

SUPERIOR INDUSTRIES INTERNATIONAL INC

Form 10-K/A

April 13, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K/A**

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

**For the fiscal year ended December 31, 2006**

**OR**

**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)**

**California**

**95-2594729**

(State or Other Jurisdiction of  
Incorporation or Organization)

(IRS 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, \$0.50 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 if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

The aggregate market value of the registrant's \$0.50 per share par value common equity held by non-affiliates as of the last business day of the registrant's most recently completed second quarter was \$497,078,000, based on a closing price of \$18.68. On March 30, 2007, there were 26,610,191 shares of common stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's 2007 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.

---

**EXPLANATORY NOTE**

Superior Industries International, Inc. is filing this Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 solely to correct four typographical errors and one minor reclassification in the consolidated financial statements included in Part II, Item 8 of the Form 10-K. This amendment contains new certifications as Exhibits 31.1, 31.2 and 32. This Amendment No. 1 on Form 10-K/A continues to speak as of the date of the original Form 10-K and we have not updated the disclosure to reflect any events that occurred at a later date.

The items being corrected are as follows:

1. The Report of Independent Registered Public Accounting Firm contained in Item 8 Financial Statements and Supplementary Data on pages 39 and 40 in our Annual Report on Form 10-K includes a punctuation error in the second paragraph in the Consolidated financial statements and financial statement schedule section.

The sentence currently reads:

As discussed in Note 2, to the consolidated financial statements, the Company restated its 2005 and 2004 consolidated financial statements.

The corrected sentence reads:

As discussed in Note 2 to the consolidated financial statements, the Company restated its 2005 and 2004 consolidated financial statements.

The amended and corrected Report of Independent Registered Public Accounting Firm is included in its entirety below.

2. The Consolidated Statements of Cash Flow for the fiscal years 2006, 2005 and 2004 contained in Item 8 Financial Statements and Supplementary Data on page 45 of our 2006 Annual Report on Form 10-K requires a reclassification of \$22 thousand between two lines in the 2004 column.

Fiscal Year	2006	2005	2004
		As restated	As restated
a) The Deferred income taxes line currently reads:			
Deferred income taxes	3,009	(23,094)	8,343
The corrected Deferred income taxes line reads:			
Deferred income taxes	3,009	(23,094)	8,321
b) The Other non-cash items line currently reads:			
Other non-cash items	4,936	1,494	6,416
The corrected Deferred income taxes line reads:			
Other non-cash items	4,936	1,494	6,438

The amended and corrected Consolidated Statements of Cash Flow for the fiscal years 2006, 2005 and 2004 is included in its entirety below.

---

3. The reconciliation of the restated Consolidated Statement of Cash Flow for the fiscal year 2004 contained in Note 2 Review of Stock Option Practices and Restatements of Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data on page 60 of our 2006 Annual Report on Form 10-K requires a correction to a typographical error in the Adjustments column and a reclassification of \$22 thousand between two lines in the As restated column.

Fiscal Year 2004	As reported	Adjustments	As restated
	(reclassified)		
a) The Deferred income taxes line currently reads:			
Deferred income taxes	8,780	(4597)	8,343
The corrected Deferred income taxes line reads:			
Deferred income taxes	8,780	(459)	8,321
b) The Other non-cash items line currently reads:			
Other non-cash items	6,438		6,416
The corrected Deferred income taxes line reads:			
Other non-cash items	6,438		6,438

The amended and corrected reconciliation of restated Consolidated Statement of Cash Flow for the fiscal year 2004 is included in its entirety below.

4. The U.S. net tax deferred liability amount contained in Item 8 Financial Statements and Supplementary Data on page 66 of our 2006 Annual Report on Form 10-K requires a correction to a typographical error in the first paragraph.

The sentence currently reads:

As of December 31, 2006, we had approximately \$12.4 million in U.S. net deferred tax liability.

The corrected sentence reads:

As of December 31, 2006, we had approximately \$10.6 million in U.S. net deferred tax liability.

5. The amount of deferred tax assets realized contained in Item 8 Financial Statements and Supplementary Data on page 66 of our 2006 Annual Report on Form 10-K requires a correction to a typographical error in the first paragraph.

The sentence currently reads:

Realization of the deferred tax assets of \$17.3 million is dependent on the company generating sufficient taxable income in the future.

The corrected sentence reads:

Realization of the deferred tax assets of \$19.1 million is dependent on the company generating sufficient taxable income in the future.

**PART II**

**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Index to the Consolidated Financial Statements And Financial Statement Schedule:**

	PAGE
Report of Independent Registered Public Accounting Firm	39
Financial Statements	
Consolidated Statements of Operations for the Fiscal Years 2006, 2005 and 2004	41
Consolidated Balance Sheets as of Fiscal Year End 2006 and 2005	42
Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) for the Fiscal Years 2006, 2005 and 2004	43
Consolidated Statements of Cash Flows for the Fiscal Years 2006, 2005 and 2004	45
Notes to Consolidated Financial Statements	46
Supporting Financial Statement Schedule Covered By the Forgoing Report of Independent Registered Public Accounting Firm: Schedule II Valuation and Qualifying Accounts and Reserves	S-1

All other financial statement schedules have been omitted as they are not applicable, not material or the required information is included in the financial statements or notes thereto

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders  
of Superior Industries International, Inc.:

We have completed integrated audits of Superior Industries International, Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

**Consolidated financial statements and financial statement schedule**

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Superior Industries International, Inc. and its subsidiaries at December 31, 2006 and December 25, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company restated its 2005 and 2004 consolidated financial statements.

As discussed in Note 1, Note 10 and Note 13 to the consolidated financial statements, the company changed the manner in which it accounts for cash and cash equivalents and short-term investments, defined benefit pension plans, and stock-based compensation, respectively, in 2006.

**Internal control over financial reporting**

Also, in our opinion, management's assessment, included in Management's Report On Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other

procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Los Angeles, California

April 9, 2007



**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in thousands, except per share amounts)

Fiscal Year	2006	2005	2004
		As restated	As restated
<b>NET SALES</b>	\$ 789,862	\$ 804,161	\$ 872,258
Cost of sales	781,122	755,337	779,752
<b>GROSS PROFIT</b>	8,740	48,824	92,506
Selling, general and administrative expenses	25,679	21,802	24,154
Impairment of long-lived assets	4,470	7,855	
<b>INCOME (LOSS) FROM OPERATIONS</b>	(21,409)	19,167	68,352
Interest income, net	5,589	5,329	2,772
Other expense, net	(268)	(588)	(1,614)
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY EARNINGS</b>	(16,088)	23,908	69,510
Income tax benefit (provision)	1,534	(8,895)	(26,209)
Equity in earnings of joint ventures	4,976	5,206	8,611
<b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	(9,578)	20,219	51,912
Discontinued operations, net of taxes	257	(27,811)	(8,108)
<b>NET INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE</b>	(9,321)	(7,592)	51,912
Cumulative effect of accounting change, net of taxes		1,225	
<b>NET INCOME (LOSS)</b>	\$ (9,321)	\$ (6,367)	\$ 43,804
<b>EARNINGS (LOSS) PER SHARE BASIC:</b>			
Net income (loss) from continuing operations	\$ (0.36)	\$ 0.76	\$ 1.95
Discontinued operations, net of taxes	0.01	(1.05)	(0.30)
Cumulative effect of accounting change, net of taxes		0.05	

<b>NET INCOME (LOSS)</b>	\$ (0.35)	\$ (0.24)	\$ 1.65
--------------------------	-----------	-----------	---------

**EARNINGS (LOSS) PER SHARE DILUTED:**

Net income (loss) from continuing operations	\$ (0.36)	\$ 0.76	\$ 1.94
Discontinued operations, net of taxes	0.01	(1.05)	(0.30)
Cumulative effect of accounting change, net of taxes		0.05	

<b>NET INCOME (LOSS)</b>	\$ (0.35)	\$ (0.24)	\$ 1.64
--------------------------	-----------	-----------	---------

See notes to consolidated financial statements.

**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share amounts)

Fiscal Year End	2006	2005 As restated
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 68,385	\$ 107,349
Short-term investments	9,750	
Accounts receivable, net	138,552	135,501
Inventories, net	118,724	107,726
Deferred income taxes	6,416	2,585
Other current assets	4,766	6,579
Total current assets	346,593	359,740
Property, plant and equipment, net	310,414	292,289
Investments	46,247	59,572
Other assets	8,759	7,878
<b>Total Assets</b>	<b>\$ 712,013</b>	<b>\$ 719,479</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 60,959	\$ 53,527
Accrued expenses	41,898	39,401
Income taxes payable	10,253	17,706
Total current liabilities	113,110	110,634
Executive retirement liabilities	21,666	18,747
Deferred income taxes	17,049	10,209
Commitments and contingent liabilities (Note 12)		
Shareholders' equity:		
Preferred stock, \$25.00 par value Authorized 1,000,000 shares; Issued none		
Common stock, \$0.50 par value Authorized 100,000,000 shares Issued and outstanding 26,610,191 shares (26,610,191 shares at December 31, 2005)	13,305	13,305
Additional paid-in-capital	35,094	32,062
Accumulated other comprehensive loss	(37,097)	(40,717)
Retained earnings	548,886	575,239
Total shareholders' equity	560,188	579,889
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 712,013</b>	<b>\$ 719,479</b>

See notes to consolidated financial statements.



**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHESIVE INCOME**  
**(LOSS)**

(Dollars in thousands, except per share amounts)

	Common Stock		Additional	Accumulated	Retained	
	Number of	Amount	Paid-In	Other	Earnings	Total
	Shares		Capital	Comprehensive		
				Income		
				(Loss)		
<b>BALANCE AT</b>						
<b>FISCAL YEAR END</b>						
<b>2003, AS REPORTED</b>	26,768,666	\$ 13,384	\$ 28,431	\$ (41,935)	\$ 576,702	\$ 576,582
Cumulative effect of restatements			6,961		(5,943)	1,018
<b>BALANCE AT</b>						
<b>FISCAL YEAR END</b>						
<b>2003, AS RESTATED</b>	26,768,666	\$ 13,384	\$ 35,392	\$ (41,935)	\$ 570,759	\$ 577,600
Comprehensive Income:						
Net income					43,804	43,804
Other comprehensive income				3,349		3,349
Comprehensive income						47,153
Stock-based compensation expense			1,310			1,310
Stock options exercised, including related tax benefit	56,125	28	1,497			1,525
Repurchases of common stock	(203,600)	(102)	(6,715)			(6,817)
Cash dividends declared (\$0.6025 per share)					(16,052)	(16,052)
<b>BALANCE AT</b>						
<b>FISCAL YEAR END</b>						
<b>2004, AS RESTATED</b>	26,621,191	\$ 13,310	\$ 31,484	\$ (38,586)	\$ 598,511	\$ 604,719
Comprehensive Loss:						
Net loss					(6,367)	(6,367)
Other comprehensive loss				(2,131)		(2,131)
Comprehensive loss						(8,498)
			817			817

Stock-based compensation expense						
Stock options exercised, including related tax benefit	5,000	3	130			133
Repurchases of common stock	(16,000)	(8)	(369)			(377)
Cash dividends declared (\$0.635 per share)					(16,905)	(16,905)

**BALANCE AT**

**FISCAL YEAR END**

**2005, AS RESTATED**      26,610,191      \$ 13,305      \$ 32,062      \$ (40,717)      \$ 575,239      \$ 579,889

See notes to consolidated financial statements.

**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHESIVE INCOME**  
**(LOSS)**

(Dollars in thousands, except per share amounts)

	Common Stock		Additional	Accumulated	Retained	
	Number of	Amount	Paid-In	Other	Earnings	Total
	Shares		Capital	Comprehensive		
				Income		
				(Loss)		
<b>BALANCE AT</b>						
<b>FISCAL YEAR END</b>						
<b>2005, AS RESTATED</b>	26,610,191	\$ 13,305	\$ 32,062	\$ (40,717)	\$ 575,239	\$ 579,889
Comprehensive Income						
(Loss):						
Net loss					(9,321)	(9,321)
Other comprehensive						
income				5,410		5,410
Comprehensive loss						(3,911)
Stock-based						
compensation expense			3,032			3,032
Adjustment to initially						
apply SFAS No. 158				(1,790)		(1,790)
Cash dividends declared						
(\$0.64 per share)					(17,032)	(17,032)
<b>BALANCE AT</b>						
<b>FISCAL YEAR END</b>						
<b>2006</b>	26,610,191	\$ 13,305	\$ 35,094	\$ (37,097)	\$ 548,886	\$ 560,188

See notes to consolidated financial statements.

**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Dollars in thousands)

Fiscal Year	2006	2005	2004
		As restated	As restated
<b>NET INCOME (LOSS)</b>	\$ (9,321)	\$ (6,367)	\$ 43,804
Adjustment to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	39,137	46,468	39,281
Impairment of long-lived assets	4,470	41,895	
Equity in earnings of joint ventures, net of dividends received	3,751	(240)	(4,081)
Deferred income taxes	3,009	(23,094)	8,321
Stock-based compensation	3,032	817	1,310
Other non-cash items	4,936	1,494	6,438
Gain on sale of discontinued operations	(1,077)		
Cumulative effect of accounting change		(1,225)	
Changes in operating assets and liabilities:			
Accounts receivable	(4,278)	13,647	(6,280)
Inventories	(15,568)	(16,838)	(21,455)
Other assets	3,100	(604)	5,803
Accounts payable	10,915	10,916	11,957
Income taxes payable	(7,458)	17,528	(14,511)
Other liabilities	1,482	(7,896)	6,524
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>36,130</b>	<b>76,501</b>	<b>77,111</b>
Cash flows from investing activities:			
Additions to property, plant and equipment	(73,062)	(100,800)	(54,579)
Proceeds from sale of discontinued operations	15,000		
Purchases of held-to-maturity securities			(38,698)
Proceeds from sales of held-to-maturity securities		29,025	
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(58,062)</b>	<b>(71,775)</b>	<b>(93,277)</b>
Cash flows from financing activities:			
Cash dividends paid	(17,032)	(16,772)	(15,609)
Repurchases of common stock		(377)	(6,817)
Stock options exercised		128	1,389
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(17,032)</b>	<b>(17,021)</b>	<b>(21,037)</b>



Net increase (decrease) in cash and cash equivalents	(38,964)	(12,295)	(37,203)
Cash and cash equivalents at the beginning of the year	107,349	119,644	156,847
Cash and cash equivalents at the end of the year	\$ 68,385	\$ 107,349	\$ 119,644

See notes to consolidated financial statements.

**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business Description**

Headquartered in Van Nuys, California, our principal business is the design and manufacture of aluminum road wheels for sale to OEMs. We are one of the largest suppliers of cast and forged aluminum wheels to the world's leading automobile and light truck manufacturers, with wheel manufacturing operations in the United States, Mexico and Hungary. Customers in North America represent the principal market for our products, with approximately 14 percent of our products being sold to international customers.

GM, Ford and DaimlerChrysler together represented approximately 86 percent of our annual sales in 2006 and 85 percent and 88 percent of annual sales in 2005 and 2004, respectively. Although the loss of all or a substantial portion of our sales to any of these customers would have a significant adverse impact on our financial results, unless the lost volume could be replaced, we believe this risk is partially offset due to long-term relationships with each, including multi-year program arrangements. However, recent global competition pricing pressures have put these multi-year arrangements at risk. Including our 50 percent owned joint venture in Europe, we also manufacture aluminum wheels for, Audi, BMW, Isuzu, Jaguar, Land Rover, Mazda, MG Rover, Mitsubishi, Nissan, Subaru, Toyota and Volkswagen.

We began manufacturing aluminum suspension and related underbody components using the licensed Cobapress<sup>TM</sup> technology in 1999. Through 2005, we had made a significant investment in this business and had incurred significant losses since its inception. Due to the intense competition in the global automotive wheel industry, the decision was made to focus all of our resources on our core aluminum wheel business. On January 9, 2006, our Board of Directors approved management's plan to dispose of the aluminum suspension components business before the end of 2006 and authorized us to engage an investment banker and/or other advisors to explore options for the sale of this business.

Accordingly, on September 20, 2006, we entered into an agreement with Saint Jean Industries, Inc., a Delaware corporation, as buyer, and the buyer's parent, Saint Jean Industries, SAS, a French simplified joint stock company, to sell substantially all of the assets and working capital of our suspension components business for \$17.0 million, including a \$2.0 million promissory note. The \$2.0 million promissory note is due in two equal installments on the 24th and 36th month anniversary dates of the completion date, and bears interest at LIBOR plus 1%, adjusted quarterly. See Note 17 - Discontinued Operations for further discussion of the aluminum suspension components business.

On June 16, 2006, we announced that we were restructuring our chrome plating business located in Fayetteville, Arkansas, that would result in a lay off of approximately 225 employees. The restructuring of the chrome plating business was the result of a shift in customer preference to less expensive bright finishing processes that reduced the sales outlook for chromed wheel products. The shift away from chromed wheel products and the resulting impact on the company's chrome plating business had been previously disclosed in the fourth quarter of 2005, when the company estimated that it would not be able to eventually recover the carrying value of certain machinery and equipment in the chrome plating operation. Accordingly, such assets were written down to their estimated fair value by recording an asset impairment charge against pretax earnings of \$7.9 million in the fourth quarter of 2005. At the same time, an accrual of \$1.3 million was recorded for potential environmental exposure related to machinery and equipment shutdown and removal. Any additional environmental costs are not possible to estimate at this time, however an environmental assessment is currently underway. Other costs related to this restructuring were not significant. The out-sourcing of our current and future customer requirements for chrome-plated wheels to a third-party processor was completed by the end of the third quarter of 2006. This restructuring does not affect the company's bright polish operation, which is located at the same facility.

On September 15, 2006, we announced the planned closure of our wheel manufacturing facility located in Johnson City, Tennessee, and the resulting lay off of approximately 500 employees. The planned closure of the Johnson City facility is expected to be completed in the first quarter of 2007. This was the latest step in our program to rationalize our production capacity after the recent announcements by our customers of sweeping production cuts, particularly



in the light truck and sport utility platforms, that have reduced our requirements for the near future. Accordingly, an asset impairment charge against pretax earnings totaling \$4.5 million was recorded in 2006 when we estimated that the future undiscounted cash flows of this facility would not be sufficient to recover the carrying value of our long-lived assets attributable to that facility. Severance and other costs related to the closure of this facility totaled approximately \$0.8 million in the fourth quarter of 2006, with an additional \$0.7 million expected through the date of closure.

#### **Presentation of Consolidated Financial Statements**

The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries. All significant intercompany transactions are eliminated in consolidation. Affiliated 50 percent owned joint ventures are recorded in the financial statements using the equity method of accounting. The carrying value of these equity investments is reported in long-term investments and the company's equity in net income and losses of these investments is reported in other income and expense.

In 2005, we changed the method of recording our 50 percent share of Suoftec Light Metal Products, Ltd. (Suoftec) earnings from recording on a one-month lag to recording the results of operations on a current basis. The purpose of the change was to have this 50 percent owned subsidiary report on the same basis as our fiscal reporting period, as their financial information is now available on a timely basis. As a result, net income for the year ended December 31, 2005 includes a cumulative effect of accounting change of \$1.2 million, representing the company's share of Suoftec's net income for the month of December 2004.

We have made a number of estimates and assumptions related to the reporting of assets, liabilities, revenues and expenses to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Generally, assets and liabilities that are subject to estimation and judgment include the allowance for doubtful accounts, inventory valuation reserves, depreciation and amortization periods of long-lived assets, self-insurance accruals, fair value of stock-based compensation and income taxes. While actual results could differ, we believe such estimates to be reasonable.

Our fiscal year is the 52- or 53-week period ending on the last Sunday of the calendar year. The 2006 fiscal year comprises the 53-week period ended on December 31, 2006. Fiscal years 2005 and 2004 comprise the 52-week periods ended on December 25, 2005 and December 26, 2004, respectively. For convenience of presentation in the consolidated financial statements, all fiscal years are referred to as beginning as of January 1 and ending as of December 31. Certain prior year amounts have been reclassified to conform to the 2006 financial statement presentation.

#### **Cash and Cash Equivalents**

Cash and cash equivalents generally consist of cash, certificates of deposit, money market funds and short-term highly liquid investments with original maturities of three months or less. In the fourth quarter of 2006, we revised our policy definition of cash and cash equivalents to include short-term highly liquid investments as cash equivalents, as they represent investments that have been purchased with maturity dates of 90 days or less and generally with maturities of approximately 10 days. As such, they present little risk of changes to their value. Historically, we had presented these highly liquid instruments as short-term investments on the balance sheets as they were truly investment vehicles. In recent years, however, our profitability has declined as we were making significant investments in new plants and in restructuring existing facilities. These activities have decreased our cash position to the extent that we are now utilizing these previously classified short-term investments to fund current operating requirements interchangeably with other cash equivalents under existing policies. These highly liquid investments will continue to be utilized to meet on-going cash demands for the foreseeable future.

We believe this change in accounting principle to be a preferable method of accounting for these short-term investments as it reflects our intended purpose for these investments. We have, in accordance with SFAS No. 154,

Accounting Changes and Error Corrections, retrospectively applied this new accounting principle to our prior years consolidated balance sheets by restating cash and cash equivalents to include short-term investments of \$58.5 million and \$28.3 million at the end of 2005 and 2004, respectively. Additionally, the statements of cash flows have been restated to reflect these balances as cash and cash equivalents, and to eliminate their respective proceeds from



sales and purchases during those periods from investing activities. The adoption of this new accounting methodology does not change the underlying economics of our business or these transactions. At times throughout the year and at year-end, cash balances held at financial institutions were in excess of federally insured limits.

### Marketable Investments

Marketable debt and equity securities, not classified as cash equivalents, are classified as held-to-maturity or available-for-sale. Securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. We record held-to-maturity securities, which are stated at amortized cost, as either short-term or long-term on the balance sheet based upon contractual maturity dates. Securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair market value, with unrealized gains and losses, net of deferred taxes, excluded from operating results and reported in shareholders' equity as a component of accumulated other comprehensive income (loss) until realized, or until any unrealized losses are determined to be other than temporary, at which time the losses would be recognized in our operating results. The fair values of securities are determined based upon quoted market prices. Gains or losses on securities sold are based on the specific identification method. Marketable securities were comprised as follows (dollars in thousands):

	Cost	Fair Value	Net Unrealized Gain (Loss)	Balance Sheet Amount	Maturity
At December 31, 2006					
Current assets:					
Held-to-maturity security:					
Corporate debt security	\$ 9,771	\$ 9,750	\$	\$ 9,750	2007
Long-term investments:					
Available-for-sale securities:					
Corporate equity securities	\$ 2,214	\$ 4,894	\$ 2,680	\$ 4,894	Not Applicable
At December 31, 2005, as restated					
Long-term investments:					
Available-for-sale securities:					
Corporate equity securities	\$ 2,214	\$ 3,792	\$ 1,578	\$ 3,792	Not Applicable
Held-to-maturity security:					
Corporate debt security	9,771	9,297	(470)	9,767	2007
Total long-term investments	\$ 11,985	\$ 13,089	\$ 1,108	\$ 13,559	

### Fair Values of Financial Instruments and Commitments

The carrying amounts for cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses approximate their fair values due to the short period of time until maturity. Fair values of

long-term marketable investments and future purchase commitments, which are discussed further in Note 12 Commitment and Contingent Liabilities, are based upon quoted market prices.

**Inventories**

Inventories, which are categorized as raw materials, work-in-process or finished goods, are stated at the lower of cost or market using the first-in, first-out method.

**Property, Plant and Equipment**

Property, plant and equipment are carried at cost, less accumulated depreciation. The cost of additions, improvements and interest during construction, if any, are capitalized. Our maintenance and repair costs are charged to expense when incurred. Depreciation is calculated generally on the straight-line method based on the estimated useful lives of the assets.

Classification	Expected Useful Life
Computer equipment	3 to 5 years
Production machinery and equipment	7 to 10 years
Buildings	25 years

When property and equipment is replaced, retired or disposed of, the cost and related accumulated depreciation are removed from the accounts. Property and equipment no longer used in operations, which are generally insignificant in amount, are stated at the lower of cost or estimated net realizable value. Gains and losses, if any, are recorded in other income or expense in the period of disposition or write down.

**Impairment of Long-Lived Assets**

The company's policy regarding long-lived assets is to evaluate the recoverability of its assets at least annually or when the facts and circumstances suggest that the assets may be impaired. This assessment of recoverability is performed based on the estimated undiscounted cash flows compared to the carrying value of the assets. If the future cash flows (undiscounted and without interest charges) are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. See Note 16 Impairment of Long-Lived Assets and Other Charges for further discussion of asset impairments.

**Derivative Instruments and Hedging Activities**

We may periodically enter into foreign currency forward contracts to reduce the risk from exchange rate fluctuations associated with future purchase commitments, such as wheel purchases denominated in Euros from our 50 percent owned joint venture in Hungary. This type of hedging activity, which attempts to protect our planned gross margin as of the date of the purchase commitment, qualifies as a cash flow hedge under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Accordingly, we assess whether the cash flow hedge is effective both at inception and periodically thereafter. The effective portion of the related gains and losses is recorded as an asset or liability in the consolidated balance sheets with the offset as a component of other comprehensive income (loss) in shareholders' equity. The ineffective portion of related gains or losses, if any, is reported in current earnings. As hedged transactions are consummated, amounts previously accumulated in other comprehensive income (loss) are reclassified into current earnings. At December 31, 2006, we held no Euro forward contracts. At December 31, 2005, we held Euro forward contracts totaling \$10.7 million, with an unrealized loss of \$0.2 million.

We also enter into contracts to purchase certain commodities used in the manufacture of our products, such as aluminum, natural gas, environmental emission credits and other raw materials. Such contracts are considered normal purchases as the commodities are physically delivered and, therefore, pursuant to SFAS No. 133 are not accounted for as derivatives. See Note 12 Commitments and Contingent Liabilities for additional information pertaining to these purchase commitments.

**Foreign Currency Transactions**

We have foreign operations in Mexico and Hungary that, due to the settlement of accounts receivable and accounts payable, require the transfer of funds denominated in their respective functional currencies—the Mexican Peso, the Euro and the Hungarian Forint. Foreign currency asset and liability accounts are translated using the exchange rates in effect at the end of the accounting period. Revenue and expense accounts are translated at the weighted average of exchange rates during the period. The cumulative effect of translation is recorded as a separate component of accumulated other comprehensive income (loss) in shareholders' equity, as reflected in Note 15 Other Comprehensive Income (Loss). Foreign exchange transaction gains and (losses) of \$(0.0) million, \$(0.9) million and \$(0.2) million have been recorded as part of other income, net during 2006, 2005 and 2004, respectively.





**Revenue Recognition**

Sales of products and any related costs are recognized when title and risk of loss transfers to the purchaser, generally upon shipment. Wheel program development revenues and initial tooling that are reimbursed by our customers are recognized as such related costs and expenses are incurred and recoverability is probable, generally upon issuance of a customer purchase order. Wheel program development revenues totaled \$19.8 million in 2006, \$21.1 million in 2005, and \$14.0 million in 2004.

**Research and Development**

Research and development costs (primarily engineering and related costs), which are expensed as incurred, are normally included in cost of sales in the consolidated statements of operations. Amounts expended during each of the three years in the period ended December 31, 2006 were \$6.8 million in 2006, \$9.6 million in 2005, and \$12.9 million in 2004.

**Stock-Based Compensation**

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R), using the modified prospective transition method and, therefore, have not restated results for prior periods. Under this transition method, stock-based compensation expense for the year ended December 31, 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123. For options granted subsequent to January 1, 2006, such expense is in accordance with the provisions of SFAS No. 123R. We recognize these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years. Prior to the adoption of SFAS 123R, we recognized stock-based compensation expense in accordance with the intrinsic value method that followed the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and we provided pro forma disclosure amounts in accordance with SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148), as if the fair value method defined by SFAS 123 had been applied to our stock-based compensation. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. We have applied the provisions of SAB 107 in our adoption of SFAS 123R.

Since the only awards issued under our equity incentive plans have been, and are currently, stock option awards, the stock-based compensation expense recorded in 2006, as detailed in Note 13 Stock-Based Compensation presents the impact of the adoption of SFAS 123R. This expense is comparable to the, previously disclosed stock-based compensation expense presented as pro forma information in accordance with SFAS 123 and SFAS 148. The table below reflects the pro forma net earnings and basic and diluted earnings per share for the years ended December 31, 2005 and 2004, had we applied the fair value recognition provisions of SFAS 123:

Year Ended December 31,	2005	2004
(Dollars in thousands, except per share amounts)	As restated	As restated
Reported net income (loss)	\$ (6,367)	\$ 43,804
Stock-based compensation expense included in reported income (loss), net of taxes	531	851
Stock-based compensation expense determined under fair value method for all awards, net of taxes	(5,617)	(3,596)
Pro forma net income (loss)	\$ (11,453)	\$ 41,059

Year Ended December 31,	2005	2004
	As	As
(Dollars in thousands, except per share amounts)	restated	restated
Earnings (loss) per share:		
Basic as reported	\$ (0.24)	\$ 1.64
Basic pro forma	\$ (0.43)	\$ 1.54
Diluted as reported	\$ (0.24)	\$ 1.63
Diluted pro forma	\$ (0.43)	\$ 1.53

### Income Taxes

In accordance with the provisions of FASB SFAS 109, Accounting for Income Taxes, we account for income taxes using the asset and liability method. The asset and liability method requires the recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between the tax bases and financial reporting bases of our assets and liabilities. We calculate current and deferred tax provisions based on estimates and assumptions that could differ from actual results reflected on the income tax returns filed during the following years. Adjustments based on filed returns are recorded when identified in the subsequent years.

The effect on deferred taxes for a change in tax rates is recognized in income in the period of enactment. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion of the deferred tax assets will not be realized. A valuation allowance is provided for deferred income taxes when, in our judgment, based upon currently available information and other factors, it is more likely than not that a portion of such deferred income tax assets will not be realized. The determination of the need for a valuation allowance is based on an on-going evaluation of current information including, among other things, estimates of future earnings in different taxing jurisdictions and the expected timing of the deferred income tax asset reversals. We believe that the determination to record a valuation allowance to reduce a deferred income tax assets is a significant accounting estimate because it is based on an estimate of future taxable income in the United States and certain other jurisdictions, which is susceptible to change and may or may not occur, and because the impact of adjusting a valuation allowance may be material.

It is our policy to establish reserves for taxes (included in income taxes payable) that are probable and may become payable in future years as a result of an examination by taxing authorities. We establish reserves based upon management's assessment associated with permanent tax differences, tax credits and interest expense on adjustments to temporary tax differences. The tax reserves are analyzed at least quarterly, and adjustments are made as events occur to warrant adjustment to the reserve.

Presently we have not recorded a deferred tax liability for temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration. These temporary differences may become taxable upon a repatriation of assets from the subsidiaries or a sale or liquidation of the subsidiaries. At this time the company does not have any plans to repatriate income from their foreign subsidiaries.

### Earnings (Loss) Per Share

As summarized below, basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding for the period. For purposes of calculating diluted earnings (loss) per share, net income (loss) is divided by the total of the weighted average shares outstanding plus the dilutive effect of our outstanding stock options under the treasury stock method, which includes consideration of stock-based compensation required by SFAS 123R and SFAS 128, Earnings Per Share.

(In thousands, except per share amounts)			
Year Ended December 31,	2006	2005	2004
		As restated	As restated
<b>Basic Earnings (Loss) Per Share</b>			
Reported net income (loss)	\$ (9,321)	\$ (6,367)	\$ 43,804
Weighted average shares outstanding	26,610	26,614	26,655
Basic earnings (loss) per share	\$ (0.35)	\$ (0.24)	\$ 1.65
<b>Diluted Earnings (Loss) Per Share</b>			
Reported net income (loss)	\$ (9,321)	\$ (6,367)	\$ 43,804
Weighted average shares outstanding	26,610	26,614	26,655
Weighted average dilutive stock options		6	154
Weighted average shares outstanding-diluted	26,610	26,620	26,809
Diluted earnings (loss) per share	\$ (0.35)	\$ (0.24)	\$ 1.64

The following potential shares of common stock were excluded from the diluted earnings per share calculations because they would have been anti-dilutive due to their exercise prices exceeding the market prices for the respective periods: for the year ended December 31, 2006, options to purchase 2,294,092 shares at prices ranging from \$20.23 to \$42.87; for the year ended December 31, 2005, options to purchase 2,292,775 shares at prices ranging from \$23.81 to \$42.87 per share; and for the year ended December 31, 2004, options to purchase 775,925 shares at prices ranging from \$33.50 to \$42.87 per share.

#### **New Accounting Standards**

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, *Inventory Costs*, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and spoilage. This statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of *so abnormal*, which was the criterion specified in ARB No. 43. In addition, this Statement requires that allocation of fixed production overheads to the cost of production be based on normal capacity of the production facilities. The new standard is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this new accounting standard in 2006 did not have a material impact on our financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. This Interpretation also provides guidance on derecognition, classification, interest, penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this Interpretation will be a two-step process. The first step will determine if it is more likely than not that a tax position will be sustained upon examination and should therefore be recognized. The second step will measure a tax position that meets the more likely than not recognition threshold to determine the amount of

benefit to recognize in the financial statements. This Interpretation is effective for fiscal years beginning after December 15, 2006. We have commenced but not completed our evaluation of the effect of the adoption of FIN 48. The adoption of FIN 48 may have a significant impact on our shareholders' equity in the consolidated financial statements as of January 1, 2007.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (FAS 157). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair

value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. The Statement is to be effective for our financial statements issued in 2008; however, earlier application is encouraged. We are currently evaluating the timing of adoption and the impact that adoption might have on our financial position or results of operations.

In September 2006, the FASB released 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) (FAS 158). Under the new standard, companies must recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. The recognition and disclosure provisions of SFAS No. 158 were adopted as of December 31, 2006. There was no impact of adopting SFAS No. 158 requirement to measure defined benefit plan assets and obligations as of the date of a company's fiscal year-end statement of financial position. See Note 10 Retirement Plan in Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K for further discussion of defined benefit pension and other postretirement plans.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. SAB No. 108 requires registrants to quantify the impact of correcting all misstatements using both the *roll-over* method, which focuses primarily on the impact of a misstatement on the income statement, and the *iron curtain* method, which focuses primarily on the effect of correcting the period-end balance sheet. The use of both of these methods is referred to as the *dual approach* and should be combined with the evaluation of qualitative elements surrounding the errors in accordance with SAB No. 99, *Materiality*. The provisions of SAB No. 108 are effective in 2006. The adoption of SAB No. 108 had no impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective fiscal years beginning after November 15, 2007. We have not completed our evaluation of SFAS No. 159, but we do not expect the adoption of SFAS No. 159 to have a material effect on our operating results or financial position.

## **Note 2 Review of Stock Option Practices and Restatements of Consolidated Financial Statements**

### **Review of Stock Option Practices and Restatements of Consolidated Financial Statements**

During the fourth quarter of 2006, two shareholder derivative lawsuits were filed against us and certain present and former officers and directors of the company alleging that the defendants (1) improperly backdated stock options of officers and directors, in violation of the company's shareholder-approved stock option plans; (2) improperly recorded and accounted for the backdated stock options, in violation of generally accepted accounting principles; (3) improperly reported tax deductions based on the backdated stock options, in violation of Section 162(m) of the Internal Revenue Code; and (4) produced and disseminated to shareholders and the market false financial statements and other SEC filings. To evaluate these allegations, under the oversight of the Audit Committee of the Board of Directors, outside counsel and forensic accounting experts (the *Review Team*), thereafter conducted a comprehensive review of our historical stock option grant practices.

The Review Team analyzed approximately 1,125 option grants, involving approximately 3,875,500 options, or 98% of the total options granted, made on 52 separate grant dates between 1997 and 2006. The Review Team also reviewed certain option grants for the time period between 1991 and 1996. Based on this review, we concluded that, for most option grants, there were deficiencies in the process of granting, documenting or accounting for stock options that resulted in our using incorrect measurement dates for financial accounting purposes. These deficiencies included:

For certain option grants, we generally failed to comply with the terms of the applicable stock option plans concerning the timing of option grants. In particular, our 1988 and 1993 Stock Option plans required that any option grants approved by Unanimous Written Consent ( UWC ) be considered granted on the date the last Compensation and Benefits Committee member executed the consent. Instead, we considered options granted, and used a measurement date for accounting purposes, prior to the date on which the last Committee member executed the UWC;

For certain option grants, there was incomplete or missing documentation of the requisite corporate actions. For example, in most cases involving grants made by UWC, the Review Team was not able to locate all of the executed versions of the UWCs and, therefore, could not determine the date the UWC became effective. As a result, we concluded the date of the next Board of Directors meeting, when a duplicate UWC was executed, was the appropriate accounting measurement date;

For certain option grants, we granted options before the completion of required corporate actions. In one instance, a grant to our then CEO and current Chairman of the Board requiring shareholder approval was made before that approval was obtained. In addition, as discussed above, certain grants were made before the approving UWC was finally executed;

For certain option grants, we did not finalize the allocation of the number of options granted to each employee until after the purported grant date;

For certain option grants, we selected a grant date retrospectively to obtain a lower exercise price; and

For certain option grants, we awarded new employees options prior to their actual start date to obtain a lower exercise price.

Under paragraph 10 of Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees, the measurement date for determining the compensation cost of a stock option grant is the first date on which both the following are known: (1) the number of options that an individual employee is entitled to receive and (2) the option or purchase price. If the fair market value of the company's common stock on the measurement date exceeds an option's exercise price, the company is required to record compensation expense for the difference. Applying these principles, we determined that, after accounting for forfeitures, compensation expense in the pretax amount of \$11.1 million should have been recorded over the years 1991 through 2005. Accordingly, we adjusted certain accounts, including retained earnings in the amount of \$5.9 million, in the opening balance sheet for fiscal year 2004. After considering all of the quantitative and qualitative factors, these errors are not considered to be material to any one prior period.

However, because the cumulative effect of the historical misdated options would be material to the 2006 period, we have restated our prior financial statements based on the guidance in Accounting Principles Board Opinion No. 28,

Interim Financial Reporting, paragraph 29 and SEC SAB Topic 5F, Accounting Changes Not Retroactively Applied Due to Immateriality.

Based on the Review Team's findings, we also concluded that none of the members of the Board of Directors or senior management engaged in intentional or fraudulent misconduct in connection with the option granting issues identified by the Review Team. This conclusion was based on the determination that (1) a majority of the deficiencies were administrative in nature and not the result of deliberate conduct; (2) to the extent hindsight was used to select grant dates with lower exercise prices, our current Chief Executive Officer and our current Chairman of the Board did not benefit financially or appreciate the related accounting implications of such actions; and (3) while our Chief Financial Officer was aware of the use of hindsight to select option grant dates with lower exercise prices and had personally obtained some financial benefit from exercising these misdated options, after considering all related positive and negative factors, the Review Team found that he did not appear to have appreciated fully, the accounting implications of the misdated option grants. The stock-based compensation expense required to be recorded due to retrospectively obtaining a lower exercise price, which would have been recorded over the four-year vesting period, approximated

\$3.7 million for option grants totaling 645,100 shares.



Additionally, based on the Review Team's findings, the Board of Directors approved certain remediation and corporate governance measures to address the deficiencies identified by the Review Team and to align our option-granting processes with prevailing best practices and generally accepted accounting principles.

### Restatement and Impact on Financial Statements

In addition to restating the consolidated financial statements in response to the Review Team's findings, we also 1) reclassified the operations of the aluminum suspension components business to discontinued operations due to the decision reached in 2006 to sell that business (see Note 17 Discontinued Operations in Item 8 Financial Statements and Supplementary Data) and 2) reclassified certain short-term investments to cash and cash equivalents in conjunction with an accounting policy change, affected during 2006, described under Cash and Cash Equivalents in Note 1 Summary of Significant Accounting Policies in Item 8 Financial Statements and Supplementary Data. For the fiscal years 2005 and prior, we previously had not recorded stock-based compensation expenses; therefore, the additional stock based-compensation noted below represents the total stock-based compensation expense for these periods. The impact to the statement of operations of the stock-based compensation restatement is as follows (in thousands):

Fiscal Year	Net Income, as Previously Reported	Stock-Based Compensation Expense Net of Tax	Net Income, as Restated	Stock-Based Compensation Expense Pretax
Cumulative effect as of the beginning of fiscal 2004		\$ (5,943)		\$ (8,956)
2004	\$ 44,655	\$ (851)	\$ 43,804	\$ (1,310)
2005	\$ (5,836)	(531)	\$ (6,367)	\$ (817)
Cumulative effect as of the end of fiscal 2005		\$ (7,325)		\$ (11,083)

Fiscal Year	Stock-Based Compensation Expense Net of Tax	Stock-Based Compensation Expense Pretax
2003	\$ (915)	\$ (1,407)
2002	(829)	(1,276)
2001	(460)	(708)
2000	(204)	(314)
1999	(148)	(228)
1998	(66)	(102)
1997	(17)	(26)
1996	(211)	(325)
1995	(1,183)	(1,630)
1994	(1,059)	(1,630)
1993	(848)	(1,305)
1992	(3)	(5)
1991		

Cumulative effect as of the beginning of fiscal 2004	\$	(5,943)	\$	(8,956)
--	----	---------	----	---------

The Adjustments column in the following tables reflects the impact of the stock-based compensation expense, indicated above only. The As Reported (reclassified) column includes the reclassifications related to discontinued operations and accounting policy changes, as described above:

§ the consolidated statements of operations for the fiscal years 2005 and 2004.

§ the consolidated balance sheets as of the fiscal year end 2005.

§ the consolidated statements of cash flows for the fiscal years 2005 and 2004.

§ pro forma information required by SFAS No. 123 for the fiscal years 2005 and 2004.

**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Dollars in thousands, except per share amounts)**

Fiscal Year 2005	As reported (reclassified)	Adjustments	As restated
<b>NET SALES</b>	\$ 804,161	\$	\$ 804,161
Cost of sales	755,337		755,337
<b>GROSS PROFIT</b>	48,824		48,824
Selling, general and administrative expenses	20,985	817	21,802
Impairment of long-lived assets	7,855		7,855
<b>INCOME (LOSS) FROM OPERATIONS</b>	19,984	(817)	19,167
Interest income, net	5,329		5,329
Other expense, net	(588)		(588)
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY EARNINGS</b>	24,725	(817)	23,908
Income tax benefit (provision)	(9,181)	286	(8,895)
Equity in earnings of joint ventures	5,206		5,206
<b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	20,750	(531)	20,219
Discontinued operations, net of taxes	(27,811)		(27,811)
<b>NET LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE</b>	(7,061)	(531)	(7,592)
Cumulative effect of accounting change, net of taxes	1,225		1,225
<b>NET LOSS</b>	\$ (5,836)	\$ (531)	\$ (6,367)

**EARNINGS (LOSS) PER SHARE BASIC:**

Edgar Filing: SUPERIOR INDUSTRIES INTERNATIONAL INC - Form 10-K/A

Net income (loss) from continuing operations	\$	0.78	\$	(0.02)	\$	0.76
Discontinued operations, net of taxes		(1.05)				(1.05)
Cumulative effect of accounting change, net of taxes		0.05				0.05

<b>NET LOSS</b>	\$	(0.22)	\$	(0.02)	\$	(0.24)
-----------------	----	--------	----	--------	----	--------

**EARNINGS (LOSS) PER SHARE DILUTED:**

Net income (loss) from continuing operations	\$	0.78	\$	(0.02)	\$	0.76
Discontinued operations, net of taxes		(1.05)				(1.05)
Cumulative effect of accounting change, net of taxes		0.05				0.05

<b>NET LOSS</b>	\$	(0.22)	\$	(0.02)	\$	(0.24)
-----------------	----	--------	----	--------	----	--------

See notes to consolidated financial statements.

**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in thousands, except per share amounts)

Fiscal Year 2004	As reported (reclassified)	Adjustments	As restated
<b>NET SALES</b>	\$ 872,258	\$	\$ 872,258
Cost of sales	779,752		779,752
<b>GROSS PROFIT</b>	92,506		92,506
Selling, general and administrative expenses	22,844	1,310	24,154
Impairment of long-lived assets			
<b>INCOME FROM OPERATIONS</b>	69,662	(1,310)	68,352
Interest income, net	2,772		2,772
Other expense, net	(1,614)		(1,614)
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY EARNINGS</b>	70,820	(1,310)	69,510
Income tax benefit (provision)	(26,668)	459	(26,209)
Equity in earnings of joint ventures	8,611		8,611
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	52,763	(851)	51,912
Discontinued operations, net of taxes	(8,108)		(8,108)
<b>NET INCOME (LOSS)</b>	\$ 44,655	\$ (851)	\$ 43,804
<b>EARNINGS (LOSS) PER SHARE BASIC:</b>			
Net income from continuing operations	\$ 1.98	\$ (0.03)	\$ 1.95
Discontinued operations, net of taxes	(0.30)		(0.30)
<b>NET INCOME (LOSS)</b>	\$ 1.68	\$ (0.03)	\$ 1.65
<b>EARNINGS (LOSS) PER SHARE DILUTED:</b>			
Net income from continuing operations	\$ 1.97	\$ (0.03)	\$ 1.94

Discontinued operations, net of taxes		(0.30)		(0.30)
<b>NET INCOME (LOSS)</b>	\$	1.67	\$ (0.03)	\$ 1.64

See notes to consolidated financial statements.

57

---

**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share amounts)

Fiscal Year Ended December 31, 2005	As reported (reclassified)	Adjustments	As restated
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 107,349	\$	\$ 107,349
Short-term investments			
Accounts receivable, net	135,501		135,501
Inventories, net	107,726		107,726
Deferred income taxes	2,585		2,585
Other current assets	8,579		6,579
<b>Total current assets</b>	<b>359,740</b>		<b>359,740</b>
Property, plant and equipment, net	292,289		292,289
Investments	59,572		59,572
Other assets	7,878		7,878
<b>Total Assets</b>	<b>\$ 719,479</b>	<b>\$</b>	<b>\$ 719,479</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 53,527	\$	\$ 53,527
Accrued expenses	39,401		39,401
Income taxes payable	17,706		17,706
<b>Total current liabilities</b>	<b>110,634</b>		<b>110,634</b>
Executive retirement liabilities	18,747		18,747
Deferred income taxes	11,950	(1,741)	10,209
Commitments and contingent liabilities (Note 12)			
Shareholders' equity:			
Preferred stock, \$25.00 par value			
Authorized 1,000,000 shares; Issued none			
Common stock, \$0.50 par value			
Authorized 100,000,000 shares			
Issued and outstanding 26,610,191 shares	13,305		13,305
Additional paid-in-capital	22,996	9,066	32,062
Accumulated other comprehensive loss	(40,717)		(40,717)
Retained earnings	582,564	(7,325)	575,239
<b>Total shareholders' equity</b>	<b>578,148</b>	<b>1,741</b>	<b>579,889</b>

<b>Total Liabilities and Shareholders Equity</b>	\$ 719,479	\$	\$ 719,479
--	------------	----	------------

See notes to consolidated financial statements.

58

---



**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**(Dollars in thousands)**

Fiscal Year 2005	As reported (reclassified)	Adjustments	As restated
<b>NET LOSS</b>	\$ (5,836)	\$ (531)	\$ (6,367)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	46,468		46,468
Impairment of long-lived assets	41,895		41,895
Equity in earnings of joint ventures, net of dividends received	(240)		(240)
Deferred income taxes	(22,808)	(286)	(23,094)
Stock-based compensation		817	817
Other non-cash items	1,494		1,494
Gain on sale of discontinued operations			
Cumulative effect of accounting change	(1,225)		(1,225)
Changes in operating assets and liabilities:			
Accounts receivable	13,647		13,647
Inventories	(16,838)		(16,838)
Other assets	(604)		(604)
Accounts payable	10,916		10,916
Income taxes payable	17,528		17,528
Other liabilities	(7,896)		(7,896)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>76,501</b>		<b>76,501</b>
Cash flows from investing activities:			
Additions to property, plant and equipment	(100,800)		(100,800)
Proceeds from sale of discontinued operations			
Purchases of held-to-maturity securities			
Proceeds from sales of held-to-maturity securities	29,025		29,025
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(71,775)</b>		<b>(71,775)</b>
Cash flows from financing activities:			
Cash dividends paid	(16,772)		(16,772)
Repurchases of common stock	(377)		(377)
Stock options exercised	128		128
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(17,021)</b>		<b>(17,021)</b>

Net increase (decrease) in cash and cash equivalents	(12,295)		(12,295)
Cash and cash equivalents at the beginning of the year	119,644		119,644
Cash and cash equivalents at the end of the year	\$ 107,349	\$	\$ 107,349

See notes to consolidated financial statements.

**SUPERIOR INDUSTRIES INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Dollars in thousands)

Fiscal Year 2004	As reported (reclassified)	Adjustments	As restated
<b>NET INCOME (LOSS)</b>	\$ 44,655	\$ (851)	\$ 43,804
Adjustment to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	39,281		39,281
Impairment of long-lived assets			
Equity in earnings of joint ventures, net of dividends received	(4,081)		(4,081)
Deferred income taxes	8,780	(459)	8,321
Stock-based compensation		1,310	1,310
Other non-cash items	6,438		6,438
Gain on sale of discontinued operations			
Cumulative effect of accounting change			
Changes in operating assets and liabilities:			
Accounts receivable	(6,280)		(6,280)
Inventories	(21,455)		(21,455)
Other assets	5,803		5,803
Accounts payable	11,957		11,957
Income taxes payable	(14,511)		(14,511)
Other liabilities	6,524		6,524
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>77,111</b>		<b>77,111</b>
Cash flows from investing activities:			
Additions to property, plant and equipment	(54,579)		(54,579)
Proceeds from sale of discontinued operations			
Purchases of held-to-maturity securities	(38,698)		(38,698)
Proceeds from sales of held-to-maturity securities			
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(93,277)</b>		<b>(93,277)</b>
Cash flows from financing activities:			
Cash dividends paid	(15,609)		(15,609)
Repurchases of common stock	(6,817)		(6,817)
Stock options exercised	1,389		1,389
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(21,037)</b>		<b>(21,037)</b>

Net increase (decrease) in cash and cash equivalents	(37,203)		(37,203)
Cash and cash equivalents at the beginning of the year	156,847		156,847
Cash and cash equivalents at the end of the year	\$ 119,644	\$	\$ 119,644

See notes to consolidated financial statements.

60

---

**Stock-Based Compensation**

Prior to the adoption of SFAS 123R, we recognized stock-based compensation expense in accordance with the intrinsic value method that followed the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and we provided pro forma disclosure amounts in accordance with SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148), as if the fair value method defined by SFAS 123 had been applied to our stock-based compensation. The impact of the restatements on the pro forma information is as follows:

	As reported	Adjustments	As restated
Fiscal Year 2005			
(Dollars in thousands, except per share amounts)			
Reported net income (loss)	\$ (5,836)	\$ (531)	\$ (6,367)
Add:			
Stock-based compensation expense included in reported income (loss), net of taxes		531	531
Deduct:			
Stock-based compensation expense determined under fair value method for all awards, net of taxes	(5,119)	(498)	(5,617)
Pro forma net income (loss)	\$ (10,955)	\$ (498)	\$ (11,453)
Earnings (loss) per share:			
Basic as reported	\$ (0.22)	\$ (0.02)	\$ (0.24)
Basic pro forma	\$ (0.41)	\$ (0.02)	\$ (0.43)
Diluted as reported	\$ (0.22)	\$ (0.02)	\$ (0.24)
Diluted pro forma	\$ (0.41)	\$ (0.02)	\$ (0.43)
Fiscal Year 2004			
(Dollars in thousands, except per share amounts)			
Reported net income (loss)	\$ 44,655	\$ (851)	\$ 43,804
Add:			
Stock-based compensation expense included in reported income (loss), net of taxes		851	851
Deduct:			
Stock-based compensation expense determined under fair value method for all awards, net of taxes	(2,973)	(623)	(3,596)
Pro forma net income (loss)	\$ 41,682	\$ (623)	\$ 41,059
Earnings (loss) per share:			
Basic as reported	\$ 1.68	\$ (0.04)	\$ 1.64
Basic pro forma	\$ 1.56	\$ (0.02)	\$ 1.54

Diluted as reported	\$	1.67	\$	(0.04)	\$	1.63
Diluted pro forma	\$	1.55	\$	(0.02)	\$	1.53

**NOTE 3 BUSINESS SEGMENTS**

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, directs companies to use the management approach for segment reporting. This approach reflects management's aggregation of business segments and is consistent with how the company and its key decision-makers assess operating performance, make operating decisions, and allocate resources. This approach also considers the existence of managers responsible for

each business segment and how information is presented to the company's Board of Directors. As previously discussed, we sold substantially all of the assets and working capital of the components business to Saint Jean Industries on September 24, 2006. Accordingly, the results of operations and the gain on the sale of the components segment is classified as discontinued operations in our consolidated condensed statements of operations and is therefore no longer a reportable operating segment under SFAS No. 131. Consequently, we currently have only one reportable operating segment - automotive wheels.

Net sales for each of the geographic areas in which the company operates (dollars in thousands):

Year Ended December 31,	2006	2005	2004
Net sales:			
U.S.	\$ 572,863	\$ 634,987	\$ 712,040
Mexico	216,999	169,174	160,218
Total net sales	\$ 789,862	\$ 804,161	\$ 872,258

Property, plant and equipment for each of the geographic areas in which the company operates (dollars in thousands):

December 31 ,	2006	2005
Property, plant and equipment, net:		
U.S.	\$ 141,653	\$ 170,064
Mexico	168,761	122,225
Total property, plant and equipment, net	\$ 310,414	\$ 292,289

#### NOTE 4 ACCOUNTS RECEIVABLE

December 31,	2006	2005
(Dollars in thousands)		
Trade receivables	\$ 121,707	\$ 120,646
Wheel program development receivables	8,199	6,842
Dividend receivable from joint venture	5,266	
Value added tax receivables	1,414	3,528
Other receivables	4,755	6,485
	141,341	137,501
Allowance for doubtful accounts	(2,789)	(2,000)
	\$ 138,552	\$ 135,501

The following percentages of our consolidated net sales were made to GM, Ford and DaimlerChrysler: 2006 34 percent, 37 percent and 16 percent; 2005 37 percent, 33 percent and 15 percent; and 2004 43 percent, 36 percent and 9 percent, respectively. These three customers represented 87 percent and 86 percent of trade receivables at December 31, 2006 and 2005, respectively.

**NOTE 5 INVENTORIES**

December 31, (Dollars in thousands)	2006	2005
Raw materials	\$ 16,279	\$ 26,513
Work in process	35,810	24,590
Finished goods	66,635	56,623
 Total inventories	 \$ 118,724	 \$ 107,726

**NOTE 6 PROPERTY, PLANT AND EQUIPMENT**

December 31, (Dollars in thousands)	2006	2005
Land and buildings	\$ 95,712	\$ 76,578
Machinery and equipment	498,243	473,962
Leasehold improvements and others	13,829	12,506
Construction in progress	55,455	74,574
	663,239	637,620
Accumulated depreciation	(352,825)	(345,331)
Total property, plant and equipment	\$ 310,414	\$ 292,289

The \$4.5 million asset impairment charge related to our Johnson City, Tennessee wheel manufacturing facility, as discussed in Note 16 Impairment of Long-Lived Assets and Other Charges, was recorded in the appropriate fixed asset cost categories in the table above.

**NOTE 7 INVESTMENTS**

December 31, (Dollars in thousands)	2006	2005
Investment in and advances to 50% owned joint ventures:		
Suoftec Light Metal Products, Ltd.	\$ 39,082	\$ 43,507
Topy-Superior Limited	135	110
	39,217	43,617
Corporate bonds		9,767
Corporate equities	4,894	3,792
Affordable housing limited partnerships	1,574	1,958
Other	562	438
Total investments	\$ 46,247	\$ 59,572

In 1995, we entered into a joint venture with Otto Fuchs Metallwerke KG, a German manufacturing company, to form Suofterc to manufacture cast and forged aluminum wheels in Hungary for the European automobile industry. Initial



manufacture and sale of forged aluminum wheels began in early 1997 and of cast aluminum wheels in mid-1998. During each of the three years ended December 31, 2006, we acquired cast and forged wheels from this joint venture, totaling \$56.3 million in 2006, \$44.2 million in 2005 and \$49.1 million in 2004. At December 31, 2006 and 2005, accounts payable included amounts owed to Suoftec for unpaid wheel purchases totaling \$7.2 million and \$5.8 million, respectively.

In 2005, we changed the method of recording our 50 percent share of Suoftec's earnings from recording on a one-month lag to recording the results of operations on a current basis. The purpose of the change is to have this 50 percent owned subsidiary report on the same basis as our fiscal reporting period, as their financial information is

now available on a timely basis. As a result, net income for the year ended December 31, 2005 includes a cumulative effect of accounting change of \$1.2 million, representing the company's share of Suoftec's net income for month of December 2004.

Included below are summary statements of operations and balance sheets for Suoftec, which is 50 percent owned, non-controlled, and, therefore, not consolidated but accounted for using the equity method.

	December 31, 2006	Year Ended December 31, 2005	November 30, 2004
<b>Summary Statements of Operations</b>			
(Dollars in thousands)			
Net sales	\$ 132,020	\$ 109,131	\$ 111,227
Costs and expenses	122,701	98,346	94,886
Interest income (expense), net	622	288	(141)
Net income	\$ 9,941	\$ 11,073	\$ 16,200
Superior's share of net income	\$ 4,971	\$ 5,536	\$ 8,100
<b>Summary Balance Sheets as of December 31,</b>			
(Dollars in thousands)			
		2006	2005
Current assets		\$ 60,012	\$ 58,942
Non-current assets		38,079	39,382
Total assets		98,091	98,324
Current liabilities		19,884	11,233
Non-current liabilities		42	78
Total liabilities		19,926	11,311
Net assets		\$ 78,165	\$ 87,013
Superior's share of net assets		\$ 39,082	\$ 43,507

Corporate bonds, which are classified as held-to-maturity, mature in 2007. Corporate equities are classified as available-for-sale and, therefore, are marked to market with unrealizable gains and losses recorded in other comprehensive income (loss) in shareholders' equity, as described in Note 15 Other Comprehensive Income (Loss). Affordable housing limited partnerships provide favorable income tax benefits, generally over a fifteen-year period. We believe that the amounts above represent a reasonable estimate of the fair value of these investments.

**NOTE 8 INCOME TAXES**

Edgar Filing: SUPERIOR INDUSTRIES INTERNATIONAL INC - Form 10-K/A

Year Ended December 31, (Dollars in thousands)	2006	2005 As restated	2004 As restated
Income (loss) from continuing operations before income taxes, equity earnings and cumulative effect of accounting change:			
Domestic	\$ (21,275)	\$ 10,740	\$ 57,186
Foreign	5,187	13,168	12,324
	\$ (16,088)	\$ 23,908	\$ 69,510
Income (loss) from discontinued operations before income taxes	\$ 430	\$ (46,663)	\$ (13,322)

Year Ended December 31, (Dollars in thousands)	2006	2005 As restated	2004 As restated
The benefit (provision) for income taxes is comprised of the following:			
Continuing operations			
Current Taxes			
Federal	\$ 1,329	\$ (10,949)	\$ (13,697)
State	(1,029)	(3,005)	(2,273)
Foreign	(3,925)	(4,648)	(1,918)
Total Current	(3,625)	(18,602)	(17,888)
Deferred Taxes			
Federal	\$ 6,084	\$ 6,015	\$ (4,379)
State	687	579	(147)
Foreign	(1,612)	3,113	(3,795)
Total Deferred	5,159	9,707	(8,321)
Benefit (provision) for income taxes from continuing operations	\$ 1,534	\$ (8,895)	\$ (26,209)
Discontinued operations	\$ (173)	\$ 18,852	\$ 5,214

The following is a reconciliation of the statutory United States federal income tax rate to our effective income tax rate:

Year Ended December 31,	2006	2005	2004
Statutory rate benefit (provision)	35.0%	(35.0)%	(35.0)%
State tax provisions, net of federal income tax benefit	(1.9)	(6.6)	(2.2)
Permanent differences	(18.0)	0.2	0.5
Tax credits	0.8	3.2	2.0
Foreign income taxed at rates other than the statutory rate	3.2	2.8	0.3
Valuation allowance	(4.4)	(3.0)	0.0
Changes in reserves, net	(3.7)	(1.1)	(5.3)
Other	(1.5)	2.3	2.0
Effective income tax rate for continuing operations	9.5%	(37.2)%	(37.7)%

The state tax provisions, net of federal income tax benefit, varies year to year primarily because we file state income tax returns on a non-consolidated basis for several of our subsidiaries. The permanent differences in 2006 increased primarily due to significant changes in certain foreign inflationary gains.

Tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred liabilities at December 31, 2006 and 2005:

December 31, (Dollars in thousands)	2006	2005 As restated
Deferred Tax Assets		

Edgar Filing: SUPERIOR INDUSTRIES INTERNATIONAL INC - Form 10-K/A

Other comprehensive income and loss adjustments	\$ (658)	\$ (824)
Reserves deductible in the future	(7,435)	(6,841)
Deferred compensation	(9,786)	(8,895)
State taxes expensed currently, deductible for taxes in the following year	(1,221)	(1,417)
	(19,100)	(17,977)
Valuation Allowance	1,418	705
sub-total	(17,682)	(17,272)

December 31, (Dollars in thousands)	2006	2005 As restated
Deferred Tax Liabilities		
Differences between the book and tax basis of property, plant and equipment	18,140	11,867
Differences between financial and tax accounting associated with foreign operations	12,100	12,701
Other	(1,925)	328
sub-total	28,315	24,896
Net Deferred Tax Liability	\$ 10,633	\$ 7,624

As of December 31, 2006, we had approximately \$10.6 million in U.S. net deferred tax liability. Realization of the deferred tax assets of \$19.1 million is dependent on the company generating sufficient taxable income in the future. We established a valuation allowance for deferred tax assets of \$1.4 million at December 31, 2006, based on management's assessment of the company's ability to utilize these deferred tax assets. The amount of deferred tax assets considered realizable, however, could be increased in the future if estimates of future taxable income are increased. We have federal tax credit carry forwards of \$0.4 million for 2006 and begin to expire in 2014. We have state net operating loss carryforwards for 2006 of \$15.5 million and begin to expire 2011. We have state tax credit carryforwards for 2006 and 2005 of \$1.4 million and \$1.3 million, respectively. The state tax credit carryforwards begin to expire in 2008. The valuation allowance for 2006 and 2005 is \$1.4 million and \$0.7 million, respectively. We establish a valuation allowance for certain state deferred tax assets based on our assessment of our ability to utilize these deferred tax assets.

We have a reserve for taxes (included in income taxes payable) that may become payable as a result of audits in future periods with respect to previously filed tax returns. It is our policy to establish reserves for taxes that are probable and may become payable in future years as a result of an examination by taxing authorities. We establish reserves based upon our assessment of exposure associated with permanent tax differences, tax credits and interest expense on adjustments to temporary tax differences. The tax reserves are analyzed at least quarterly and adjustments are made as events occur to warrant adjustment to the reserve. For example, if the statutory period for assessing taxes on a given tax return lapses, the reserve associated with that period will be reduced. In addition, the reserve will be increased based on current calculations for additional exposures identified. Similarly, if tax authorities provide administrative guidance or a decision is rendered in the courts, appropriate adjustments will be made to the tax reserve. The tax reserve for the three years ended December 31, 2006 experienced net increases of \$0.6 million in 2006, \$2.8 million in 2005 and \$3.7 million in 2004, which are included in our effective income tax rates. The reserve increases for additional exposures identified for the tax years that remained open in those years were \$4.1 million in 2006, \$6.7 million in 2005 and \$5.6 million in 2004. These increases were partially offset by settlements on audit and the lapsing of certain statutory periods for assessing tax, of \$3.5 million in 2006, \$3.9 million in 2005 and \$1.9 million in 2004.

We have not provided for deferred income taxes or foreign withholding tax on basis differences in our non-U.S. subsidiaries of \$86.2 million that result primarily from undistributed earnings the company intends to reinvest indefinitely. Determination of the deferred income tax liability on these basis differences is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

The state tax provisions, net of federal income tax benefit varies year to year primarily because we file state income tax returns on a non-consolidated basis for several of our subsidiaries. The tax effect of the permanent differences in 2006 increased primarily due to significant changes in certain foreign inflationary gains.

Income tax payments were \$6.9 million in 2006, \$2.5 million in 2005 and \$25.7 million in 2004.

**NOTE 9 LEASES AND RELATED PARTIES**

We lease certain land, facilities and equipment under long-term operating leases expiring at various dates through 2012. Total lease expense for all operating leases amounted to \$3.0 million in 2006, \$3.2 million in 2005 and \$3.3 million in 2004.

Our corporate office and manufacturing facility in Van Nuys, California are leased from Louis L. Borick Trust and the Juanita A. Borick Management Trust. The trusts are controlled by Mr. L. Borick, who is a director and Chairman of the Board of the Company, and Juanita A. Borick, who is Mr. L. Borick's former spouse, respectively. The current operating lease expires in June 2012. An option to extend the lease for ten years was exercised as of July 2002. There is one additional ten-year lease extension option remaining. The current annual lease payment is \$1.7 million. The lease agreement requires rental increases every five years based upon the change in a specific Consumer Price Index. The last such adjustment was as of July 1, 2006. A lease arrangement for another facility that has been leased for \$0.3 million annually from a related entity owned by Steven J. Borick, President and CEO, and two other Borick children will be terminated in the first half of 2007. Total lease payments to these related entities were \$1.8 million in 2006 and \$1.6 million for 2005 and 2004.

The following are summarized future minimum payments under all leases:

Year Ended December 31, (Dollars in thousands)	Operating Leases
2007	\$ 2,667
2008	2,237
2009	1,989
2010	1,922
2011	1,670
Thereafter	835
	\$ 11,320

**NOTE 10 RETIREMENT PLANS**

In September 2006, the FASB released 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) (SFAS No. 158). Under the new standard, companies must recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. We have adopted the recognition and disclosure provisions of SFAS No. 158, as required, as of December 31, 2006.

We have an unfunded supplemental executive retirement plan covering our directors, officers and other key members of management. We purchase life insurance policies on the participants to provide for future liabilities. Cash surrender value of these policies, totaling \$4.4 million at December 31, 2006 and \$4.2 million as of December 31, 2005, is included in Other Assets as general assets of the company. Subject to certain vesting requirements, the plan provides for a benefit based on final average compensation, which becomes payable on the employee's death or upon attaining age 65, if retired. We have measured the plan assets and obligations of our supplemental executive retirement plan as of our fiscal year end for all periods presented.

Year Ended December 31, (Dollars in thousands)	2006	2005
<b>Change in benefit obligation</b>		
Beginning benefit obligation	\$ 19,084	\$ 15,340
Service cost	916	731
Interest cost	1,032	904

Edgar Filing: SUPERIOR INDUSTRIES INTERNATIONAL INC - Form 10-K/A

Actuarial (gain) loss	(1,101)	2,640
Contractual termination benefits	572	
Benefit payments	(531)	(531)
Ending benefit obligation	\$ 19,972	\$ 19,084



Year Ended December 31, (Dollars in thousands)	2006	2005
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$	\$
Employer contribution	531	531
Benefit payments	(531)	(531)
Fair value of plan assets at end of year	\$	\$
<b>Funded Status</b>	\$ (19,972)	\$ (19,084)
Unrecognized net actuarial loss		5,913
Net amount recognized	\$ (19,972)	\$ (13,171)
<b>Amounts recognized in the Consolidated Balance Sheet consist of:</b>		
<b>Before the adoption of SFAS 158</b>		
Accrued pension liability	\$ (17,148)	\$ (15,971)
Accumulated other comprehensive loss	1,653	2,800
Net amount recognized	\$ (15,495)	\$ (13,171)
<b>After the adoption of SFAS 158</b>		
Current liabilities	\$ (925)	\$
Noncurrent liabilities	(19,047)	
Net amount recognized	\$ (19,972)	\$
<b>Amounts Recognized in Accumulated Other Comprehensive Income consists of:</b>		
Net actuarial loss	\$ 4,477	\$
Prior service cost		
Net amount recognized, before tax effect	\$ 4,477	\$
<b>Weighted average assumptions used to determine benefit obligations:</b>		
Discount rate	5.75%	5.50%
Rate of compensation increase	3.50%	3.50%
<b>Change due to additional minimum liability adjustment (AML) and adoption of SFAS 158 at fiscal year end 2006</b>		
	Balance Prior to AML and	Balance After AML and

	SFAS 158 Adjustments	AML Adjustment	Balance Prior to SFAS 158 Adjustments	SFAS 158 Adjustment	SFAS 158 Adjustments
Accrued pension cost	\$ (18,295)	1,147	(17,148)	(2,824)	(19,972)
Accumulated other comprehensive loss	\$ 2,800	(1,147)	1,653	2,824	4,477

---

**Components of Net Periodic Pension Cost**

Year Ended December 31, (Dollars in thousands)	2006	2005	2004
Service cost	\$ 916	\$ 731	\$ 566
Interest cost	1,032	904	845
Contractual termination benefits (Note 17)	572		
Amortization of actuarial loss	334	158	126
Net periodic pension cost	\$ 2,854	\$ 1,793	\$ 1,537

The following benefits payments, which reflect future service, as appropriate, are expected to be paid:

Year Ended December 31, (Dollars in thousands)	Amount
2007	\$ 952
2008	1,020
2009	1,100
2010	1,104
2011	1,203
Years 2012-2016	7,296

The following is an estimate of the components of net periodic pension cost in 2007:

Estimated Year Ended December 31, (Dollars in thousands)	2007
Service cost	\$ 546
Interest cost	1,121
Amortization of actuarial loss	191
Estimated 2007 net periodic pension cost	\$ 1,858

Weighted average assumptions used to determine net periodic benefit cost:

Year Ended December 31,	2006	2005	2004
Discount rate	5.50%	6.00%	6.25%
Rate of compensation increase	3.50%	3.50%	3.50%

We also have a contributory employee retirement savings plan covering substantially all of our employees. The employer contribution is determined at the discretion of the company and totaled \$3.1 million, \$3.6 million and \$3.7 million for 2006, 2005 and 2004, respectively.

Pursuant to the deferred compensation provision of his 1994 Employment Agreement (Agreement), Mr. Louis L. Borick, Chairman, is being paid his annual base salary of \$1.0 million in 26 equal payments per year. The Agreement calls for such payments to be made at this level for the next three years, followed by similar payments at one-half of such amount for up to 10 years, or until his death. As of December 31, 2006, the present value of the remaining payments under the Agreement, totaling \$3.6 million, has been accrued for and is included in accrued expenses and long-term executive retirement liabilities.

**NOTE 11 ACCRUED EXPENSES**

December 31, (Dollars in thousands)	2006	2005
Accrued Expenses:		
Payroll and related benefits	\$ 16,208	\$ 16,855
Insurance	10,555	9,039
Dividends	4,258	4,258
Taxes, other than income taxes	4,397	3,363
Other	6,480	5,886
Total accrued expenses	\$ 41,898	\$ 39,401

**NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES**

We are currently awaiting approval from the Los Angeles City Council of our offer to settle a dispute with the City of Los Angeles regarding a retroactive rental rate adjustment on the ground lease for our Van Nuys, California property. Although there can be no assurance as to the final outcome of these negotiations or the case itself, we believe that in the event of an adverse result there would not be a material adverse impact to our financial condition or results of operations.

In late 2006, two purported shareholder derivative lawsuits were filed based on allegations concerning some of the Company's past stock option grants and practices. In these lawsuits, the Company is named only as a nominal defendant from whom the plaintiffs seek no monetary recovery. In addition to naming the Company as a nominal defendant, the plaintiffs name various present and former employees, officers and directors of the Company as individual defendants from whom they seek monetary relief, purportedly for the benefit of the Company.

The first of these lawsuits, entitled Eldred v. Ausman, et al., Case No. CV 06-07213 JFW (FMOx), was filed on November 9, 2006, in the United States District Court for the Central District of California, and assigned to Judge John F. Walter. The complaint in the Eldred lawsuit names the following individuals as defendants: Sheldon Ausman; Raymond Brown; Lou Borick; Steven Borick; Phillip Colburn; V. Bond Evans; R. Jeffrey Ornstein; Jack Parkinson; Robert Bouskill; Joseph D. Amico; Michael Dryden; Ronald Escue; Emil J. Fanelli; James Ferguson; Parveen Kakar; Iftikhar Kazmi; William Kelley; Daniel Levine; Henry Maldini; Frank Monteleone; Michael O'Rourke and Delbert Schmitz. In the complaint, the plaintiff purports to state the following alleged claims for relief: (1) violations of § 10(b) of the Securities Exchange Act of 1934 (the 1934 Act); (2) violations of § 14(a) of the 1934 Act; (3) violations of § 20(a) of the 1934 Act; (4) accounting; (5) breach of fiduciary duties and aiding and abetting breach of fiduciary duties; (6) unjust enrichment; (7) rescission; and (8) violations of the California Corporation Code § 25402.

The second of these lawsuits, entitled Mack v. Borick, et al., Case No. CV 06-07709 JFW (FMOx), was filed on December 5, 2006, in the United States District Court for the Central District of California, and is now assigned to Judge Walter. The complaint in the Mack lawsuit names the following individuals as defendants: Steven Borick; Lou Borick; Raymond Brown; R. Jeffrey Ornstein; James Ferguson; Henry Maldini; Michael O'Rourke; Sheldon Ausman; Phillip Colburn; Jack Parkinson; and V. Bond Evans. In the complaint, the plaintiff purports to assert the following alleged claims for relief: (1) violations of § 10(b) of the Securities Exchange Act of 1934 (the 1934 Act); (2) violations of § 14(a) of the 1934 Act; (3) violations of § 20(a) of the 1934 Act; (4) breach of fiduciary duty; and (5) common law restitution/unjust enrichment.

Both of these cases are based on general allegations that the grant dates for a number of the options granted to certain Company directors, officers and employees occurred prior to upward movements in the stock price, and that the stock options grants were not properly accounted for in the Company's financial reports and not properly disclosed in the Company's SEC filings. The two lawsuits were recently consolidated and a consolidated complaint was filed which generally tracks the allegations and legal claims alleged in the original Eldred and Mack complaints. It is anticipated that the Company and the individual defendants will file motions to dismiss in the near future. As



this litigation is at such a preliminary stage, it would be premature to anticipate the probable outcome of these cases and whether such an outcome would be materially adverse to the Company.

In 2006, we were served with notice of a class action lawsuit against the company. The complaint alleges that certain employees at our Van Nuys, California facility were denied rest and meal periods as required under the California Labor Code. We believe this matter is without merit. Although no assurance can be given as to the final outcome, we believe that in the event of an adverse result there would not be a material adverse impact to our financial condition, results of operations, or cash flows.

We are also party to various legal and environmental proceedings incidental to our business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against us. Based on facts now known, we believe all such matters are adequately provided for, covered by insurance, are without merit, and/or involve such amounts that would not materially adversely affect our consolidated results of operations, cash flows or financial position.

Our primary risk exposure relating to derivative financial instruments results from the periodic use of foreign currency forward contracts to offset the impact of currency rate fluctuations with regard to foreign denominated receivables, payables or purchase obligations. At December 31, 2006, we held no foreign currency Euro forward contracts. At December 31, 2005, we held open foreign currency Euro forward contracts totaling \$10.7 million, with an unrealized loss of \$(0.2) million. Any unrealized gains and losses are included in other comprehensive income (loss) in shareholders' equity until the actual contract settlement date. Percent changes in the Euro/U.S. Dollar exchange rate will impact the unrealized gain/loss by a similar percentage of the current market value. We do not have similar derivative instruments for any other foreign currencies.

When market conditions warrant, we may also enter into contracts to purchase certain commodities used in the manufacture of our products, such as aluminum, natural gas, environmental emission credits and other raw materials. Any such commodity commitments are expected to be purchased and used over a reasonable period of time in the normal course of business. Accordingly, pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, they are not accounted for as a derivative. We currently have several purchase agreements for the delivery of natural gas through 2008. The contract value and fair value of these purchase commitments approximated \$15 million and \$12 million, respectively, at December 31, 2006. As of December 31, 2005, the aggregate contract value and fair value of these commitments were \$8 million and \$17 million, respectively. Percentage changes in the market prices of natural gas will impact the fair value by a similar percentage. We do not hold or purchase any natural gas forward contracts for trading purposes.

Contractual obligations as of December 31, 2006 (amounts in millions):

Contractual Obligations	Payments Due by Period						Total
	2007	2008	2009	2010	2011	Thereafter	
Commodity contracts	\$ 10	\$ 5	\$	\$	\$	\$	\$ 15
Retirement plans	2	2	2	2	2	55	65
Euro forward contracts							
Operating leases	3	2	2	2	2	1	12
Total contractual	\$ 15	\$ 9	\$ 4	\$ 4	\$ 4	\$ 56	\$ 92

At December 31, 2006 and 2005, we had outstanding letters of credit of approximately \$6.8 million and \$6.1 million, respectively.

#### **NOTE 13 STOCK-BASED COMPENSATION**

We have stock option plans that authorize us to issue incentive and non-qualified stock options to our directors, officers and key employees totaling up to 7.2 million shares of common stock. It is our policy to issue shares from authorized but not issued shares upon the exercise of stock options. At December 31, 2006, there were 0.9 million



shares available for future grants under these plans. Options are generally granted at not less than fair market value on the date of grant and expire no later than ten years after the date of grant. Options granted generally vest ratably over a four year service period.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method and, therefore, have not restated prior periods' results. Under this transition method, stock-based compensation expense for the year ended December 31, 2006 included compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123. For options granted subsequent to January 1, 2006, stock-based compensation expense was calculated in accordance with the provisions of SFAS No. 123R. We recognize these compensation costs net of applicable forfeiture rate and recognize the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years. We estimated the forfeiture rate for the year ended December 31, 2006 based on our historical experience during the preceding six fiscal years. The aggregate intrinsic value of options exercised during the year was \$0.0 million and the total value of shares vested during the year was \$2.7 million.

In November 2005, the FASB issued FASB Staff Position ( FSP ) No. 123R-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards ( FSP 123R-3 ). We have elected to adopt the alternative transition method provided in the FSP 123R-3 for calculating the initial pool of excess tax benefits and to determine the subsequent impact on the Additional Paid-In-Capital ( APIC ) pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123R.

	Outstanding	Weighted Average Exercise Price	Remaining Contractual Life In Years	Aggregate Intrinsic Value
Balance at December 31, 2005	2,367,255	\$ 30.28		
Granted	1,027,700	17.77		
Exercised				
Cancelled	(247,163)	27.97		
Balance at December 31, 2006	3,147,792	\$ 26.36	6.91	\$ 1,811,349
Options vested or expected to vest	3,088,656	\$ 26.54	6.87	\$ 1,712,331
Exercisable at December 31, 2006	1,991,633	\$ 29.64	5.57	\$

Options outstanding at December 31, 2006:

Range of Exercise Prices	Options Outstanding at 12/31/06	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at 12/31/06	Weighted Average Exercise Price
\$16.92 - \$24.81	1,082,755	9.00 years	\$ 18.18	89,055	\$ 22.45
\$25.00 - \$33.50	1,404,612	5.37 years	26.64	1,401,112	26.62
\$34.08 - \$42.87	660,425	6.75 years	39.20	501,466	39.34



3,147,792      6.91 years      \$ 26.36      1,991,633      \$ 29.64

The aggregate intrinsic value represents the total pretax difference between the closing stock price on the last trading day of the reporting period and the option exercise price, multiplied by the number of in-the-money options. This is the amount that would have been received by the option holders had they exercised and sold their options on that day. This amount varies based on changes in the fair market value of our common stock. The closing price of our common stock on the last day of the year was \$19.27.

The 2006 stock-based compensation expense related to stock option plans under SFAS 123R was allocated as follows:

(In thousands, except per share amounts)

Year Ended December 31,	2006
Cost of sales	\$ 622
Selling, general and administrative expenses	2,410
Stock-based compensation expense before income taxes	3,032
Income tax benefit	(289)
Total stock-based compensation expense after income taxes	\$ 2,743
Loss per share:	
Basic and diluted	\$ 0.10

As of December 31, 2006, there was \$6.2 million of unrecognized stock-based compensation expense related to unvested stock options. That cost is expected to be recognized over a weighted-average period of 3.22 years. Prior to the adoption of SFAS 123R, we presented the tax benefit of stock option exercises as operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows. There were no stock options exercised in 2006. We received cash proceeds of \$128,000 from stock options exercised in 2005 and \$1,389,000 from stock options exercised in 2004.

The fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model With the following assumptions:

Year Ended December 31,	2006	2005	2004
Expected dividend yield (a)	3.5%	2.8%	2.2%
Expected stock price volatility (b)	31.2%	31.5%	31.9%
Risk-free interest rate (c)	4.9%	4.2%	3.7%
Expected option lives in years (d):	7.48	7.79	8.10
Weighted-average grant-date fair value of options granted during the period	\$ 4.99	\$ 8.06	\$ 12.12

(a) This assumes that cash dividends of \$0.16 per share are paid each quarter on our common stock.

(b) Expected volatility is

based on the historical volatility of our stock price, over the expected life of the option.

(c) The risk-free rate is based upon the rate on a U.S. Treasury note for the period representing the average remaining contractual life of all options in effect at the time of the grant.

(d) The expected term of the option is based on historical employee exercise behavior, the vesting terms of the respective option and a contractual life of ten years.

**NOTE 14 COMMON STOCK REPURCHASE PROGRAMS**

Since 1995, our Board of Directors has authorized several common stock repurchase programs totaling 8.0 million shares, under which we have repurchased approximately 4.8 million shares for approximately \$131 million, or \$27.16 per share. Under the latest authorization to repurchase up to 4.0 million shares, approved in March 2000, we repurchased 203,600 shares in 2004 at a total cost of \$6.8 million, or \$33.53 per share; 16,000 shares in 2005 at a total cost of \$0.4 million or \$23.56 per share; and in 2006 there were no stock repurchases. All repurchased shares are immediately cancelled and retired. As of December 31, 2006, an additional 3.2 million shares can be repurchased under the current authorization.

**NOTE 15 OTHER COMPREHENSIVE INCOME (LOSS)**

Components of other comprehensive income (loss) as reflected in the consolidated statements of shareholders equity.

Year Ended December 31,	2006	2005	2004
(Dollars in thousands)		As restated	As restated
Foreign currency translation adjustments	\$ 4,157	\$ 600	\$ 3,924
Net actuarial gain (loss) on pension obligation (Note 10)	1,147	(1,587)	(1,213)
Unrealized gain (loss) on marketable securities	1,102	(267)	557
Unrealized gain (loss) on forward foreign currency contracts		(203)	2,620
Reclassification adjustment for realized gains from foreign currency contracts included in net income	203	(2,620)	(2,874)
Net unrealized loss	203	(2,823)	(254)
Income taxes (provision) benefit	(1,199)	1,946	335
Other comprehensive income (loss)	\$ 5,410	\$ (2,131)	\$ 3,349

Accumulated balances of other comprehensive income (loss) as reflected in the consolidated balance sheets and statements of shareholders equity.

December 31,	2006	2005	2004
(Dollars in thousands)		As restated	As restated
Foreign currency translation adjustments	\$ (35,958)	\$ (40,115)	\$ (40,715)
Unrealized gain on marketable securities	2,680	1,578	1,845
Net actuarial losses on pension obligation (Note 10)	(4,477)	(2,800)	(1,213)
Unrealized gain (loss) on forward foreign currency contracts		(203)	2,620
Income taxes	658	823	(1,123)
Accumulated other comprehensive (loss)	\$ (37,097)	\$ (40,717)	\$ (38,586)

**NOTE 16 IMPAIRMENT OF LONG-LIVED ASSETS AND OTHER CHARGES**

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in the third quarter of 2006, we considered whether events or changes in circumstances suggested the carrying value of certain long-lived assets at our Johnson City, Tennessee wheel manufacturing facility was not recoverable and determined that the undiscounted future cash flows did not support the carrying value of those long-lived assets. On September 15, 2006, we announced the planned closure of and the resulting lay off of approximately 500 employees. The planned closure of the Johnson City facility is expected to be completed in the first quarter of 2007. This was the latest step in our program to rationalize our production capacity after the recent announcements by our customers of sweeping production cuts, particularly in the light truck and sport utility platforms, that have reduced our requirements for the near future. Accordingly, an asset impairment charge against pretax earnings totaling \$4.4 million, reducing the carrying value of certain long-lived assets to their respective fair values, was recorded in the third quarter of 2006. We estimated the fair value of the long-lived assets based in part on an independent appraisal of the assets. These assets are classified as held and used, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, until they are available for immediate sale at which time they will be classified as held for sale. We expect to incur severance and other costs related to the closure of this facility of approximately \$1.5 million. On June 16, 2006, we announced that we were restructuring our chrome plating business located in Fayetteville, Arkansas, that would result in a lay off of approximately 225 employees. The restructuring of the chrome plating



business was the result of a shift in customer preference to less expensive bright finishing processes that reduced the sales outlook for chromed wheel products. The shift away from chromed wheel products and the resulting impact on the company's chrome plating business had been previously disclosed in the fourth quarter of 2005, when the company estimated that it would not be able to eventually recover the carrying value of certain machinery and equipment in the chrome plating operation. Accordingly, such assets were written down to their estimated fair value by recording an asset impairment charge against pretax earnings of \$7.9 million in the fourth quarter of 2005. At the same time, an accrual of \$1.3 million was recorded for potential environmental exposure related to machinery and equipment shutdown and removal. Any additional environmental costs are not possible to estimate at this time, however an environmental assessment is currently underway. Other costs related to this restructuring were insignificant. The out-sourcing of our current and future customer requirements for chrome plated wheels to a third-party processor was completed by the end of the third quarter of 2006. This restructuring does not affect the company's bright polish operation, which is located at the same facility.

#### **NOTE 17 DISCONTINUED OPERATIONS**

Through 2005, we had made a significant investment and incurred significant losses since the inception of the aluminum suspension components business. Our plan was to improve profitability by increasing sales to our OEM customers and by improving our production capabilities. However, following the launch of a major program in the second half of 2005 and updating our long-range forecasts for this business, it became apparent that we would not be able to recover our investment in this business. Accordingly, in the fourth quarter of 2005, we recorded a pretax impairment charge of \$34.0 million in our components segment to reduce to their respective fair values, the carrying value of its assets, which were classified as held-and-used as of December 31, 2005.

Due to the intense competition in the global automotive wheel industry, the decision was made to focus all of our resources on our core aluminum wheel business. On January 9, 2006, our Board of Directors approved management's plan to dispose of the aluminum suspension components business before the end of 2006 and authorized us to engage an investment banker and/or other advisors to explore options for the sale of this business. Accordingly, on September 20, 2006, we entered into an agreement with Saint Jean Industries, Inc., a Delaware corporation, as buyer, and the buyer's parent, Saint Jean Industries, SAS, a French simplified joint stock company, to sell substantially all of the assets and working capital of our suspension components business for \$17.0 million, including a \$2.0 million promissory note. The \$2.0 million promissory note is due in two equal installments on the 24<sup>th</sup> and 36<sup>th</sup> month anniversary dates of the completion date, and bears interest at LIBOR plus 1%, adjusted quarterly. Although title to the assets of this business transferred to the buyer on September 24, 2006, because the consideration we received on that date consisted of a \$15.0 million unsecured commitment and a \$2.0 promissory note, we could not recognize this transfer as a sale for accounting purposes at that time. The \$15.0 million cash consideration was received within two weeks after the September 24, 2006 transfer, and the sale was recognized for accounting purposes at that time. In addition, the \$0.6 million contractual termination benefit component of our 2006 net periodic pension cost (see Note 10 Retirement Plans) was the result of the sale of the aluminum suspension components business in which certain key employees had their vesting accelerated.

Selected financial information for the components business included in discontinued operations in the consolidated statement of operations:

Year Ended December 31,	2006	2005	2004
		As restated	As restated
Net sales	\$ 37,006	\$ 40,723	\$ 29,497
Loss from operations before income taxes	\$ (647)	\$ (46,663)	\$ (13,322)
Income tax benefit	263	18,852	5,214
Loss from operations, net of taxes	\$ (384)	\$ (27,811)	\$ (8,108)
Gain on disposal of discontinued operations, net of \$436 tax provision	\$ 641	\$	\$

Discontinued operations, net of taxes	\$ 257	\$ (27,811)	\$ (8,108)
---------------------------------------	--------	-------------	------------

**NOTE 18 QUARTERLY FINANCIAL DATA (UNAUDITED)**

(Dollars in thousands, except per share amounts)

As discussed in Note 1 Significant Accounting Policies under the caption Basis of Presentation, effective as of January 1, 2005, we changed the method of recording our 50 percent share of Suoftec's earnings from recording on a one-month lag to recording results of operations on a current basis. The 2005 amounts below have also been revised to reflect the disposition of the aluminum suspension components business as a discontinued operation as described in Note 17 Discontinued Operations.

As discussed in Note 2 Review of Stock Option Practices and Restatements of Consolidated Financial Statements, we have restated our results for the fiscal year 2005 and the quarterly periods therein. Due to adoption of SFAS 123R in 2006 (see Note 13 Stock-Based Compensation), the impact of the misdated options on the quarterly periods of 2006 was not material. The operating results for the fourth quarter of 2006 include a credit of \$91 thousand, representing the full year 2006 impact of the stock option accounting errors.

Year 2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	\$ 183,525	\$ 219,880	\$ 174,288	\$ 212,169	\$ 789,862
Gross profit (loss)	\$ 4,223	\$ 9,176	\$ (3,711)	\$ (948)	\$ 8,740
Income (loss) from continuing operations	\$ 1,436	\$ 2,228	\$ (8,796)	\$ (4,446)	\$ (9,578)
Discontinued operations, net of taxes	\$ (326)	\$ (121)	\$ 1,085	\$ (381)	\$ 257
Net income (loss)	\$ 1,110	\$ 2,107	\$ (7,711)	\$ (4,827)	\$ (9,321)
Earnings (loss) per share Basic:					
Income from continuing operations	\$ 0.05	\$ 0.08	\$ (0.33)	\$ (0.17)	\$ (0.36)
Discontinued operations	(0.01)	(0.01)	0.04	(0.01)	0.01
Net income (loss)	\$ 0.04	\$ 0.07	\$ (0.29)	\$ (0.18)	\$ (0.35)
Earnings (loss) per share Diluted:					
Income from continuing operations	\$ 0.05	\$ 0.08	\$ (0.33)	\$ (0.17)	\$ (0.36)
Discontinued operations	(0.01)	(0.01)	0.04	(0.01)	0.01
Net income (loss)	\$ 0.04	\$ 0.07	\$ (0.29)	\$ (0.18)	\$ (0.35)
Dividends declared Per share	\$ 0.160	\$ 0.160	\$ 0.160	\$ 0.160	\$ 0.640
Year 2005	First Quarter	Second Quarter	As Restated Third Quarter	Fourth Quarter	Year
Net sales	\$ 202,144	\$ 217,827	\$ 178,289	\$ 205,901	\$ 804,161
Gross profit	\$ 17,209	\$ 11,830	\$ 5,138	\$ 14,647	\$ 48,824
Income from continuing operations	\$ 10,309	\$ 6,360	\$ 1,280	\$ 2,270	\$ 20,219
Discontinued operations, net of taxes	\$ (1,821)	\$ (2,188)	\$ (1,577)	\$ (22,225)	\$ (27,811)



Edgar Filing: SUPERIOR INDUSTRIES INTERNATIONAL INC - Form 10-K/A

Cumulative effect of accounting change, net of tax	\$ 1,225	\$	\$	\$	\$ 1,225
Net income (loss)	\$ 9,713	\$ 4,172	\$ (297)	\$ (19,955)	\$ (6,367)
Earnings (loss) per share Basic:					
Income from continuing operations	\$ 0.39	\$ 0.23	\$ 0.05	\$ 0.09	\$ 0.76
Discontinued operations	(0.07)	(0.08)	(0.06)	(0.84)	(1.05)
Cumulative effect of accounting change	0.05				0.05
Net income (loss)	\$ 0.37	\$ 0.15	\$ (0.01)	\$ (0.75)	\$ (0.24)

76

---

Year 2005	First Quarter	Second Quarter	As Restated Third Quarter	Fourth Quarter	Year
Earnings (loss) per share Diluted:					
Income from continuing operations	\$ 0.39	\$ 0.23	\$ 0.05	\$ 0.09	\$ 0.76
Discontinued operations	(0.07)	(0.08)	(0.06)	(0.84)	(1.05)
Cumulative effect of accounting change	0.05				0.05
Net income (loss)	\$ 0.37	\$ 0.15	\$ (0.01)	\$ (0.75)	\$ (0.24)
Dividends declared Per share	\$ 0.155	\$ 0.160	\$ 0.160	\$ 0.160	\$ 0.635

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUPERIOR INDUSTRIES INTERNATIONAL, INC.  
(Registrant)

By /s/ R. Jeffrey Ornstein

April 13, 2007

R. Jeffrey Ornstein  
Vice President and Chief Financial Officer

---

**PART IV**

**ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as a part of this report:

1. Financial Statements: See the Index to the Consolidated Financial Statements in Item 8 of this Annual Report.

2. Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts for the Years Ended  
December 31, 2006, 2005 and 2004 S-1

3. Exhibits

31.1 Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (filed herewith)

31.2 Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (filed herewith)

32 Certification of Steven J. Borick, President and Chief Executive Officer, and R. Jeffery Ornstein, Vice President and Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)

---

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

**Schedule II**

**VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004  
(Dollars in thousands)**

**FOR THE YEAR ENDED DECEMBER 31, 2004:**

DOUBTFUL ACCOUNTS	\$ 559
ADD (DEDUCT):	
PROVISION <sup>(1)</sup>	2,904
RECOVERIES	4
ACCOUNTS WRITTEN OFF	(83)

**BALANCE AT DECEMBER 31, 2004** \$ 3,384

**FOR THE YEAR ENDED DECEMBER 31, 2005:**

DOUBTFUL ACCOUNTS	\$ 3,384
ADD (DEDUCT):	
PROVISION	644
RECOVERIES	
ACCOUNTS WRITTEN OFF <sup>(1)</sup>	(2,028)

**BALANCE AT DECEMBER 31, 2005** \$ 2,000

**FOR THE YEAR ENDED DECEMBER 31, 2006:**

DOUBTFUL ACCOUNTS	\$ 2,000
ADD (DEDUCT):	
PROVISION	2,154
RECOVERIES	
ACCOUNTS WRITTEN OFF	(1,365)

**BALANCE AT DECEMBER 31, 2006** \$ 2,789

<sup>(1)</sup> Amounts related primarily to Tower Automotive bankruptcy.