Cooper-Standard Holdings Inc.
Form 10-Q
August 13, 2008

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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

or

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

Commission File Number: 333-123708

**COOPER-STANDARD HOLDINGS INC.**
(Exact name of registrant as specified in its charter)

| **Delaware** | **20-1945088** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer 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 x No o

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. (Check one):

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer x | Smaller reporting company o |

(Do not check if a 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 o No x

Number of shares of common stock of registrant outstanding, at August 6, 2008:

3,479,100 shares of common stock, $0.01 par value

## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements.

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2008**
**(UNAUDITED)**
(Dollar amounts in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2007** | **2008** | **2007** | **2008** |
| Sales | $ 623,998 | $ 765,639 | $ 1,200,259 | $ 1,521,660 |
| Cost of products sold | 517,190 | 647,650 | 999,974 | 1,284,552 |
| Gross profit | 106,808 | 117,989 | 200,285 | 237,108 |
| Selling, administration, & engineering expenses | 51,309 | 69,029 | 100,029 | 136,432 |
| Amortization of intangibles | 7,930 | 7,925 | 15,739 | 15,761 |
| Restructuring | 9,049 | 1,243 | 13,792 | 3,638 |
| Operating profit | 38,520 | 39,792 | 70,725 | 81,277 |
| Interest expense, net of interest income | (21,040) | (23,383) | (42,884) | (47,598) |
| Equity earnings | 322 | 2,059 | 654 | 4,204 |
| Other income (expense), net | 461 | (361) | (781) | 3,114 |
| Income before income taxes | 18,263 | 18,107 | 27,714 | 40,997 |
| Provision for income tax expense | 8,577 | 6,520 | 13,354 | 13,738 |
| Net income | $ 9,686 | $ 11,587 | $ 14,360 | $ 27,259 |

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

**CONDENSED CONSOLIDATED BALANCE SHEETS**
(Dollar amounts in thousands)

| | December 31, 2007 | June 30, 2008 (Unaudited) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 40,877 | $ 32,210 |
| Accounts receivable, net | 546,794 | 603,770 |
| Inventories, net | 155,321 | 151,228 |
| Prepaid expenses | 19,603 | 19,573 |
| Other | 9,674 | 9,447 |
| Total current assets | 772,269 | 816,228 |
| Property, plant, and equipment, net | 722,373 | 740,790 |
| Goodwill | 290,588 | 290,209 |
| Intangibles, net | 256,258 | 245,847 |
| Other assets | 120,767 | 125,268 |
| | $ 2,162,255 | $ 2,218,342 |
| **Liabilities and Stockholders Equity** | | |
| Current liabilities: | | |
| Debt payable within one year | $ 51,999 | $ 46,605 |
| Accounts payable | 295,638 | 289,434 |
| Payroll liabilities | 103,161 | 116,791 |
| Accrued liabilities | 78,218 | 73,588 |
| Total current liabilities | 529,016 | 526,418 |
| Long-term debt | 1,088,162 | 1,077,712 |
| Pension benefits | 109,101 | 112,536 |
| Postretirement benefits other than pensions | 76,514 | 78,840 |
| Deferred tax liabilities | 28,331 | 26,751 |
| Other long-term liabilities | 62,573 | 61,869 |
| Stockholders equity: | | |
| Common stock, $0.01 par value, 4,000,000 shares authorized at December 31, 2007 and June 30, 2008, 3,483,600 shares issued and outstanding at December 31, 2007 and June 30, 2008 | 35 | 35 |
| Additional paid-in capital | 354,874 | 355,523 |
| Accumulated deficit | (155,339) | (128,080) |
| Accumulated other comprehensive income | 68,988 | 106,738 |
| Total stockholders equity | 268,558 | 334,216 |
| | $ 2,162,255 | $ 2,218,342 |

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**SIX MONTHS ENDED JUNE 30, 2007 AND 2008**
**(UNAUDITED)**
(Dollar amounts in thousands)

| | 2007 | 2008 |
|---|---|---|
| Operating Activities: | | |
| Net income | $ 14,360 | $ 27,259 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 45,569 | 55,263 |
| Amortization | 15,739 | 15,761 |
| Non-cash restructuring charges | 7 | 132 |
| Gain on bond repurchase | | (1,696) |
| Amortization of debt issuance cost | 2,435 | 2,378 |
| Stock-based compensation expense | 328 | 853 |
| Changes in operating assets and liabilities | 13,298 | (54,856) |
| Net cash provided by operating activities | 91,736 | 45,094 |
| Investing activities: | | |
| Property, plant, and equipment | (43,775) | (47,979) |
| Acquisition of business, net of cash acquired | (9,958) | |
| Gross proceeds from sale-leaseback transaction | 4,806 | |
| Other | 297 | 545 |
| Net cash used in investing activities | (48,630) | (47,434) |
| Financing activities: | | |
| Increase in short-term debt | 2,369 | 11,734 |
| Principal payments on long-term debt | (28,910) | (8,852) |
| Repurchase of bonds | | (5,306) |
| Other | (450) | 127 |
| Net cash used in financing activities | (26,991) | (2,297) |
| Effects of exchange rate changes on cash | 2,543 | (4,030) |
| Changes in cash and cash equivalents | 18,658 | (8,667) |
| Cash and cash equivalents at beginning of period | 56,322 | 40,877 |
| Cash and cash equivalents at end of period | $ 74,980 | $ 32,210 |

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
(Dollar amounts in thousands except per share amounts)

## 1. Overview

*Description of business*

Cooper-Standard Holdings Inc. (the Company ), through its wholly-owned subsidiary Cooper-Standard Automotive Inc., is a leading global manufacturer of body & chassis and fluid handling components, systems, subsystems, and modules, primarily for use in passenger vehicles and light trucks for global original equipment manufacturers ( OEMs ) and replacement markets. The Company conducts substantially all of its activities through its subsidiaries.

*Basis of presentation*

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, 2007, 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. The operating results for the interim period ended June 30, 2008 are not necessarily indicative of results for the full year.

*Stock-based compensation*

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, using the prospective method. The prospective method requires compensation cost to be recognized for all share-based payments granted after the effective date of SFAS No. 123(R). All awards granted prior to the effective date will be accounted for in accordance with Accounting Principles Board Opinion ( APB ) No. 25, *Accounting for Stock Issued to Employees*.

*Reclassifications*

During 2007, the Company revised its segment disclosures from two reportable segments to three reportable segments and has revised the prior period amounts to conform to the current period presentation.

*Recent accounting pronouncements*

In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 161, Disclosures About Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133 . SFAS No. 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit risk related contingent features contained within derivatives. SFAS No. 161 also requires entities to disclose additional information about the amounts and locations of derivatives located within the financial statements, how the provisions of SFAS No. 133 have been applied and the impact that hedges have on an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact this statement will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations. This statement significantly changes the financial accounting and reporting of business combination

transactions. The provisions of this statement are to be applied prospectively to business combination transactions in the first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. Other than the reporting requirements described above which require retrospective application, the provisions of SFAS No. 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment to FASB Statement 115 . This statement permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 159 as of January 1, 2008, but it had no impact on our financial condition or results of operations as we did not elect to apply the fair value option.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) . This statement requires employers to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in the statement of financial position. Further, this statement requires employers to recognize changes in the funded status in the year in which the changes occur through comprehensive income. In addition, this statement requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 requires prospective application and is effective for non-public companies for fiscal years ending after June 15, 2007. The Company adopted the recognition provisions as of December 31, 2007, and the funded status of its defined benefit plans is reflected in its consolidated balance sheet as of December 31, 2007.

This statement also requires the measurement of defined benefit plan asset and liabilities as of the annual balance sheet date. The measurement date provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2008. The Company previously measured its pension and other postretirement benefit obligations as of October 1 each year. The adoption of the measurement date provisions of SFAS No. 158 will increase long-term liabilities by approximately $3,700 and accumulated deficit by approximately $3,400, representing the net periodic benefit cost for the period between the measurement date utilized in 2007 and the beginning of 2008. There will be no effect on the Company s results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for the fiscal year beginning after November 15, 2007. The Company adopted SFAS No. 157 as of January 1, 2008 except for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis, for which the effective date is fiscal years beginning after November 15, 2008. See Note 14, Derivative Instruments and Hedging Activities for additional discussion of SFAS No. 157.

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## 2. Acquisitions

On August 31, 2007 the Company completed the acquisition of nine Metzeler Automotive Profile Systems sealing systems operations in Germany, Italy, Poland, Belarus, Belgium, and a joint venture interest in China ( MAPS or the MAPS businesses ), from Automotive Sealing Systems S.A. The MAPS businesses were acquired for $143,063 subject to an adjustment based on the difference between targeted working capital and working capital at the closing date, which was settled in June 2008. After adjusting for working capital and direct acquisition costs, the total acquisition value under purchase accounting was $144,378.

The condensed consolidated financial statements of the Company reflect the acquisition under the purchase method of accounting, in accordance with SFAS No. 141, Business Combinations ( SFAS No. 141 ).

The acquisition of the MAPS businesses were accounted for as a purchase business combination and accordingly, the assets purchased and liabilities assumed were included in the Company s condensed consolidated balance sheet as of June 30, 2008. The operating results of the MAPS businesses were included in the condensed consolidated financial statements from the date of acquisition. The following summarizes the preliminary allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 10,237 |
| Accounts receivable, net | | 118,216 |
| Inventories, net | | 33,415 |
| Prepaid expenses | | 7,995 |
| Property, plant, and equipment, net | | 123,982 |
| Investments | | 16,531 |
| Other assets | | 32,061 |
| Total assets acquired | | 342,437 |
| Accounts payable | | 66,211 |
| Short-term notes payable | | 22,039 |
| Payroll liabilities | | 28,806 |
| Accrued liabilities | | 12,376 |
| Long-term debt | | 14,556 |
| Pension benefits | | 37,839 |
| Other long-term liabilities | | 16,232 |
| Total liabilities assumed | | 198,059 |
| Net assets acquired | $ | 144,378 |

Cash and cash equivalents, accounts receivable, other current assets, accounts payable, and other current liabilities were stated at historical carrying values which management believes approximates fair value given the short-term nature of these assets and liabilities. Inventories were recorded at fair value which is estimated for finished goods and work-in-process based upon the expected selling price less costs to complete, selling, and disposal costs, and a normal profit to the buyer. Raw material inventory was recorded at carrying value as such value approximates the replacement cost. Tooling in process, which is included in other assets, was recorded at fair value which is based upon expected

selling price less costs to complete. The Company s pension obligations have been recorded in the allocation of purchase price at the projected benefit obligation less plan assets at fair market value. Deferred income taxes have been provided in the consolidated balance sheet based on the Company s estimates of the tax versus book basis of the assets acquired and liabilities assumed, adjusted to estimated fair values. Management has estimated the fair value of property, plant, and equipment,

intangibles and other long-lived assets based upon financial estimates and projections prepared in conjunction with the transaction.

The value assigned to all assets and liabilities assumed exceeded the acquisition price. Accordingly, an adjustment to reduce the value of long-lived assets was recorded in accordance with SFAS No. 141 and no goodwill was recorded related to this transaction as of June 30, 2008.

The following unaudited pro forma financial data summarizes the results of operations for the six months ended June 30, 2007, as if the MAPS acquisition had occurred as of January 1, 2007. Pro forma adjustments include liquidation of inventory fair value write-up as it had occurred during the reporting periods, depreciation and amortization to reflect the fair value of property, plant, and equipment and identified finite-lived intangible assets, the elimination of the amortization of unrecognized pension benefit losses, additional interest expense to reflect the Company s new capital structure, and certain corresponding adjustments to income tax expense. These unaudited pro forma amounts are not necessarily indicative of the results that would have been attained if the acquisition had occurred at January 1, 2007, or that may be attained in the future and do not include other effects of the acquisition.

| | Three Months Ended June 30, 2007 | Six Months Ended June 30, 2007 |
|---|---|---|
| Sales | $ 742,888 | $ 1,428,019 |
| Operating Profit | 50,384 | 89,060 |
| Net income | 14,468 | 21,396 |

In March of 2007, the Company completed the acquisition of the El Jarudo fuel rail manufacturing business of Automotive Components Holdings, LLC ( El Jarudo or the El Jarudo business ). The business is located in Juarez, Mexico and is a producer of automotive fuel rails. This acquisition does not meet the thresholds for a significant acquisition and therefore no pro forma financial information is presented.

In December of 2007, the Company completed the acquisition of the 74% joint venture interest of Automotive Sealing Systems, S.A. (ASSSA) in Metzeler Automotive Profiles India Private Limited ( MAP India ). This acquisition does not meet the thresholds for a significant acquisition and therefore no pro forma financial information is presented.

**3. Goodwill and Intangibles**

The changes in the carrying amount of goodwill by reportable operating segment for the six months ended June 30, 2008 are summarized as follows:

| | Body & Chassis | Fluid | Asia Pacific | Total |
|---|---|---|---|---|
| Balance at January 1, 2008 | $ 153,836 | $ 135,331 | $ 1,421 | $ 290,588 |
| Adjustments to the Acquisition of El Jarudo | | (379) | | (379) |
| Balance at June 30, 2008 | $ 153,836 | $ 134,952 | $ 1,421 | $ 290,209 |

Automotive industry conditions in North America and Europe continue to be challenging. In North America vehicle production volumes are declining and product mix is changing and in Europe the market is fragmented with significant overcapacity. If these conditions continue the Company could potentially need to record a goodwill charge to the Fluid segment.

The following table presents intangible assets and accumulated amortization balances of the Company as of December 31, 2007 and June 30, 2008, respectively:

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Amortization Period |
|---|---|---|---|---|
| Customer contracts | $ 157,897 | $ (59,100) | $ 98,797 | 7 to 9 years |
| Customer relationships | 171,291 | (25,484) | 145,807 | 15 to 20 years |
| Developed technology | 14,466 | (4,603) | 9,863 | 5 to 12 years |
| Trademarks and tradenames | 1,700 | (199) | 1,501 | 12 to 20 years |
| Other | 2,755 | (2,465) | 290 | |
| Balance at December 31, 2007 | $ 348,109 | $ (91,851) | $ 256,258 | |
| Customer contracts | $ 161,205 | $ (70,523) | $ 90,682 | 7 to 9 years |
| Customer relationships | 175,182 | (30,481) | 144,701 | 15 to 20 years |
| Developed technology | 14,573 | (5,588) | 8,985 | 5 to 12 years |
| Trademarks and tradenames | 1,700 | (252) | 1,448 | 12 to 20 years |
| Other | 2,754 | (2,723) | 31 | |
| Balance at June 30, 2008 | $ 355,414 | $ (109,567) | $ 245,847 | |

Amortization expense totaled $7,930 and $7,925 for the three months ended June 30, 2007 and 2008, respectively, and $15,739 and $15,761 for the six months ended June 30, 2007 and 2008, respectively. Estimated amortization expense will total approximately $31,000 for the year ending December 31, 2008.

## 4. Restructuring

*2005 Initiatives*

In 2005, the Company implemented a restructuring strategy and announced the closure of two manufacturing facilities in the United States and the decision to exit certain businesses within and outside the U.S. Both of the closures were substantially completed as of June 30, 2008, although the Company will continue to incur costs until the facilities are closed.

During the six months ended June 30, 2008, the Company recorded total costs of $1,095 related to the previously announced U.S. closures and workforce reductions in Europe. These costs consisted of severance and other exit costs of $103 and $1,125. In addition the Company received $133 for assets that were previously written off. The following table summarizes the activity for this initiative during the six months ended June 30, 2008:

| | Employee Separation Costs | Other Exit Costs | Asset Impairments | Total |
|---|---|---|---|---|
| Balance at January 1, 2008 | $ 775 | $ 542 | $ | $ 1,317 |

| | | | | |
|---|---|---|---|---|
| Expense incurred | 103 | 1,125 | (133) | 1,095 |
| Cash payments | (830) | (1,242) | 133 | (1,939) |
| Balance at June 30, 2008 | $ 48 | $ 425 | $ | $ 473 |

*2006 Initiatives*

In May 2006, the Company implemented a restructuring action and announced the closure of a manufacturing facility located in Canada and the transfer of related production to other facilities in North America. The closure was completed during 2008 at a total cost of $3,809. During the six months ended June 30, 2008, the Company reversed $9 of severance costs.

*European Initiatives*

In 2006, the Company implemented a European restructuring initiative, which addressed the operations of our non-strategic facilities. The initiative includes the closure of a manufacturing facility, terminations, and the transfer of production to other facilities in Europe and North America. The initiative is expected to be completed in 2008 at an estimated total cost of approximately $22,300. The Company recorded severance, and other exit costs of $277 and $150, respectively, during the six months ended June 30, 2008. The following table summarizes the activity for this initiative during the six months ended June 30, 2008:

| | Employee Separation Costs | Other Exit Costs | Asset Impairments | Total |
|---|---|---|---|---|
| Balance at January 1, 2008 | $ 1,442 | $ | $ | $ 1,442 |
| Expense incurred | 277 | 150 | | 427 |
| Cash payments | (1,001) | (150) | | (1,151) |
| Balance at June 30, 2008 | $ 718 | $ | $ | $ 718 |

*FHS Acquisition Initiatives*

In connection with the acquisition of the automotive fluid handling systems business of ITT Industries, Inc. ( FHS ), the Company formalized a restructuring plan to address the redundant positions created by the consolidation of the businesses. In connection with this restructuring plan, the Company announced the closure of several manufacturing facilities located in North America, Europe, and Asia and the transfer of related production to other facilities. The closures are expected to be completed in 2008 at an estimated total cost of approximately $21,000, including costs recorded through purchase accounting. As a result of this initiative, the Company recorded certain severance and other exit costs of $11,833 and $720, respectively, through purchase accounting in 2006. The Company recorded severance, and other exit costs of $452 and $1,491, respectively, during the six months ended June 30, 2008. The following table summarizes the activity for this initiative during the six months ended June 30, 2008:

| | Employee Separation Costs | Other Exit Costs | Asset Impairments | Total |
|---|---|---|---|---|
| Balance at January 1, 2008 | $ 6,450 | $ 4,210 | $ | $ 10,660 |
| Expense incurred | 452 | 1,491 | | 1,943 |
| Cash payments | (2,046) | (5,173) | | (7,219) |
| Balance at June 30, 2008 | $ 4,856 | $ 528 | $ | $ 5,384 |

*2007 Initiatives*

In May 2007, the Company implemented a restructuring action and announced the closure of a manufacturing facility located in Mexico and the transfer of related production to other facilities in North America. The closure was substantially completed in 2007. The estimated total cost of this closure is expected to be approximately $1,200, as the Company will continue to incur costs until the facility is sold. During the six months ended June 30, 2008 the Company recognized restructuring costs of $182 related to this initiative.



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## 5. Inventories

Inventories are comprised of the following:

| | December 31, 2007 | June 30, 2008 |
|---|---|---|
| Finished goods | $ 50,679 | $ 45,977 |
| Work in process | 32,665 | 34,987 |
| Raw materials and supplies | 71,977 | 70,264 |
| | $ 155,321 | $ 151,228 |

## 6. Debt

Outstanding debt consisted of the following at December 31, 2007 and June 30, 2008:

| | December 31, 2007 | June 30, 2008 |
|---|---|---|
| Senior Notes | $ 200,000 | $ 200,000 |
| Senior Subordinated Notes | 330,500 | 323,350 |
| Term Loan A | 40,062 | 34,703 |
| Term Loan B | 67,033 | 66,699 |
| Term Loan C | 167,531 | 166,668 |
| Term Loan D | 186,200 | 185,250 |
| Term Loan E | 93,508 | 100,382 |
| Revolving Credit Facility | | 6,100 |
| Capital leases and other borrowings | 55,327 | 41,165 |
| Total debt | 1,140,161 | 1,124,317 |
| Less: debt payable within one year | (51,999) | (46,605) |
| Total long-term debt | $ 1,088,162 | $ 1,077,712 |

On April 17, 2008, the Company finalized an amendment to a factoring agreement existing between MAPS Italy and a local Italian factoring company. The amendment changed certain terms and conditions within the agreement, which changed the nature of the transactions and now allows certain factored receivables to be treated as true sales. Receivables factored under this arrangement are not included in the Company s consolidated accounts receivable and debt totals. At December 31, 2007, prior to the amendment of the factoring arrangement, MAPS Italy had outstanding factored receivables of approximately $23,500 USD equivalent included in Capital leases and other borrowings in the table above.

The Company had $6,100 of outstanding borrowings and $26,596 of standby letters of credit outstanding under the Revolving Credit Facility as of June 30, 2008, leaving $92,304 of undrawn availability.

During the first quarter of 2008, the Company purchased and retired $7,150 of its $330,500 outstanding Senior Subordinated Notes on the open market. The purchase was accounted for as an extinguishment of debt and, accordingly, $1,696 was recognized as a gain on debt extinguishment, after writing off the related unamortized debt issuance costs. The gain is included in other income (expense) in the consolidated statement of income.

**7. Pension and Postretirement Benefits other than Pensions**

The following tables disclose the amount of net periodic benefit costs for the three and six month periods ended June 30, 2007 and 2008 for the Company s defined benefit plans and other postretirement benefit plans:

| | Pension Benefits Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2007 | | 2008 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Service cost | $ 3,008 | $ 1,403 | $ 2,533 | $ 946 |
| Interest cost | 3,597 | 1,321 | 3,879 | 2,028 |
| Expected return on plan assets | (4,235) | (993) | (4,538) | (1,091) |
| Amortization of prior service cost and recognized actuarial loss | 60 | 178 | 48 | 96 |
| Net periodic benefit cost | $ 2,430 | $ 1,909 | $ 1,922 | $ 1,979 |

| | Pension Benefits Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2007 | | 2008 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Service cost | $ 6,015 | $ 2,708 | $ 5,066 | $ 1,871 |
| Interest cost | 7,195 | 2,542 | 7,758 | 3,988 |
| Expected return on plan assets | (8,470) | (1,923) | (9,076) | (2,194) |
| Amortization of prior service cost and recognized actuarial loss | 120 | 343 | 96 | 193 |
| Net periodic benefit cost | $ 4,860 | $ 3,670 | $ 3,844 | $ 3,858 |

As a result of previous changes in discount rates and participant census data pension net periodic benefit cost has decreased compared to the prior year.

| | Other Postretirement Benefits | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2007 | 2008 | 2007 | 2008 |
| Service cost | $ 862 | $ 575 | $ 1,717 | $ 1,151 |
| Interest cost | 1,385 | 1,205 | 2,763 | 2,411 |
| Amortization of prior service cost and recognized actuarial loss | (22) | (495) | (44) | (990) |

| | | | | |
|---|---|---|---|---|
| Net periodic benefit cost | $ 2,225 | $ 1,285 | $ 4,436 | $ 2,572 |

As a result of previous changes in plan design, discount rates and participant census data other postretirement benefits net periodic benefit cost has decreased compared to the prior year.

**8. Income Taxes**

Under Accounting Principles Board Opinion No. 28, Interim Financial Reporting, the Company is required to determine its effective tax rate each quarter based upon its estimated annual effective tax rate. The Company is also required to record the tax impact of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur. In addition, jurisdictions with a projected loss for the year where no tax benefit can be recognized are excluded from the estimated annual effective tax rate.

The effective tax rate for the three and six months ended June 30, 2007, were 47% and 48%, respectively, as compared to 36% and 34%, respectively, for the three and six months ended June 30, 2008. The income tax rate for the three and six months ended June 30, 2008 varies from statutory rates due to income taxes on foreign earnings, valuation allowances in the U.S. and certain foreign jurisdictions, tax credits, income tax incentives, withholding taxes, and other permanent items. Further, the Company s current and future provision for income taxes will be significantly impacted by the recognition of valuation allowances in certain countries, particularly the United States. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. Accordingly, income taxes are impacted by the U.S. valuation allowance and the mix of earnings among jurisdictions.

During March 2008, the Company became aware of a potential settlement of the bi-lateral Advance Pricing Agreement (APA) negotiations between the United States and Canada relating to the periods 2000 2007. Agreement between the two governments will impact transfer pricing matters between the Company and its wholly owned Canadian subsidiary. At this time, the Company is unable to estimate the potential impact from this settlement and will be unable to do so until a more definitive agreement between all affected parties, resolving the APA is reached. At such time, an estimate of the range of reasonably possible impacts of such APA settlement can be made, and, if significant, the Company will appropriately disclose such results.

## 9. Comprehensive Income

On an annual basis, disclosure of comprehensive income is incorporated into the statement of stockholders equity, which is not presented on a quarterly basis. The components of comprehensive income, net of related tax, are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2008 | 2007 | 2008 |
| Net income | $ 9,686 | $ 11,587 | $ 14,360 | $ 27,259 |
| Currency translation adjustment | 9,103 | 11,504 | 13,146 | 36,408 |
| Pension and other postretirement benefits | (124) | (755) | (184) | (723) |
| Fair value change of derivatives | 3,482 | 9,620 | 3,185 | 2,065 |
| Comprehensive income | $ 22,147 | $ 31,956 | $ 30,507 | $ 65,009 |

## 10. Other Income (Expense), net

The components of other income (expense), net are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2008 | 2007 | 2008 |
| Foreign currency gains (losses) | $ 109 | $ (545) | $ (854) | $ 1,258 |
| Gain on debt repurchase | | | | 1,696 |
| Minority interest | 359 | 184 | 78 | 151 |

| | | | | |
|---|---|---|---|---|
| Gain/(loss) on disposal of fixed assets | (7) | | (5) | 9 |
| Other income (expense), net | $ 461 | $ (361) | $ (781) | $ 3,114 |

**11. Related Party Transactions**

Sales to NISCO, a 50% owned joint venture, totaled $7,948 and $7,044 in the three months ended June 30, 2007 and 2008, respectively and $16,091 and $14,650 in the six months ended June 30, 2007 and 2008, respectively.

Purchases of materials from Guyoung Technology Co. Ltd, a 20% owned joint venture, totaled $2,014 and $310 in the three months ended June 30, 2007 and 2008, respectively, and $3,855 and $902 in the six months ended June 30, 2007 and 2008, respectively.

**12. Business Segments**

The Company operates in three business segments: Body & Chassis Systems, Fluid Systems, and Asia Pacific. The Body & Chassis segment consists mainly of body sealing products and components that protect vehicle interiors from weather, dust, and noise intrusion as well as systems and components that control and isolate noise vibration in a vehicle to improve ride and handling. The Fluid segment consists primarily of subsystems and components that direct, control, measure, and transport fluids and vapors throughout a vehicle. The Asia Pacific segment consists of both Body & Chassis and Fluid operations in that region with the exception of the Company s interest in a joint venture in China which was acquired as part of the MAPS acquisition, and the MAP India joint venture. These joint ventures are included in the Body & Chassis segment which is in line with the internal management structure.

The Company evaluates segment performance based on segment profit before tax. The following table details information on the Company s business segments:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2007** | **2008** | **2007** | **2008** |
| Sales to external customers | | | | |
| Body & Chassis | $ 305,542 | $ 449,961 | $ 596,674 | $ 889,903 |
| Fluid | 293,910 | 289,737 | 556,676 | 580,963 |
| Asia Pacific | 24,546 | 25,941 | 46,909 | 50,794 |
| Consolidated | $ 623,998 | $ 765,639 | $ 1,200,259 | $ 1,521,660 |
| Intersegment sales | | | | |
| Body & Chassis | $ 6,323 | $ 3,727 | $ 12,205 | $ 8,386 |
| Fluid | 1,113 | 839 | 2,026 | 1,863 |
| Asia Pacific | 1,289 | 2,284 | 1,990 | 5,135 |