Other long-term liabilities	87,404
Total liabilities assumed	189,648
Net assets acquired	$766,200

(1) Intangible assets are recorded at estimated fair value, as determined by management based on available information which includes a preliminary valuation prepared by an independent third party. The fair values assigned to identifiable intangible assets were determined through the use of the income approach, specifically the relief from

royalty and multi-period excess earnings methods. The major assumptions used in arriving at the estimated identifiable intangible asset values included management's estimates of future cash flows, discounted at an appropriate rate of return which are based on the weighted average cost of capital for both the company and other market participants. The useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to

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contribute directly or indirectly to future cash flows. The estimated fair value of intangible assets and related useful lives as included in the preliminary purchase price allocation include:

(Dollars in thousands)	Estimated Fair Value	Estimated Useful Life (in Years)
Brand name	$9,000	5-6
Technology	16,000	4-6
Customer relationships	167,000	6-11
Trade names	20,000	Indefinite
	$212,000	

The above goodwill represents future economic benefits expected to be recognized from the company's expansion into the European wheel market, as well as expected future synergies and operating efficiencies from combining operations with Uniwheels. Goodwill resulting from the Acquisition of $306.2 million has been allocated to the European segment.

The unaudited combined pro forma information is for informational purposes only. The pro forma information is not necessarily indicative of what the combined company's results actually would have been had the Acquisition been completed as of the beginning of the periods as indicated. In addition, the unaudited pro forma information does not purport to project the future results of the combined company.

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
(Dollars in thousands)	June 25, 2017 Proforma	June 26, 2016 Proforma	June 25, 2017 Proforma	June 26, 2016 Proforma
Net sales as reported	$240,628	$182,709	$414,848	$368,774
Uniwheels sales, prior to the Acquisition	103,751	128,655	243,744	248,946
Proforma combined sales	$344,379	$311,364	$658,592	$617,720
Net (loss) income as reported	$(7,519)	$13,165	$(4,417)	$27,628
Uniwheels net income before income taxes, prior to the Acquisition	8,465	16,445	25,394	28,197
Incremental interest expense on the debt	(7,081)	(10,622)	(17,776)	(21,332)
Incremental amortization on the identifiable intangible assets	(4,388)	(6,582)	(10,970)	(13,164)
Transaction expenses incurred by both the company and Uniwheels	12,722	—	19,684	—
Income tax expense related to the proforma adjustments	875	1,675	33	4,411
Proforma net income	$3,074	$14,081	$11,948	$25,740

Restricted Cash

Restricted cash disclosed on the condensed consolidated balance sheet relates to funds held for the purpose of acquiring the remaining 7.7% of Uniwheels' outstanding shares, which will take approximately eight to ten months, and to pay down assumed debt related to our European operations.

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Note 4 – Restructuring

During 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 facility, which was completed during the fourth quarter of 2014. The action was undertaken in order to reduce costs and enhance our global competitive position. During the fourth quarter of 2016, we sold the Rogers facility for total proceeds of $4.3 million, resulting in a $1.4 million gain on sale, which is recorded as a reduction to selling, general and administrative expense in the consolidated income statements.

The total cost incurred as a result of the Rogers facility closure was $16.0 million, of which $0.1 million and $0.2 million was recognized as of June 25, 2017 and June 26, 2016, respectively. The following table summarizes the Rogers, Arkansas plant closure costs and classification in the consolidated income statement for the period ended June 25, 2017:

(Dollars in thousands)	Costs Incurred Through December 31, 2016	Costs Incurred During the Twenty-six Week Period Ended June 25, 2017	Total Costs	Classification
Accelerated and other depreciation of assets idled	$ 7,254	$ 13	$ 7,267	Cost of sales, Restructuring costs
Severance costs	2,011	—	2,011	Cost of sales, Restructuring costs
Equipment removal and impairment, inventory written-down, lease termination and other costs	6,634	117	6,751	Cost of sales, Restructuring costs
	15,899	130	16,029	
Gain on sale of the facility	(1,436)	—	(1,436)	
Total	$ 14,463	$ 130	$ 14,593	

Note 5 – 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.

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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.

Cash Surrender Value

The cash surrender value of the life insurance policies is the sum of money the insurance company will pay to the company in the event the policy is voluntarily terminated before its maturity or the insured event occurs. Over the term of the life insurance contracts, the cash surrender value changes as a result of premium payments and investment income offset by investment losses, charges and miscellaneous fees. The amount of the asset recorded for the investment in the life insurance contracts is equal to the cash surrender value which is the amount that will be realized under the contract as of the balance sheet date if the insured event occurs.

The following table categorizes items measured at fair value at June 25, 2017:

		Fair Value Measurement at Reporting Date Using		
June 25, 2017	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Assets				
Certificates of deposit	$750	$—	$ 750	$ —
Cash surrender value	7,666	—	7,666	—
Derivative contracts	10,259	—	10,259	—
Total	$18,675	$—	$ 18,675	$ —
Liabilities				
Derivative contracts	$6,629	$—	$ 6,629	$ —
Total	$6,629	$—	$ 6,629	$ —

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The following table categorizes items measured at fair value at December 31, 2016:

		Fair Value Measurement at Reporting Date Using		
December 31, 2016	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Assets				
Certificates of deposit	$750	$—	$ 750	$ —
Cash surrender value	7,480	—	7,480	—
Derivative contracts	13	—	13	—
Total	$8,243	$—	$ 8,243	$ —
Liabilities				
Derivative contracts	$24,773	$—	$ 24,773	$ —
Total	$24,773	$—	$ 24,773	$ —

Note 6 – Financial Instruments

Debt Instruments

The carrying values of the company’s debt instruments vary from their fair values. The fair values were determined by reference to transacted prices of these securities (Level 2 input based on the GAAP fair value hierarchy). The estimated fair value, as well as the carrying value, of the company's debt instruments are shown below (in thousands):

	June 25, 2017
(Dollars in thousands)	
Estimated aggregate fair value	$762,020
Aggregate carrying value [(1)]	764,931

[(1)] Long-term debt excluding the impact of unamortized debt issuance costs.

Derivative Instruments and Hedging Activities

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, typically for up to 42 months.

We record all derivatives in the condensed 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. All derivatives were designated as hedging instruments at December 31, 2016. At June 25, 2017, the company held derivatives that were designated as hedging instruments as well as derivatives that did not qualify for designation as hedging instruments as discussed below.

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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 June 25, 2017, are expected to occur within 1 month to 42 months.

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 expense. Any subsequent changes in fair value of such derivative instruments are reflected in other expense unless they are re-designated as hedges of other transactions.

Currency option derivative contracts not designated as hedging instruments consist principally of option contracts to purchase Polish Zloty and the Euro related to the acquisition of Uniwheels. See Note 3, "Acquisition."

We had $1.5 million and $0.1 million in losses recognized in other expense for foreign currency forward, interest rate swap and aluminum contracts not designated as hedging instruments during the twenty-six week periods ended June 25, 2017 and June 26, 2016, respectively.

The following tables display the fair value of derivatives by balance sheet line item at June 25, 2017 and December 31, 2016:

	June 25, 2017			
(Dollars in thousands)	Other Current Assets	Other Non-current Assets	Accrued Liabilities	Other Non-current Liabilities
Foreign exchange forward contracts and collars designated as hedging instruments	$4,596	$ 5,125	$ 3,032	$ 1,938
Aluminum forward contracts not designated as hedges	79	—	816	—
Interest rate swap contracts not designated as hedges	—	—	—	385
Cross currency swap not designated as hedging instrument	459	—	—	459
Total derivative financial instruments	$5,134	$ 5,125	$ 3,848	$ 2,782

	December 31, 2016			
(Dollars in thousands)	Other Current Assets	Other Non-current Assets	Accrued Liabilities	Other Non-current Liabilities
Foreign exchange forward contracts and collars designated as hedging instruments	$13	$ —	$ 10,076	$ 14,697
Total derivative financial instruments	$13	$ —		