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

FORM 10-Q

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

For the quarterly period ended **June 30, 2018**

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

For the transition period from _____ to _____.

Commission file number: **1-6615**

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

95-2594729
(I.R.S. Employer
Identification No.)

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

48033
(Zip Code)

Registrant's Telephone Number, Including Area Code: (248) 352-7300

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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

Number of shares of common stock outstanding as of August 3, 2018: 25,019,237

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Superior Industries International, Inc.
Condensed Consolidated Statements of Operations
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
NET SALES	\$388,944	\$240,628	\$775,392	\$414,848
Cost of sales:				
Cost of sales	335,385	220,601	671,842	375,409
Restructuring costs	—	(78)	—	130
	<u>335,385</u>	<u>220,523</u>	<u>671,842</u>	<u>375,539</u>
GROSS PROFIT	53,559	20,105	103,550	39,309
Selling, general and administrative expenses	22,289	22,103	44,646	37,363
INCOME (LOSS) FROM OPERATIONS	31,270	(1,998)	58,904	1,946
Interest expense, net	(13,182)	(14,729)	(25,039)	(15,025)
Other (expense) income, net	(570)	7,486	(3,558)	7,138
Change in fair value of redeemable preferred stock embedded derivative	(4,588)	—	(3,690)	—
CONSOLIDATED INCOME (LOSS) BEFORE INCOME TAXES	12,930	(9,241)	26,617	(5,941)
Income tax (provision) benefit	(4,795)	1,722	(8,165)	1,524
CONSOLIDATED NET INCOME (LOSS)	8,135	(7,519)	18,452	(4,417)
Less: Net loss attributable to non-controlling interest	—	247	—	247
NET INCOME (LOSS) ATTRIBUTABLE TO SUPERIOR	<u>\$ 8,135</u>	<u>\$ (7,272)</u>	<u>\$ 18,452</u>	<u>\$ (4,170)</u>
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SUPERIOR- BASIC	<u>\$ 0.09</u>	<u>\$ (0.41)</u>	<u>\$ 0.16</u>	<u>\$ (0.28)</u>
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SUPERIOR- DILUTED	<u>\$ 0.09</u>	<u>\$ (0.41)</u>	<u>\$ 0.16</u>	<u>\$ (0.28)</u>
DIVIDENDS DECLARED PER SHARE	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.18</u>	<u>\$ 0.27</u>

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
Net income (loss) attributable to Superior	<u>\$ 8,135</u>	<u>\$ (7,272)</u>	<u>\$ 18,452</u>	<u>\$ (4,170)</u>
Other comprehensive income (loss), net of tax:				
Foreign currency translation (loss) gain, net of tax	<u>(38,084)</u>	<u>14,295</u>	<u>(17,180)</u>	<u>23,345</u>
Change in unrecognized gains (losses) on derivative instruments:				
Change in fair value of derivatives	<u>(22,566)</u>	<u>10,568</u>	<u>(4,894)</u>	<u>27,962</u>
Tax benefit (provision)	<u>4,577</u>	<u>—</u>	<u>815</u>	<u>(335)</u>
Change in unrecognized (losses) gains on derivative instruments, net of tax	<u>(17,989)</u>	<u>10,568</u>	<u>(4,079)</u>	<u>27,627</u>
Defined benefit pension plan:				
Actuarial gains on pension obligation, net of curtailments and amortization	<u>68</u>	<u>93</u>	<u>177</u>	<u>185</u>
Tax provision	<u>(24)</u>	<u>(25)</u>	<u>(46)</u>	<u>(49)</u>
Pension changes, net of tax	<u>44</u>	<u>68</u>	<u>131</u>	<u>136</u>
Other comprehensive (loss) income, net of tax	<u>(56,029)</u>	<u>24,931</u>	<u>(21,128)</u>	<u>51,108</u>
Comprehensive (loss) income attributable to Superior	<u><u>\$(47,894)</u></u>	<u><u>\$17,659</u></u>	<u><u>\$ (2,676)</u></u>	<u><u>\$46,938</u></u>

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

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

(Unaudited)	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,067	\$ 46,360
Short-term investments	750	750
Accounts receivable, net	178,948	160,167
Inventories	187,018	173,999
Income taxes receivable	4,191	6,929
Other current assets	36,788	29,178
Total current assets	426,762	417,383
Property, plant and equipment, net	531,345	536,686
Goodwill	296,186	304,805
Intangibles, net	184,631	203,473
Deferred income tax assets, net	51,556	54,302
Other non-current assets	39,394	34,603
Total assets	<u>\$1,529,874</u>	<u>\$ 1,551,252</u>
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 112,247	\$ 118,424
Accrued expenses	66,757	68,786
Current portion of long-term debt	3,112	4,000
Income taxes payable	790	3,849
Total current liabilities	182,906	195,059
Long-term debt (less current portion)	669,620	679,552
Non-current income tax liabilities	15,195	5,731
Deferred income tax liabilities, net	23,088	28,539
Embedded derivative liability	8,375	4,685
Other non-current liabilities	55,566	47,269
Commitments and contingencies (Note 21)	—	—
Mezzanine equity:		
Redeemable preferred shares, \$0.01 par value, 1,000,000 shares authorized, 150,000 shares outstanding at June 30, 2018 and December 31, 2017	153,153	144,694
European non-controlling redeemable equity	52,599	—
Shareholders' equity:		
Common stock, \$0.01 par value		
Authorized—100,000,000 shares; Issued and outstanding – 25,011,730 shares at June 30, 2018 (24,917,025 shares at December 31, 2017)	87,305	89,755
Accumulated other comprehensive loss	(110,249)	(89,121)
Retained earnings	392,316	393,146
Superior shareholders' equity	369,372	393,780
Noncontrolling interests	—	51,943
Total shareholders' equity	369,372	445,723
Total liabilities, mezzanine and shareholders' equity	<u>\$1,529,874</u>	<u>\$ 1,551,252</u>

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

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

	Six Months Ended	
	June 30, 2018	June 25, 2017
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 30,801</u>	<u>\$ (10,093)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(38,020)	(29,982)
Acquisition of Uniwheels, net of cash acquired	(118)	(690,704)
Proceeds from sale of property, plant and equipment	—	2
NET CASH USED IN INVESTING ACTIVITIES	<u>(38,138)</u>	<u>(720,684)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	—	975,571
Proceeds from issuance of redeemable preferred shares	—	150,000
Debt repayment	(3,614)	(282,322)
Cash dividends paid	(15,547)	(8,985)
Cash paid for common stock repurchase	—	(5,014)
Proceeds from borrowings on revolving credit facility	85,400	—
Repayments of borrowings on revolving credit facility	(85,400)	—
Payments related to tax withholdings for stock-based compensation	(605)	(1,457)
Proceeds from exercise of stock options	68	—
Redeemable preferred shares issuance costs	—	(3,737)
Financing costs paid	—	(30,460)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(19,698)</u>	<u>793,596</u>
Effect of exchange rate changes on cash	(258)	615
Net increase (decrease) in cash and cash equivalents	<u>(27,293)</u>	<u>63,434</u>
Cash and cash equivalents and restricted cash at the beginning of the period	46,360	57,786
Cash and cash equivalents and restricted cash at the end of the period	<u>\$ 19,067</u>	<u>\$ 121,220</u>

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

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

(Unaudited)	Common Stock		Accumulated Other Comprehensive (Loss) Income			Retained Earnings	Non-controlling Interest	Total
	Number of Shares	Amount	Unrecognized Gains (Losses) on Derivative Instruments	Pension Obligations	Cumulative Translation Adjustment			
Balance at December 31, 2017	24,917,025	\$89,755	\$ (8,498)	\$ (5,257)	\$ (75,366)	\$393,146	\$ 51,943	\$445,723
Net income	—	—	—	—	—	18,452	—	18,452
Change in unrecognized gains (losses) on derivative instruments, net of tax	—	—	(4,079)	—	—	—	—	(4,079)
Change in employee benefit plans, net of taxes	—	—	—	131	—	—	—	131
Net foreign currency translation adjustment	—	—	—	—	(17,180)	—	—	(17,180)
Stock options exercised	4,500	68	—	—	—	—	—	68
Restricted stock awards granted, net of forfeitures	90,205	—	—	—	—	—	—	—
Stock-based compensation expense	—	1,107	—	—	—	—	—	1,107
Cash dividends declared	—	—	—	—	—	(4,845)	—	(4,845)
Redeemable preferred dividend and accretion	—	—	—	—	—	(16,204)	—	(16,204)
Reclassification to European non-controlling redeemable equity	—	—	—	—	—	—	(51,943)	(51,943)
Adjust European non-controlling redeemable equity to redemption value	—	(3,625)	—	—	—	—	—	(3,625)
European non-controlling redeemable equity translation adjustment	—	—	—	—	—	2,851	—	2,851
European non-controlling redeemable equity dividend	—	—	—	—	—	(1,084)	—	(1,084)
Balance at June 30, 2018	<u>25,011,730</u>	<u>\$87,305</u>	<u>\$ (12,577)</u>	<u>\$ (5,126)</u>	<u>\$ (92,546)</u>	<u>\$392,316</u>	<u>\$ —</u>	<u>\$369,372</u>

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

Superior Industries International, Inc.
Notes to Condensed Consolidated Financial Statements
June 30, 2018
(Unaudited)

Note 1 – Nature of Operations

The principal business of Superior Industries International, Inc. (referred to herein as the “company” or “we,” “us” and “our”) is the design and manufacture of aluminum wheels for sale to original equipment manufacturers (“OEMs”) and aftermarket customers. We are one of the largest suppliers of cast aluminum wheels to the world’s leading automobile and light truck manufacturers, with manufacturing operations in the United States, Mexico, Germany and Poland. Our OEM aluminum wheels are sold primarily for factory installation, as either standard equipment or optional equipment, on vehicle models manufactured by Audi, BMW, Fiat Chrysler Automobiles N.V. (“FCA”), Ford, General Motors (“GM”), Jaguar-Land Rover, Mercedes-Benz, Mitsubishi, Nissan, Subaru, Toyota, Volkswagen, Volvo, Mazda, Peugeot, and Suzuki. We sell aluminum wheels to the European aftermarket under the brands ATS, RIAL, ALUTEC and ANZIO. North America and Europe represent the principal markets for our products, but we have a global presence and influence with North American, European and Asian OEMs. With the acquisition of Uniwheels AG (referred to as “Uniwheels” or our “European operations”), on May 30, 2017, we diversified our customer base from predominately North American OEMs (e.g. Ford and GM) to a global customer base of OEMs (e.g. Audi and Mercedes-Benz). As a result of the acquisition, we have determined that our North American and European operations should be treated as separate operating segments as further described in Note 7, “Business Segments.”

Note 2 – Presentation of Condensed Consolidated Financial Statements

Presentation

During interim periods, we follow the accounting policies set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the “2017 Annual Report on Form 10-K”) and apply appropriate interim financial reporting standards for a fair statement of our operating results and financial position in conformity with accounting principles generally accepted in the United States of America, as codified by the Financial Accounting Standards Board (“FASB”) in the Accounting Standards Codification (“ASC”) (referred to herein as “U.S. GAAP”). Users of financial information produced for interim periods in 2018 are encouraged to read this Quarterly Report on Form 10-Q in conjunction with our consolidated financial statements and notes thereto filed with the Securities and Exchange Commission (“SEC”) in our 2017 Annual Report on Form 10-K.

In the past, Superior has used a 4-4-5 convention for our fiscal quarters, which are thirteen-week periods (referred to as quarters) ending on the last Sunday of each calendar quarter. Therefore, the second quarter in 2017 started on March 27, 2017 and ended on June 25, 2017. Our European operations have historically reported on a calendar year basis, and, beginning on December 31, 2017, both our North American and European operations began reporting on a calendar fiscal year with each month ending on the last day of the calendar month. Thus, the second quarter of 2018 ended on June 30, 2018.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the SEC’s requirements for quarterly reports on Form 10-Q and U.S. GAAP and, in our opinion, contain all adjustments, of a normal and recurring nature, which are necessary for a fair statement of (i) the condensed consolidated statements of operations for the three and six month periods ended June 30, 2018 and June 25, 2017, (ii) the condensed consolidated statements of comprehensive income for the three and six month periods ended June 30, 2018 and June 25, 2017, (iii) the condensed consolidated balance sheets at June 30, 2018 and December 31, 2017, (iv) the condensed consolidated statements of cash flows for the six month periods ended June 30, 2018 and June 25, 2017, and (v) the condensed consolidated statement of shareholders’ equity for the six month period ended June 30, 2018. However, the accompanying unaudited condensed consolidated financial statements do not include all information and notes required by U.S. GAAP. The condensed consolidated balance sheet as of December 31, 2017, included in this report was derived from our 2017 audited financial statements, but does not include all disclosures required by U.S. GAAP.

Interim financial reporting standards require us to make estimates that are based on assumptions regarding the outcome of future events and circumstances not known at that time, including the use of estimated effective tax rates. Inevitably, some assumptions will not materialize, unanticipated events or circumstances may occur which vary from those estimates and such variations may significantly affect our future results. Additionally, interim results may not be indicative of our results for future interim periods or our annual results.

New Accounting Standards

Adoption of New Accounting Standards

ASU 2014-09, Topic 606, "Revenue – Revenue from Contracts with Customers" (including all related amendments). On January 1, 2018, we adopted "Revenue from Contracts with Customers" and all the related amendments (the "new revenue standard") using the modified retrospective method. Adoption of the standard did not have a material effect on our financial position or results of operations as the company's method for recognizing revenue under the new standard does not vary significantly from revenue recognition practices under the prior standard.

ASU 2017-12 Improvements to Hedge Accounting Activities." On January 1, 2018, we adopted the "Targeted Improvements to Accounting for Hedging Activities." The principal change in accounting for hedges under this standard is that hedge ineffectiveness (for qualifying hedges subject to hedge accounting) will be recognized in other comprehensive income (rather than earnings) until the hedged item is recognized in earnings, at which point accumulated gains or losses will be recognized in earnings and classified with the underlying hedged expense. Other than the accounting for hedge ineffectiveness, the provisions of this standard apply prospectively. Gains and losses arising from hedge ineffectiveness previously recognized in earnings have been insignificant. Accordingly, there is no cumulative balance sheet adjustment or restatement associated with adoption of this standard.

ASU 2016-16, "Classification of Certain Cash Receipts and Cash Payments." We adopted this standard as of January 1, 2018. The objective of the ASU is to address the diversity in practice in the presentation of certain cash receipts and cash payments in the statement of cash flows. This standard did not have a material effect on our financial condition or results of operations.

ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." In March 2017, the FASB issued this standard to improve the reporting of net benefit cost in the financial statements. We adopted this standard as of January 1, 2018. Due to the immateriality of our pension and postretirement costs, this standard does not have a material effect on our financial condition or results of operations. Accordingly, no restatement of previously issued financial statements is necessary and the provisions of this standard have been applied prospectively.

ASU 2017-11, "(Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception." The objective of this standard is to reduce the complexity in accounting for certain financial instruments with down round features. When determining whether certain financial instruments should be classified as debt or equity instruments, a down round feature would no longer preclude equity classification when assessing whether the instrument is indexed to an entity's own stock. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value because of the existence of a down round feature. The company has no relevant transactions at the present time. As a result, this standard does not have a material effect on our financial condition or results of operations.

ASU 2017-01, "Clarifying the Definition of a Business." We have adopted this standard as of January 1, 2018. The objective of the ASU is to add guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This standard does not have a material effect on our financial condition or results of operations since we have no imminent acquisitions.

ASU 2016-18, "Restricted Cash." The objective of the ASU is to address the diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. This standard was adopted January 1, 2018 and did not have a material effect on our financial condition or results of operations since we have no restricted cash balances.

ASU 2016-16, “*Intra-Entity Transfers of Assets Other than Inventory*.” The objective of the ASU is to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This standard was adopted January 1, 2018 and did not have a material effect on our financial condition or results of operations since we have no significant intra-entity transfers other than inventory.

Accounting Standards Issued But Not Yet Adopted

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

ASU 2017-04, “*Simplifying the Test for Goodwill Impairment*.” In January 2017, the FASB issued an ASU entitled “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The objective of the ASU is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

ASU 2018-02, “*Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.” In January 2018, the FASB issued ASU 2018-02, “Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which gives entities the option to reclassify to retained earnings the tax effects resulting from the Tax Cut and Jobs Act (“the Act”) related to items in accumulated other comprehensive income (AOCI) that the FASB refers to as having been stranded in AOCI. The new guidance may be applied retrospectively to each period in which the effect of the Act is recognized in the period of adoption. The company must adopt this guidance for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for periods for which financial statements have not yet been issued or made available for issuance, including the period the Act was enacted. The guidance, when adopted, will require new disclosures regarding a company’s accounting policy for releasing the tax effects in AOCI. We are evaluating the impact this guidance will have on our financial position and statement of operations.

Note 3 – Acquisition

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

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

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

Under the terms of the Tender Offer:

- the Significant Holder received cash consideration of Polish Zloty 226.5 per share; and
- Uniwheels’ other shareholders received cash consideration of Polish Zloty 247.87 per share, equivalent to the volume weighted-average-price of Uniwheels’ shares for the three months prior to commencement of the Tender Offer, plus 5.0 percent.

On June 30, 2017, the company announced that it had commenced the delisting and associated tender process for the remaining outstanding shares of Uniwheels. As of July 31, 2017, 153,251 additional shares (representing 1.2 percent of Uniwheels shares) were tendered at Polish Zloty 247.87 per share. On December 15, 2017, an additional 75,000 shares (representing 0.6 percent of Uniwheels shares) were tendered at Polish Zloty 262.50 per share.

Superior decided to pursue a Domination and Profit and Loss Transfer Agreement (“DPLTA”) without concurrently pursuing a merger/squeeze-out. This approach enables Superior to realize substantial synergies of a consolidated entity without the distraction or expense associated with simultaneously pursuing the purchase of the remaining shares. According to the terms of the DPLTA, Superior AG offered to purchase any further tendered shares for cash consideration of Euro 62.18, or approximately Polish Zloty 264 per share. This cash consideration may be subject to change based on appraisal proceedings that the minority shareholders of Uniwheels have initiated. Because the aggregate equity purchase price of the Acquisition (assuming an exchange rate of 1.00 Dollar = 3.74193 Polish Zloty) was determined at the time of the initial acquisition, any increase in the resulting price must be reflected as a reduction of paid in capital (common stock). For each share that is not tendered, Superior will be obligated to pay a guaranteed annual dividend of Euro 3.23 as long as the DPLTA is in effect beginning in 2019. Subsequently, the name of the business was changed to Superior Industries Europe AG (hereafter referred to as Europe or our European operations).

The DPLTA became effective by entry on the commercial registry on January 17, 2018, with retroactive effect as of January 1, 2018. As a result, the carrying value of the non-controlling interest related to Uniwheels AG common shares outstanding of \$51.9 million, which was presented as a component of total equity as of December 31, 2017, was reclassified to European non-controlling redeemable equity during the first quarter of 2018. The non-controlling interest shares may be tendered at any time and are, therefore, immediately redeemable and must be classified outside stockholders’ equity. For the period of time that the DPLTA is in effect, the non-controlling interests will continue to be presented in European non-controlling redeemable equity outside of stockholders’ equity in the condensed consolidated balance sheets. A total of 1,579 additional shares were tendered at the DPLTA price of Euro 62.18 in the first half of 2018.

The company’s condensed consolidated financial statements include the results of our European operations subsequent to May 30, 2017 (refer to Note 7, “Business Segments” for more information). The company’s condensed consolidated financial statements reflect the purchase accounting adjustments in accordance with ASC 805 “Business Combinations”, whereby the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the acquisition date.

During the fourth quarter of 2017, the company obtained an updated valuation of the identifiable assets acquired and the liabilities assumed. The purchase price allocation was finalized in Q2 2018, with no significant adjustments. The following is the allocation of the purchase price:

(Dollars in thousands)

Purchase price	
Cash consideration	<u>\$703,000</u>
Non-controlling interest	<u>63,200</u>
Purchase price allocation	
Cash and cash equivalents	12,296
Accounts receivable	60,580
Inventories	83,901
Prepaid expenses and other current assets	<u>11,859</u>
Total current assets	168,636
Property and equipment	259,784
Intangible assets ⁽¹⁾	205,000
Goodwill	286,249
Other assets	<u>32,987</u>
Total assets acquired	<u>952,656</u>
Accounts payable	61,883
Other current liabilities	40,903
Total current liabilities	102,786
Other long-term liabilities	83,670
Total liabilities assumed	<u>186,456</u>
Net assets acquired	<u>\$766,200</u>

- (1) Intangible assets are recorded at estimated fair value, as determined by management based on available information which includes a valuation prepared by an independent third party. The fair values assigned to identifiable intangible assets were determined through the use of the income approach, specifically the relief from royalty and multi-period excess earnings methods. The major assumptions used in arriving at the estimated identifiable intangible asset values included management's estimates of future cash flows, discounted at an appropriate rate of return which is based on the weighted average cost of capital for both the company and other market participants. The useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows. The estimated fair value of intangible assets and related useful lives as included in the purchase price allocation include:

(Dollars in thousands)	Estimated Fair Value	Estimated Useful Life (in Years)
Brand name	\$ 9,000	5-6
Technology	15,000	4-6
Customer relationships	167,000	6-11
Trade names	<u>14,000</u>	Indefinite
	<u>\$205,000</u>	

The above goodwill represents future economic benefits expected to be recognized from the company's expansion into the European wheel market, as well as expected future synergies and operating efficiencies. Goodwill resulting from the Acquisition of \$296.2 million (initial balance of \$286.2 million, increased for post-acquisition translation adjustments) has been allocated to the European segment.

Note 4 – Revenue

On January 1, 2018, we adopted *ASU 2014-09, Topic ASC 606, “Revenue from Contracts with Customers.”* Under this new standard, revenue is recognized when performance obligations under our contracts are satisfied. Generally, this occurs upon shipment when control of products transfers to our customers. At this point, revenue is recognized in an amount reflecting the consideration we expect to be entitled to under the terms of our contract.

In accordance with ASC 606, the company disaggregates revenue from contracts with customers into our segments, North America and Europe. Revenues by segment for the three and six months ended June 30, 2018 are summarized in the table below (in thousands):

Three and Six Months Ended June 30, 2018

	<u>Three Months</u>	<u>Six Months</u>
North America	\$204,758	\$408,908
Europe	184,186	366,484
Total	<u>\$388,944</u>	<u>\$775,392</u>

The company maintains long term business relationships with our OEM customers and aftermarket distributors; however, there are no definitive long-term volume commitments under these arrangements. Volume commitments are limited to near-term customer requirements authorized under purchase orders or production releases generally with delivery periods of less than a month. Sales do not involve any significant financing component since customer payment is generally due 40-60 days after shipment. Payments for tooling are generally due upon customer acceptance. Contract assets and liabilities consist of receivables and deferred revenue related to tooling. When the timing of product delivery is different than payments made by customers, the company recognizes either a contract asset (performance precedes payment) or a contract liability (customer payment precedes performance, such as deferred tooling revenue reimbursement).

At contract inception, the company assesses goods and services promised in its contracts with customers and identifies a performance obligation for each promise to deliver a good or service (or bundle of goods or services) that is distinct. Principal performance obligations under our customer contracts consist of manufacture and delivery of aluminum wheels, including production parts, service parts and replacement parts. As a part of the delivery of the wheels, we develop tooling necessary to produce the wheels. Accordingly, tooling costs, which are explicitly recoverable from our customers, are capitalized as preproduction costs and amortized over the average life of the vehicle wheel program (refer to Note 11, “Preproduction Cost Related to Long Term Supply Arrangements”). Customer reimbursement for tooling is deferred and amortized over the life of the vehicle wheel program.

In the normal course of business, the company does not accept product returns unless the item is defective as manufactured and the company’s warranties are limited to product specifications. Accordingly, warranty costs are treated as a cost of fulfillment subject to accrual under ASC 460, rather than a performance obligation. The company establishes provisions for estimated returns and warranties. In addition, the company does not typically provide customers with the right to a refund but provides for product replacement.

Prices allocated to production, service and replacement parts are based on prices established in our purchase orders which represent the standalone selling price. Prices for service and replacement parts are commensurate with production parts with adjustment for any special packaging. Customer tooling reimbursement is generally based on quoted prices or cost not to exceed quoted prices. In addition, prices are subject to retrospective adjustment for changes in commodity prices for certain raw materials, aluminum and silicon, as well as production efficiencies and wheel weight variations from specifications used in pricing. These price adjustments are treated as variable consideration.

We estimate variable consideration by using the “most likely” amount estimation approach. For commodity price fluctuations, estimates are based on the commodity index at contract inception. Changes in commodity prices are monitored and revenue is adjusted as changes in the commodity index occur. Prices incorporate the wheel weight price component based on product specifications. Weights are monitored and prices adjusted as variations arise. Price adjustments due to production efficiencies are generally recognized as and when negotiated with customers. Customer contract prices are generally adjusted quarterly to incorporate retroactive price adjustments. Based on timely accrual, timeliness of contract price adjustments and extensive experience, we do not believe that these adjustments would result in any significant cumulative reversal of revenue.

The opening and closing balances of the company’s receivables and current and long-term contract liabilities are as follows (in thousands):

	June 30, 2018	January 1, 2018	Change
Trade Receivables	\$170,175	\$150,151	\$20,024
Contract liabilities—current	5,314	5,736	(422)
Contract liabilities—noncurrent	6,540	5,222	1,318

The changes in receivables and liability balances primarily result from timing differences between our performance and customer payment. During the three and six-month periods ended June 30, 2018, the company recognized tooling reimbursement revenue of \$2.1 million and \$3.7 million, respectively, which had been deferred in prior periods and was previously included in the current portion of the contract liability (deferred revenue). During the three and six-month periods ended June 30, 2018, the company recognized revenue of \$0.2 million and \$1.9 million, respectively, from obligations satisfied in prior periods as a result of retrospective price adjustments arising from changes in commodity prices, production efficiencies or wheel weight.

Under the company’s policies, shipping costs are treated as a cost of fulfillment. In addition, as permitted under a practical expedient relating to disclosure of performance obligations, the company does not disclose remaining performance obligations under its contracts since contract terms are substantially less than a year (generally less than one month).

Note 5 – Fair Value Measurements

The company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis, while other assets and liabilities are measured at fair value on a nonrecurring basis, such as when we have an asset impairment. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

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

Cash and Cash Equivalents

Included in cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rates, quoted price or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as cash and cash equivalents. Time deposits, certificates of deposit and money market accounts that meet the above criteria are reported at par value on our balance sheet and are excluded from the table below.

Derivative Financial Instruments

Our derivatives are over-the-counter customized derivative transactions and are not exchange traded. We estimate the fair value of these instruments using industry-standard valuation models such as a discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates, commodity prices and the contractual terms of the derivative instruments. The discount rate used is the relevant interbank deposit rate (e.g., LIBOR) plus an adjustment for non-performance risk. In certain cases, market data may not be available, and we may use broker quotes and models (e.g., Black-Scholes) to determine fair value. This includes situations where there is lack of liquidity for a particular currency or commodity or when the instrument is longer dated. The fair value measurements of the redeemable preferred shares embedded derivatives are based upon Level 3 unobservable inputs reflecting management's own assumptions about the inputs used in pricing the liability. Refer to Note 6, "Derivative Financial Instruments."

Cash Surrender Value

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

The following table categorizes items measured at fair value at June 30, 2018:

June 30, 2018 (Dollars in thousands)	Total	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Certificates of deposit	\$ 750	\$ —	\$ 750	\$ —
Cash surrender value	8,231	—	8,231	—
Derivative contracts	2,730	—	2,730	—
Total	\$11,711	\$ —	\$ 11,711	\$ —
Liabilities				
Derivative contracts	\$19,161	\$ —	\$ 19,161	\$ —
Embedded derivative liability	8,375	—	—	8,375
Total	\$27,536	\$ —	\$ 19,161	\$ 8,375

The following table categorizes items measured at fair value at December 31, 2017:

<u>December 31, 2017</u> (Dollars in thousands)	<u>Total</u>	<u>Fair Value Measurement at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Certificates of deposit	\$ 750	\$ —	\$ 750	\$ —
Cash surrender value	8,040	—	8,040	—
Derivative contracts	6,342	—	6,342	—
Total	\$15,132	\$ —	\$ 15,132	\$ —
Liabilities				
Derivative contracts	\$16,106	\$ —	\$ 16,106	\$ —
Embedded derivative liability	4,685	—	—	4,685
Total	\$20,791	\$ —	\$ 16,106	\$ 4,685

The following table summarizes the changes during the first six months of 2018 in level 3 fair value measurement of the embedded derivative liability relating to the redeemable preferred shares issued in connection with the acquisition of European operations:

<u>Six Months Ended June 30, 2018</u> (Dollars in thousands)	
Change in fair value:	
Beginning fair value – December 31, 2017	\$4,685
Change in fair value of redeemable preferred stock embedded derivative liability	3,690
Ending fair value at June 30, 2018	<u>\$8,375</u>

Debt Instruments

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

	<u>June 30, 2018</u>
(Dollars in thousands)	
Estimated aggregate fair value	\$ 693,847
Aggregate carrying value ⁽¹⁾	695,116

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

Note 6 – Derivative Financial Instruments

Derivative Instruments and Hedging Activities

We use derivatives to partially offset our business exposure to foreign currency, interest rates, and aluminum commodity risk.

We may enter into forward contracts, option contracts, swaps, collars or other derivative instruments to offset some of the risk on expected future cash flows and on certain existing assets and liabilities. However, we may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of our subsidiaries, whose functional currency is the U.S. dollar or the Euro, hedge a portion of forecasted foreign currency costs denominated in the Mexican Peso and Polish Zloty, respectively. We may hedge portions of our forecasted foreign currency exposure up to 48 months.

We record all derivatives in the condensed consolidated balance sheets at fair value. Our accounting treatment for these instruments is based on the hedge designation. The cash flow hedges that are designated as hedging instruments are recorded in Accumulated Other Comprehensive Income ("AOCI") until the hedged item is recognized in earnings, at which point accumulated gains or losses will be recognized in earnings and classified with the underlying hedged expense. Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates. At June 30, 2018, the company held derivatives that were designated as hedging instruments as well as derivatives that did not qualify for designation as hedging instruments as discussed below.

Deferred gains and losses associated with cash flow hedges of foreign currency costs are recognized as a component of cost of sales in the same period as the related cost is recognized. Our foreign currency transactions hedged with cash flow hedges as of June 30, 2018, are expected to occur within 1 month to 48 months.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in AOCI associated with such derivative instruments are reclassified immediately into other expense. Any subsequent changes in fair value of such derivative instruments are reflected in other expense unless they are re-designated as hedges of other transactions.

Currency option derivative contracts not designated for hedge accounting consist principally of certain option contracts to purchase the Polish Zloty and the Euro and a Euro-U.S. dollar cross currency swap.

Redeemable Preferred Stock Embedded Derivative

We have determined that the conversion option embedded in Series A redeemable preferred stock is required to be accounted for separately from the Series A redeemable preferred stock as a derivative liability. Separation of the conversion option as a derivative liability is required because its economic characteristics are considered more akin to an equity instrument and therefore the conversion option is not considered to be clearly and closely related to the economic characteristics of the redeemable preferred stock. This is because the economic characteristics of the redeemable preferred stock are considered more akin to a debt instrument due to the fact that the shares are redeemable at the holder's option, the redemption value is significantly greater than the face amount, the shares carry a fixed mandatory dividend and the stock price necessary to make conversion more attractive than redemption (\$56.324) is significantly greater than the price at the date of issuance (\$19.05), all of which lead to the conclusion that redemption is more likely than conversion. For additional information on the redeemable preferred stock, see Note 14, "Redeemable Preferred Shares."

We also have determined that the early redemption option upon the occurrence of a redemption event (e.g. change of control, etc.) must also be bifurcated and accounted for separately from the redeemable preferred stock at fair value, because the debt host contract involves a substantial discount (face of \$150.0 million as compared to the redemption value of \$300.0 million) and exercise of the early redemption option would accelerate the holder's option to redeem the shares.

Accordingly, we have recorded an embedded derivative liability representing the combined fair value of the right of holders to receive common stock upon conversion of Series A redeemable preferred stock at any time (the “conversion option”) and the right of the holders to exercise their early redemption option upon the occurrence of a redemption event (the “early redemption option”). The embedded derivative liability is adjusted to reflect fair value at each period end with changes in fair value recorded in the “Change in fair value of redeemable preferred stock embedded derivative” financial statement line item of the company’s condensed consolidated statements of operations (see “Note 14, “Redeemable Preferred Shares”).

A binomial option pricing model is used to estimate the fair value of the conversion and early redemption options embedded in the redeemable preferred stock. The binomial model utilizes a “decision tree” whereby future movement in the company’s common stock price is estimated based on a volatility factor. The binomial option pricing model requires the development and use of assumptions. These assumptions include estimated volatility of the value of our common stock, assumed possible conversion or early redemption dates, an appropriate risk-free interest rate, risky bond rate and dividend yield.

The expected volatility of the company’s equity is estimated based on the historical volatility of our common stock. The assumed base case term used in the valuation model is the period remaining until May 22, 2024 (the earliest date at which the holder may exercise its unconditional redemption option). A number of other scenarios incorporate earlier redemption dates to address the possibility of early redemption upon the occurrence of a redemption event. The risk-free interest rate is based on the yield on the U.S. Treasury zero coupon yield curve with a remaining term equal to the expected term of the conversion and early redemption options. The significant assumptions utilized in the company’s valuation of the embedded derivative at June 30, 2018 are as follows: valuation scenario terms between 3.50 and 5.89 years, volatility of 33 percent, risk-free rate of 2.7 percent to 2.8 percent related to the respective assumed terms, a risky bond rate of 19.3 percent and a dividend yield of 2.0 percent.

Based on the foregoing assumptions, the fair value of the redeemable preferred stock embedded derivative liability at June 30, 2018 is \$8.4 million and the change in fair value of redeemable preferred stock embedded derivative liability during the six months ended June 30, 2018 was \$3.7 million, mainly due to the increase in our stock price during that period.

The following tables display the fair value of derivatives by balance sheet line item at June 30, 2018 and December 31, 2017:

	June 30, 2018			
	Other Current Assets	Other Non-current Assets	Accrued Liabilities	Other Non-current Liabilities
(Dollars in thousands)				
Foreign exchange forward contracts and collars designated as hedging instruments	\$1,015	\$ 532	\$ 4,413	\$ 13,503
Foreign exchange forward contracts not designated as hedging instruments	266	—	3	—
Aluminum forward contracts designated as hedging instruments	842	—	—	—
Cross currency swap not designated as a hedging instrument	—	—	949	—
Interest rate swap contracts designated as hedging instruments	—	75	293	—
Embedded derivative liability	—	—	—	8,375
Total derivative financial instruments	<u>\$2,123</u>	<u>\$ 607</u>	<u>\$ 5,658</u>	<u>\$ 21,878</u>

	December 31, 2017			
	Other Current Assets	Other Non-current Assets	Accrued Liabilities	Other Non-current Liabilities
(Dollars in thousands)				
Foreign exchange forward contracts and collars designated as hedging instruments	\$3,065	\$ 723	\$ 4,922	\$ 8,405
Foreign exchange forward contracts not designated as hedging instruments	721	—	206	—
Aluminum forward contracts not designated as hedging instruments	1,833	—	—	—
Cross currency swap not designated as a hedging instrument	—	—	1,467	1,106
Embedded derivative liability	—	—	—	4,685
Total derivative financial instruments	<u>\$5,619</u>	<u>\$ 723</u>	<u>\$ 6,595</u>	<u>\$ 14,196</u>

The following table summarizes the notional amount and estimated fair value of our derivative financial instruments:

	June 30, 2018		December 31, 2017	
	Notional U.S. Dollar Amount	Fair Value	Notional U.S. Dollar Amount	Fair Value
(Dollars in thousands)				
Foreign currency forward contracts and collars designated as hedging instruments	\$ 500,489	\$(16,369)	\$397,744	\$ (9,539)
Foreign currency forward contracts and collars not designated as hedging instruments	25,125	263	23,305	515
Aluminum forward contracts designated as hedging instruments	15,761	842	—	—
Aluminum forward contracts not designated as hedging instruments	—	—	15,564	1,833
Cross currency swap not designated as a hedging instrument	23,735	(949)	36,454	(2,573)
Interest rate swap contracts designated as hedging instruments	130,000	(218)	—	—
Total derivative financial instruments	<u>\$ 695,110</u>	<u>\$(16,431)</u>	<u>\$473,067</u>	<u>\$ (9,764)</u>

Notional amounts are presented on a gross basis. The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates or commodity volumes and prices.

The following table provides the impact of derivative instruments designated as cash flow hedges on our consolidated statement of operations:

Three Month Period Ended June 30, 2018	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Amount of Pre-tax Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives (Amount Excluded from Effectiveness Testing)
(Dollars in thousands)			
Derivative contracts	\$ (17,989)	\$ (539)	\$ 435
Total	<u>\$ (17,989)</u>	<u>\$ (539)</u>	<u>\$ 435</u>

Six Month Period Ended June 30, 2018	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Amount of Pre-tax Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives (Amount Excluded from Effectiveness Testing)
(Dollars in thousands)			
Derivative contracts	\$ (4,079)	\$ 46	\$ (309)
Total	\$ (4,079)	\$ 46	\$ (309)
Three Month Period Ended June 25, 2017	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Amount of Pre-tax Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives (Amount Excluded from Effectiveness Testing)
(Dollars in thousands)			
Derivative contracts	\$ 10,568	\$ (1,091)	\$ (1,619)
Total	\$ 10,568	\$ (1,091)	\$ (1,619)
Six Month Period Ended June 25, 2017	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Amount of Pre-tax Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives (Amount Excluded from Effectiveness Testing)
(Dollars in thousands)			
Derivative contracts	\$ 27,627	\$ (3,582)	\$ (1,451)
Total	\$ 27,627	\$ (3,582)	\$ (1,451)

Note 7 – Business Segments

As a result of the Acquisition, the company expanded into the European market and extended its customer base to include the principal European OEMs. As a consequence, we have realigned our executive management structure, organization and operations to focus on our performance in our North American and European regions. In accordance with the requirements of *ASC Topic 280, "Segment Reporting,"* we have concluded that our North American and European businesses represent separate operating segments in view of significantly different markets, customers and products within each of these regions. Each operating segment has discrete financial information which is evaluated regularly by the company's CEO in determining resource allocation and assessing performance. Within each of these regions, the company's markets, customers, products and production processes are similar and production can be readily transferred between production facilities. Moreover, our business within each region leverages common systems, processes and infrastructure.

Accordingly, North America and Europe comprise the company's operating segments for purposes of segment reporting.

(Dollars in thousands)

	Net Sales		Income from Operations	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
Three months ended				
North America	\$ 204,758	\$ 186,898	\$ 9,676	\$ (1,098)
Europe	184,186	53,730	21,594	(900)
	<u>\$ 388,944</u>	<u>\$ 240,628</u>	<u>\$ 31,270</u>	<u>\$ (1,998)</u>

(Dollars in thousands)

	Depreciation and Amortization		Capital Expenditures	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
Three months ended				
North America	\$ 8,603	\$ 9,073	\$ 8,565	\$ 11,037
Europe	15,384	4,217	6,781	2,122
	<u>\$ 23,987</u>	<u>\$ 13,290</u>	<u>\$ 15,346</u>	<u>\$ 13,159</u>

(Dollars in thousands)

	Net Sales		Income from Operations	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
Six months ended				
North America	\$ 408,908	\$ 361,118	\$ 23,461	\$ 2,846
Europe	366,484	53,730	35,443	(900)
	<u>\$ 775,392</u>	<u>\$ 414,848</u>	<u>\$ 58,904</u>	<u>\$ 1,946</u>

(Dollars in thousands)

	Depreciation and Amortization		Capital Expenditures	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
Six months ended				
North America	\$ 17,401	\$ 17,443	\$ 18,593	\$ 27,860
Europe	30,939	4,217	19,427	2,122
	<u>\$ 48,340</u>	<u>\$ 21,660</u>	<u>\$ 38,020</u>	<u>\$ 29,982</u>

(Dollars in thousands)

	Property, Plant and Equipment, net		Goodwill and Intangibles	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
North America	\$ 244,813	\$ 245,178	\$ —	\$ —
Europe	286,532	291,508	480,817	508,278
	<u>\$ 531,345</u>	<u>\$ 536,686</u>	<u>\$ 480,817</u>	<u>\$ 508,278</u>

(Dollars in thousands)

	Total Assets	
	June 30, 2018	December 31, 2017
North America	\$ 539,003	\$ 519,192
Europe	990,871	1,032,060
	<u>\$1,529,874</u>	<u>\$ 1,551,252</u>

Geographic information

Net sales by geographic location is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
(Dollars in thousands)				
Net sales:				
U.S.	\$ 30,527	\$ 34,435	\$ 61,010	\$ 66,223
Mexico	174,231	152,463	347,898	294,895
Germany	70,968	19,913	142,193	19,913
Poland	113,218	33,817	224,291	33,817
Consolidated net sales	<u>\$388,944</u>	<u>\$240,628</u>	<u>\$775,392</u>	<u>\$414,848</u>

Note 8 – Short-Term Investments

Cash and Cash Equivalents

The company's cash and cash equivalents include certificates of deposit and fixed deposits with original maturities of three months or less. Certificates of deposit and fixed deposits whose original maturity is greater than three months and is one year or less are classified as short-term investments and certificates of deposit and fixed deposits whose maturity is greater than one year at the balance sheet date are classified as non-current assets in our condensed consolidated balance sheets. The purchase of any certificates of deposit or fixed deposits that are classified as short-term investments or non-current assets appear in the investing section of our condensed consolidated statements of cash flows.

Restricted Deposits

We purchase certificates of deposit that mature within twelve months and are used to secure or collateralize letters of credit securing our workers' compensation obligations. As of June 30, 2018 and December 31, 2017, certificates of deposit totaling \$0.8 million were restricted in use and were classified as short-term investments on our condensed consolidated balance sheets.

Note 9 – Inventories

	June 30, 2018	December 31, 2017
(Dollars in thousands)		
Raw materials	\$ 49,801	\$ 59,353
Work in process	54,408	48,803
Finished goods	82,809	65,843
Inventories	<u>\$ 187,018</u>	<u>\$ 173,999</u>

Service wheel and supplies inventory included in other non-current assets in the condensed consolidated balance sheets totaled \$9.5 million and \$8.1 million at June 30, 2018 and December 31, 2017, respectively. Included in raw materials were operating supplies and spare parts totaling \$13.7 million and \$12.5 million at June 30, 2018 and December 31, 2017, respectively.

Note 10 – Property, Plant and Equipment

(Dollars in thousands)	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Land and buildings	\$ 137,987	\$ 136,918
Machinery and equipment	740,413	720,175
Leasehold improvements and others	12,281	12,192
Construction in progress	64,397	58,753
	<u>955,078</u>	<u>928,038</u>
Accumulated depreciation	(423,733)	(391,352)
Property, plant and equipment, net	<u>\$ 531,345</u>	<u>\$ 536,686</u>

Depreciation expense was \$34.9 million and \$19.5 million for the six months ended June 30, 2018 and June 25, 2017, respectively.

Note 11 – Preproduction Costs Related to Long-Term Supply Arrangements

We incur preproduction engineering and tooling costs related to the products produced for our customers under long-term supply agreements. We expense all preproduction engineering costs for which reimbursement is not contractually guaranteed by the customer or which are in excess of the contractually guaranteed reimbursement amount. We amortize the cost of the customer-owned tooling over the expected life of the wheel program on a straight-line basis. Also, we defer any reimbursements made to us by our customers and recognize the tooling reimbursement revenue over the same period in which the tooling is in use. Changes in the facts and circumstances of individual wheel programs may accelerate the amortization of both the cost of customer-owned tooling and the deferred tooling reimbursement revenues. Tooling reimbursement revenues for the three and six months ended June 30, 2018 were \$2.1 million and \$3.7 million, respectively, while the corresponding amounts for the three and six months ended June 25, 2017 were \$1.8 million and \$3.5 million, respectively. Tooling reimbursement revenues are included in net sales in the condensed consolidated statements of operations (refer to Note 4, “Revenue” for further information regarding revenue recognition and accounting for contract assets, pre-production costs and customer reimbursement).

The following tables summarize the unamortized customer-owned tooling costs included in our non-current assets, and the deferred tooling revenues included in accrued expenses and other non-current liabilities:

(Dollars in thousands)	<u>June 30, 2018</u>	<u>December 31, 2017</u>
<u>Customer-Owned Tooling Costs</u>		
Preproduction costs	\$ 94,927	\$ 84,198
Accumulated amortization	(75,808)	(71,409)
Net preproduction costs	<u>\$ 19,119</u>	<u>\$ 12,789</u>
<u>Deferred Tooling Revenues</u>		
Accrued expenses	\$ 5,314	\$ 4,654
Other non-current liabilities	6,540	1,974
Total deferred tooling revenues	<u>\$ 11,854</u>	<u>\$ 6,628</u>

Note 12 – Goodwill and Other Intangible Assets

Goodwill and indefinite-lived assets, such as certain trade names acquired in connection with the acquisition of our European operations on May 30, 2017, are not amortized, but are instead evaluated for impairment on an annual basis at the end of the fiscal year, or more frequently if events or circumstances indicate that impairment may be more likely than not. During the three and six months ended June 30, 2018, no impairment charges have been taken against the company's goodwill or indefinite-lived intangible assets. The carrying amount of goodwill arose from the Acquisition described in Note 3, "Acquisition."

The company's other intangible assets consist primarily of assets with finite lives which are amortized on a straight-line basis over their estimated useful lives. Following is a summary of the company's finite-lived and indefinite-lived intangible assets as of June 30, 2018.

	December 31, 2017	Amortization Expense	Currency Translation	June 30, 2018	Remaining Weighted Average Amortization Period
(Dollars in thousands)					
Brand name	\$ 8,490	\$ (968)	\$ (209)	\$ 7,313	4-5
Technology	14,150	(1,613)	(348)	12,189	3-5
Customer relationships	165,746	(10,867)	(4,364)	150,515	5-10
Total finite	188,386	(13,448)	(4,921)	170,017	
Trade names	15,087	—	(473)	14,614	Indefinite
Total	\$ 203,473	\$ (13,448)	\$ (5,394)	\$ 184,631	

Amortization expense for the three and six months ended June 30, 2018 was \$6.4 million and \$13.4 million, while the corresponding amount for the three and six months ended June 25, 2017 was \$2.2 million. The anticipated annual amortization expense for these intangible assets is \$25.9 million for 2018, \$25.0 million for 2019 to 2021, \$22.2 million for 2022, and \$20.2 million for 2023.

Note 13 – Debt

A summary of long-term debt and the related weighted average interest rates is shown below (in thousands):

Debt Instrument	June 30, 2018			Weighted Average Interest Rate
	Total Debt	Debt Issuance Costs ⁽¹⁾	Total Debt, Net	
Term loan facility	\$384,800	\$(14,443)	\$370,357	6.1%
6.00% Senior Notes due 2025	291,650	(7,941)	283,709	6.0%
Other	18,666	—	18,666	1.9%
	<u>\$695,116</u>	<u>\$(22,384)</u>	672,732	
Less: Current portion			3,112	
Long-term debt			<u>\$ 669,620</u>	

⁽¹⁾ Unamortized portion

Senior Notes

On June 15, 2017, Superior issued Euro 250.0 million aggregate principal amount of 6.00% Senior Notes (the “Notes”) due June 15, 2025. Interest on the Notes is payable semiannually, on June 15 and December 15. Superior may redeem the Notes, in whole or in part, on or after June 15, 2020 at redemption prices of 103.000% and 101.500% of the principal amount thereof if the redemption occurs during the 12-month period beginning June 15, 2020 or 2021, respectively, and a redemption price of 100% of the principal amount thereof on or after June 15, 2022, in each case plus accrued and unpaid interest to, but not including, the applicable redemption date. In addition, the company may redeem some or all of the Notes prior to June 15, 2020 at a price equal to 100.0% of the principal amount thereof plus a “make-whole” premium and accrued and unpaid interest, if any, up to, but not including, the redemption date. Prior to June 15, 2020, the company may redeem up to 40% of the aggregate principal amount of the Notes using the proceeds of certain equity offerings at a certain redemption price. If we experience a change of control or sell certain assets, the company may be required to offer to purchase the Notes from the holders. The Notes are senior unsecured obligations ranking equally in right of payment with all of its existing and future senior indebtedness and senior in right of payment to any subordinated indebtedness. The Notes are effectively subordinated in right of payment to the existing and future secured indebtedness of the company, including the Senior Secured Credit Facilities (as defined below), to the extent of the assets securing such indebtedness.

Guarantee

The Notes are unconditionally guaranteed by all material wholly-owned direct and indirect domestic restricted subsidiaries of the company (the “Subsidiary Guarantors”), with customary exceptions including, among other things, where providing such guarantees is not permitted by law, regulation or contract or would result in adverse tax consequences.

Covenants

Subject to certain exceptions, the indenture governing the Notes contains restrictive covenants that, among other things, limit the ability of Superior and the Subsidiary Guarantors to: (i) incur additional indebtedness or issue certain preferred stock; (ii) pay dividends on, or make distributions in respect of, their capital stock; (iii) make certain investments or other restricted payments; (iv) sell certain assets or issue capital stock of restricted subsidiaries; (v) create liens; (vi) merge, consolidate, transfer or dispose of substantially all of their assets; and (vii) engage in certain transactions with affiliates. These covenants are subject to a number of important limitations and exceptions that are described in the indenture.

The indenture provides for customary events of default that include, among other things (subject in certain cases to customary grace and cure periods): (i) nonpayment of principal, premium, if any, and interest, when due; (ii) breach of covenants in the indenture; (iii) a failure to pay certain judgments; and (iv) certain events of bankruptcy and insolvency. If an event of default occurs and is continuing, the Trustee or holders of at least 30% in principal amount of the then outstanding Notes may declare the principal, premium, if any, and accrued and unpaid interest on all the Notes to be due and payable. These events of default are subject to a number of important qualifications, limitations and exceptions that are described in the indenture. As of June 30, 2018, the company was in compliance with all covenants under the indenture governing the Notes.

Senior Secured Credit Facilities

On March 22, 2017, Superior entered into a senior secured credit agreement (the “Credit Agreement”) with Citibank, N.A, JP Morgan Chase N.A., Royal Bank of Canada and Deutsche Bank A.G. New York Branch (collectively, the “Lenders”). The Credit Agreement consisted of a \$400.0 million senior secured term loan facility (the “Term Loan Facility”) and a \$160.0 million revolving credit facility (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Senior Secured Credit Facilities”).

On June 29, 2018, the company entered into an amendment to the Credit Agreement pursuant to which the interest rate under the Term Loan Facility was reduced to LIBOR plus 4.00 percent (from LIBOR plus 4.50 percent), subject to a LIBOR floor of 0.00 percent (in place of the previous LIBOR floor of 1.00 percent). Substantially all of the original loans under the Term Loan Facility were replaced with loans from existing lenders under terms that were not substantially different than those of the original loans. As a result, this transaction did not result in any debt extinguishment and the unamortized debt issuance costs associated with the original loans will continue to be amortized over the remaining term of the replacement loans (which is unchanged from the original term).

Borrowings under the Term Loan Facility will bear interest at a rate equal to, at the company's option, either (a) LIBOR for the relevant interest period, adjusted for statutory reserve requirements, subject to a floor of 0.00 percent per annum, plus an applicable rate of 4.00 percent or (b) a base rate, subject to a floor of 2.00 percent per annum, equal to the highest of (1) the rate of interest in effect as publicly announced by the administrative agent as its prime rate, (2) the federal funds rate plus 0.50 percent and (3) LIBOR for an interest period of one month plus 1.00 percent, in each case, plus an applicable rate of 3.50 percent. Borrowings under the Revolving Credit Facility initially bear interest at a rate equal to, at the company's option, either (a) LIBOR for the relevant interest period, adjusted for statutory reserve requirements, subject to a floor of 1.00 percent per annum, plus an applicable rate of 3.50 percent or (b) a base rate, subject to a floor of 2.00 percent per annum, equal to the highest of (1) the rate of interest in effect as publicly announced by the administrative agent as its prime rate, (2) the federal funds effective rate plus 0.50 percent and (3) LIBOR for an interest period of one month plus 1.00 percent, in each case, plus an applicable rate of 3.50 percent provided such rate may not be less than zero. The initial commitment fee for unused commitments under the Revolving Credit Facility shall be 0.50 percent. The applicable rates for borrowings under the Revolving Credit Facility and commitment fees for unused commitments under the Revolving Credit Facility are based upon the First Lien Net Leverage Ratio effective for the preceding quarter with LIBOR applicable rates between 3.50 percent and 3.00 percent, base rate applicable rates between 2.50 percent and 2.00 percent and commitment fees between 0.50 percent and 0.25 percent. Commitment fees are included in our condensed consolidated financial statements line, interest (expense) income, net.

As of June 30, 2018, the company had repaid \$15.2 million under the Term Loan Facility resulting in a balance of \$384.8 million. In addition, the company had no outstanding borrowings under the Revolving Credit Facility, had outstanding letters of credit of \$2.8 million and available unused commitments under the facility of \$157.2 million as of June 30, 2018.

Guarantees

Our obligations under the Credit Agreement are unconditionally guaranteed by all material wholly-owned direct and indirect domestic restricted subsidiaries of the company, with customary exceptions including, among other things, where providing such guarantees is not permitted by law, regulation or contract or would result in adverse tax consequences. The guarantees of such obligations, will be secured, subject to permitted liens and other exceptions, by substantially all of our assets and the Subsidiary Guarantors' assets, including but not limited to: (i) a perfected pledge of all of the capital stock issued by each of the company's direct wholly-owned domestic restricted subsidiaries or any guarantor (subject to certain exceptions) and up to 65 percent of the capital stock issued by each direct wholly-owned foreign restricted subsidiary of the company or any guarantor (subject to certain exceptions) and (ii) perfected security interests in and mortgages on substantially all tangible and intangible personal property and material fee-owned real property of the company and the guarantors (subject to certain exceptions and exclusions).

Covenants

The Senior Secured Credit Facilities contain a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to incur additional indebtedness and guarantee indebtedness, create or incur liens, engage in mergers or consolidations, sell, transfer or otherwise dispose of assets, make investments, acquisitions, loans or advances, pay dividends, distributions or other restricted payments, or repurchase our capital stock, prepay, redeem, or repurchase any subordinated indebtedness, enter into agreements which limit our ability to incur liens on our assets or that restrict the ability of restricted subsidiaries to pay dividends or make other restricted payments to us, and enter into certain transactions with our affiliates.

In addition, the Credit Agreement contains customary default provisions, representations and warranties and restrictive covenants. The Credit Agreement also contains a provision permitting the Lenders to accelerate the repayment of all loans outstanding under the Senior Secured Credit Facilities during an event of default. As of June 30, 2018, the company was in compliance with all covenants under the Credit Agreement.

Acquisition Debt

In connection with the acquisition of our European operations, the company assumed \$70.7 million of outstanding debt. At June 30, 2018, \$18.7 million of debt remained outstanding relating to an equipment loan of which \$3.1 million was classified as current. The company also has an available unused line of credit of Euro 30.0 million which expires July 31, 2020. The revolving credit facility bears interest at Euribor plus 1.0 percent (but in any event not less than 0.96 percent) and the equipment loan bears interest at 1.9 percent.

Note 14 – Redeemable Preferred Shares

On March 22, 2017, Superior and TPG Growth III Sidewall, L.P. (“TPG”) entered into an Investment Agreement pursuant to which Superior agreed to issue a number of shares of Series A Perpetual Convertible Preferred Stock (the “Series A redeemable preferred stock”) and Series B Perpetual Preferred Stock (the “Series B redeemable preferred stock”), par value \$0.01 per share (the “Series A redeemable preferred stock” and “Series B redeemable preferred stock” referred to collectively as the “redeemable preferred stock”) to TPG for an aggregate purchase price of \$150.0 million (the “Investment”). As of the closing of the Investment on May 22, 2017, Superior issued 140,202 shares of Series A redeemable preferred stock, which was equal to 19.99 percent of Superior’s common stock outstanding on such date, and 9,798 shares of Series B redeemable preferred stock to TPG.

On August 30, 2017, our stockholders approved the conversion of 9,798 shares of Series B redeemable preferred stock into Series A redeemable preferred stock and all outstanding shares of Series B redeemable preferred stock were automatically converted into Series A redeemable preferred stock (the “Conversion”). Series A redeemable preferred stock has an initial stated value of \$1,000 per share, par value of \$0.01 per share and liquidation preference over common stock.

Series A redeemable preferred stock is convertible into shares of Superior common stock equal to the number of shares determined by dividing the sum of the stated value and any accrued and unpaid dividends by the conversion price of \$28.162. Series A redeemable preferred stock accrues dividends at a rate of 9 percent per annum, payable at Superior’s election either in-kind or in cash. Series A redeemable preferred stock is also entitled to participate in dividends on common stock in an amount equal to that which would have been due had the shares been converted into common stock.

We may mandate conversion of the Series A redeemable preferred stock if the price of the common stock exceeds \$84.49. TPG may redeem the shares upon the occurrence of any of the following events (referred to as a “redemption event”): a change in control, recapitalization, merger, sale of substantially all of the company’s assets, liquidation or delisting of the company’s common stock. In addition, TPG may, at its option, unconditionally redeem the shares at any time after May 23, 2024. Superior may, at its option, redeem in whole at any time all of the shares of Series A redeemable preferred stock outstanding. If redeemed by either party on or before October 22, 2018, the redemption value (the “redemption value”) would be \$262.5 million (1.75 times stated value). If redeemed after October 22, 2018, the redemption value would be the greater of \$300.0 million (2.0 times stated value) or the product of the number of common shares into which the Series A redeemable preferred stock could be converted (5.3 million shares currently) and the then current market price of the common stock.

We have determined that the conversion option embedded in the redeemable preferred stock is required to be accounted for separately from the redeemable preferred stock as a derivative liability. Separation of the conversion option as a derivative liability is required because its economic characteristics are considered more akin to an equity instrument and therefore the conversion option is not considered to be clearly and closely related to the economic characteristics of the redeemable preferred stock. This is because the economic characteristics of the redeemable preferred stock are considered more akin to a debt instrument due to the fact that the shares are redeemable at the holder’s option, the redemption value is significantly greater than the face amount, the shares carry a fixed mandatory dividend and the stock price necessary to make conversion more attractive than redemption (\$56.324) is significantly greater than the price at the date of issuance (\$19.05), all of which lead to the conclusion that redemption is more likely than conversion.

We have also determined that the early redemption option exercisable upon the occurrence of a redemption event must also be bifurcated and accounted for separately from the redeemable preferred stock at fair value, because the debt host contract involves a substantial discount (face of \$150.0 million as compared to the redemption value of \$300.0 million) and the exercise of the early redemption option upon the occurrence of a redemption event would accelerate the holder’s option to redeem the shares.

Accordingly, we have recorded an embedded derivative liability representing the estimated combined fair value of the right of holders to receive common stock upon conversion (the “conversion option”) and the right of the holders to exercise their early redemption option upon the occurrence of a redemption event (the “early redemption option”). The embedded derivative liability is adjusted to reflect fair value at each period end with changes in fair value recorded in the “Change in fair value of redeemable preferred stock embedded derivative” financial statement line item of the company’s condensed consolidated statements of operations. Refer to Note 6, “Derivative Financial Instruments” for further information regarding the valuation of the embedded derivative.

Since the redeemable preferred stock may be redeemed at the option of the holder, but is not mandatorily redeemable, the redeemable preferred stock has been classified as mezzanine equity and initially recognized at fair value of \$150.0 million (the proceeds on the date of issuance) less issuance costs of \$3.7 million, resulting in an initial value of \$146.3 million. This amount has been further reduced by \$10.9 million assigned to the embedded derivative liability at date of issuance, resulting in an adjusted initial value of \$135.5 million. We are accreting the difference between the adjusted initial value of \$135.5 million and the redemption value of \$300 million over the seven-year period from the date of issuance through May 23, 2024 (the date at which the holder has the unconditional right to redeem the shares, deemed to be the earliest likely redemption date) using the effective interest method. The accretion to the carrying value of the redeemable preferred stock is treated as a deemed dividend, recorded as a charge to retained earnings and deducted in computing earnings per share (analogous to the treatment for stated and participating dividends paid on the redeemable preferred shares). The accumulated accretion as of June 30, 2018 is \$17.7 million resulting in an adjusted redeemable preferred stock balance of \$153.2 million.

Note 15 – European Non-Controlling Redeemable Equity

On January 17, 2018, the DPLTA (referred to in Note 3, “Acquisitions”) became effective with the entry into the commercial register. As a result, non-controlling interests with a carrying value of \$51.9 million were reclassified from stockholders’ equity to mezzanine equity effective January 1, 2018 because non-controlling interests with redemption rights (not within the company’s control) are considered redeemable and must be classified outside shareholders’ equity. In addition, the carrying value of the non-controlling interests must be adjusted to redemption value since they are currently redeemable. The following table summarizes the European non-controlling redeemable equity activity for the six months ended June 30, 2018:

Balance at December 31, 2017	\$ —
Reclassification of non-controlling interests	51,943
Redemption value adjustment	3,625
Translation adjustment	(2,851)
Purchase of shares	(118)
Balance at June 30, 2018	<u>\$52,599</u>

Annual compensation payable on untendered outstanding shares under the DPLTA must be recognized as it accrues, whether or not declared or paid. As of June 30, 2018, we have accrued \$1.1 million representing the prorated annual dividend due to the European non-controlling shareholders for the first six months of 2018, which is included in accrued liabilities.

Note 16 – Earnings Per Share

In accordance with U.S. GAAP, basic earnings per share is computed by dividing net income (loss) attributable to Superior, after adjusting for preferred dividends and European non-controlling redeemable equity translation and dividend, by the weighted average number of common shares outstanding. For purposes of calculating diluted earnings per share, net income (loss) attributable to Superior is divided by the total of the weighted average shares outstanding plus the dilutive effect of our redeemable preferred stock, outstanding stock options and time and performance based restricted stock units under the treasury stock method.

(Dollars and shares in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
Basic Earnings Per Share:				
Reported net income (loss) attributable to Superior	\$ 8,135	\$ (7,272)	\$ 18,452	\$ (4,170)
Less: Redeemable preferred stock dividends and accretion	(8,135)	(2,882)	(16,204)	(2,882)
Less: European non-controlling redeemable equity dividend	(511)	—	(1,084)	—
Add: European non-controlling redeemable equity translation adjustment	2,851	—	2,851	—
Basic numerator	<u>\$ 2,340</u>	<u>\$ (10,154)</u>	<u>\$ 4,015</u>	<u>\$ (7,052)</u>
Basic earnings (loss) per share	<u>\$ 0.09</u>	<u>\$ (0.41)</u>	<u>\$ 0.16</u>	<u>\$ (0.28)</u>
Weighted average shares outstanding-Basic	<u>25,001</u>	<u>24,908</u>	<u>24,969</u>	<u>24,961</u>
Diluted Earnings Per Share:				
Reported net income (loss) attributable to Superior	\$ 8,135	\$ (7,272)	\$ 18,452	\$ (4,170)
Less: Redeemable preferred stock dividends and accretion	(8,135)	(2,882)	(16,204)	(2,882)
Less: European non-controlling redeemable equity dividend	(511)	—	(1,084)	—
Add: European non-controlling redeemable equity translation adjustment	2,851	—	2,851	—
Diluted numerator	<u>\$ 2,340</u>	<u>\$ (10,154)</u>	<u>\$ 4,015</u>	<u>\$ (7,052)</u>
Diluted earnings (loss) per share	<u>\$ 0.09</u>	<u>\$ (0.41)</u>	<u>\$ 0.16</u>	<u>\$ (0.28)</u>
Weighted average shares outstanding-Basic	25,001	24,908	24,969	24,961
Weighted average dilutive stock options and restricted stock units	52	—	39	—
Weighted average shares outstanding-Diluted	<u>25,053</u>	<u>24,908</u>	<u>25,008</u>	<u>24,961</u>

For the first half of 2018, options to purchase 51,250 shares at prices ranging from \$16.32 to \$22.57 were excluded from the diluted earnings per share because they would have been anti-dilutive, as their exercise prices exceeded the average market prices for the period. The performance shares discussed in Note 19, "Stock-Based Compensation" are not included in the diluted earnings per share because the performance metrics had not been met as of the period ended June 30, 2018. The redeemable preferred shares discussed in Note 14, "Redeemable Preferred Shares" are not included in the diluted earnings per share because the conversion would be anti-dilutive as of the period ended June 30, 2018.

Note 17 – Income Taxes

The estimated annual effective tax rate is forecasted quarterly using actual historical information and forward-looking estimates and applied to year-to-date ordinary income (loss). The tax effects of unusual or infrequently occurring items, including changes in judgment about valuation allowances, settlements with taxing authorities and effects of changes in tax laws or rates, are reported in the interim period in which they occur.

The Tax Cut and Jobs Act (“the Act”) was enacted on December 22, 2017. The Act reduces the US federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The company is applying the guidance in *Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cut and Jobs Act*, when accounting for the enactment-date effects of the Act. As of June 30, 2018, the company has not completed its accounting for all of the tax effects of the Act; however, it has made reasonable estimates of the tax effects. In all cases, the company will continue to make and refine its calculations as additional analysis is completed. In addition, the company’s estimates may also be affected as it gains a more thorough understanding of the tax law and certain aspects of the Act are clarified by the taxing authorities. For the six months ended June 30, 2018 the company recorded additional expense of \$1.6 million for the re-measurement of the deferred tax assets recorded at December 31, 2017, due to additional guidance issued in 2018.

The Act also subjects a US shareholder to tax on Global Intangible Low-taxed Income (“GILTI”) earned by certain foreign subsidiaries. The company has not yet determined its accounting policy with respect to GILTI and has included the 2018 estimate of current year GILTI as a period cost included as part of the estimated annual effective tax rate.

The income tax expense for the three and six months ended June 30, 2018, was \$4.8 million and \$8.2 million, respectively, resulting in an effective income tax rate of 37.1 percent and 30.7 percent, respectively. The effective tax rate for the three and six months ended June 30, 2018 was higher than the statutory rate primarily due to the US taxation of foreign earnings under the GILTI provisions of the Act, offset in part by earnings in countries with tax rates lower than the U.S. statutory rate. The income tax benefit for the three and six months ended June 25, 2017, was \$1.7 million \$1.5 million respectively, resulting in an effective income tax rate of 18.6 percent and 25.6 percent. The effective tax rate for the three and six months ended June 25, 2017 was lower than the statutory rate due to earnings in countries with tax rates lower than the U.S. statutory rate and the recognition of transaction costs incurred related to the acquisition of our European operations.

At June 30, 2018, the company remains indefinitely reinvested with respect to its initial investment and any associated potential withholding tax on earnings of its non-U.S. subsidiaries subject to the transition tax, as well as with respect to future earnings that will primarily fund the operations of the subsidiary; however, the company continues to evaluate its position under SAB 118.

Note 18 – Retirement Plans

We have an unfunded salary continuation plan covering certain directors, officers and other key members of management. We purchase life insurance policies on certain participants to provide, in part, for future liabilities. Cash surrender value of these policies, totaling \$8.2 million and \$8.0 million at June 30, 2018 and December 31, 2017, respectively, are included in other non-current assets in the company’s condensed consolidated balance sheets. 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. The plan was closed to new participants effective February 3, 2011. We have measured the plan assets and obligations of our salary continuation plan for all periods presented.

For the six months ended June 30, 2018, payments to retirees or their beneficiaries totaled approximately \$0.7 million. We presently anticipate benefit payments in 2018 to total approximately \$1.4 million. The following table summarizes the components of net periodic pension cost for the three and six-month periods ended June 30, 2018 and June 25, 2017.

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
(Dollars in thousands)				
Service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	272	298	543	596
Net amortization	109	67	219	134
Net periodic pension cost	<u>\$ 381</u>	<u>\$ 365</u>	<u>\$ 762</u>	<u>\$ 730</u>

Note 19 – Stock-Based Compensation

2018 Equity Incentive Plan

Our 2018 Equity Incentive Plan (the “Plan”) was approved by stockholders in May 2018 and amended and restated the 2008 Equity Incentive Plan. The Plan authorizes us to issue up to 4.35 million shares of common stock, along with non-qualified stock options, stock appreciation rights, restricted stock and performance units to our officers, key employees, non-employee directors and consultants. At June 30, 2018, there were 2.1 million shares available for future grants under this Plan. No more than 1.2 million shares may be used under the Plan as “full value” awards, which include restricted stock and performance stock units. It is our policy to issue shares from authorized but not issued shares upon the exercise of stock options.

During the first quarter of 2015, the company implemented a long-term incentive program for the benefit of certain members of company management. The program was designed to strengthen employee retention and to provide a more structured incentive program to stimulate improvement in future company results. Per the terms of the program, each year participants are granted time value restricted stock units (“RSUs”), vesting ratably over a three-year time period, and performance restricted stock units (“PSUs”), with a three-year cliff vesting. Upon vesting, each restricted stock award is exchangeable for one share of the company’s common stock, with accrued dividends. The 2015 PSU grant vested during the first quarter of 2018. The outstanding PSUs are categorized further into three individual categories whose vesting is contingent upon the achievement of certain targets as follows:

- 40% of the PSUs vest upon certain Return on Invested Capital targets for 2018, 2017 and 2016 units
- 40% of the PSUs vest upon certain Cumulative EPS targets for 2018, 2017 and 2016 units
- 20% of the PSUs vest upon certain market based Shareholder Return targets for 2018, 2017, and 2016 units

Options

Options are 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 and restricted shares granted under the Plan generally require no less than a three-year ratable vesting period. Stock option activity in the first half of 2018 is summarized in the following table:

	Outstanding	Weighted Average Exercise Price	Remaining Contractual Life in Years	Aggregate Intrinsic Value
Balance at December 31, 2017	145,625	\$ 18.96	2.0	\$ —
Granted	—	\$		
Exercised	(4,500)	\$ 15.17		
Canceled	(55,125)	\$ 18.53		
Expired	(27,000)	\$ 21.84		
Balance at June 30, 2018	<u>59,000</u>	\$ 18.33		
Options vested or expected to vest at June 30, 2018	<u>59,000</u>	\$ 18.33	2.8	\$ 58,433
Exercisable at June 30, 2018	<u>59,000</u>			

Restricted Stock Units

Restricted stock unit activity in the first half of 2018 is summarized in the following table:

	Number of Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Amortization Period (in Years)
Balance at December 31, 2017	169,266	\$ 22.27	1.6
Granted	185,071	\$ 15.60	
Vested	(58,580)	\$ 22.93	
Canceled	(389)	\$ 15.91	
Balance at June 30, 2018	<u>295,368</u>	\$ 17.96	2.0

Restricted Performance Stock Units

Restricted performance stock unit activity in the first half of 2018 is summarized in the following table:

	Number of Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Amortization Period (in Years)
Balance at December 31, 2017	239,674	\$ 22.58	1.7
Granted	287,662	\$ 16.84	
Vested	—	\$ —	
Canceled	(778)	\$ 16.85	
Balance at June 30, 2018	<u>526,558</u>	\$ 19.45	2.4

Stock-Based Compensation

Stock-based compensation expense related to our equity incentive plans was allocated as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
(Dollars in thousands)				
Cost of sales	\$ 230	\$ (138)	\$ 411	\$ 49
Selling, general and administrative expenses	750	(154)	1,302	938
Stock-based compensation expense before income taxes	980	(292)	1,713	987
Income tax benefit (expense)	(229)	108	(400)	(364)
Total stock-based compensation expense after income taxes	<u>\$ 751</u>	<u>\$ (184)</u>	<u>\$1,313</u>	<u>\$ 623</u>

As of June 30, 2018, a total of \$7.1 million of unrecognized compensation cost related to non-vested awards is expected to be recognized over a weighted average period of approximately 2.2 years. There were no significant capitalized stock-based compensation costs at June 30, 2018 and December 31, 2017.

Note 20 – Common Stock Repurchase Programs

In January 2016, our Board of Directors approved a stock repurchase program (the “Repurchase Program”), authorizing the repurchase of up to \$50.0 million of common stock. Under the Repurchase Program, we may repurchase common stock from time to time on the open market or in private transactions. The timing and extent of the repurchases under the Repurchase Program will depend upon market conditions and other corporate considerations in our sole discretion. There were no repurchases under this program in the first six months of 2018.

Note 21 – Commitments and Contingencies

Derivatives and Purchase Commitments

In order to hedge exposure related to fluctuations in foreign currency rates and the cost of certain commodities used in the manufacture of our products, we periodically may purchase derivative financial instruments such as forward contracts, options or collars to offset or mitigate the impact of such fluctuations. Programs to hedge currency rate exposure may address ongoing transactions including foreign-currency-denominated receivables and payables, as well as specific transactions related to purchase obligations. Programs to hedge exposure to commodity cost fluctuations are based on underlying physical consumption of such commodities.

In accordance with our corporate risk management policies, we may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions and forecasted future cash flows. We have implemented a program to hedge a portion of our material foreign exchange exposures for up to approximately 48 months. For additional information on these derivatives, see Note 6, “Derivative Financial Instruments.”

When market conditions warrant, we may also enter into purchase commitments to secure the supply of certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. Our European business has entered into forward contracts to hedge price fluctuations in its aluminum raw materials. For additional information regarding these derivatives, see Note 6, “Derivative Financial Instruments.”

Other

We are 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.

Note 22 – Receivables Securitization

The company sells certain customer trade receivables on a non-recourse basis under factoring arrangements with designated financial institutions. These transactions are accounted for as sales and cash proceeds are included in cash provided by operating activities. Factoring arrangements incorporate customary representations and warranties, including representations as to validity of amounts due, completeness of performance obligations and absence of commercial disputes. During the second quarter of 2018, the company sold trade receivables totalling \$38.8 million and incurred factoring fees of \$0.2 million, which are included in other (expense) income, net. The collective limit under our factoring arrangements is \$74.0 million. As of June 30, 2018, \$23.1 million of factored receivables had not yet been collected.

Note 23 – Subsequent Events – Redemption of Non-Controlling Interest

On August 7, 2018, the company purchased 447,821 shares of the noncontrolling interest in our European operations at a price of 63.59 Euro per share (consisting of the price of 62.18 Euro plus interest as provided under the DPLTA) for a total purchase price of 28.5 million Euro, or approximately \$33.2 million (at an exchange rate of 1.1666). As a result, the company now owns 97.8 percent of the outstanding shares.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We have included or incorporated by reference in this Quarterly Report on Form 10-Q (including in the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”) and from time to time our management may make statements that may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Act of 1934. These forward-looking statements are based upon management’s current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and costs and potential liability for environmental-related matters. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as “expects,” “anticipates,” “believes,” “will,” “will likely result,” “will continue,” “plans to” and similar expressions. These statements include our belief regarding general automotive industry and market conditions and growth rates, as well as general domestic and international economic conditions.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the company, which could cause actual results to differ materially from such statements and from the company’s historical results and experience. These risks, uncertainties and other factors include, but are not limited to, those described in Part I—Item 1A—“Risk Factors” and Part II—Item 7—“Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2017 and Part II—Item 1A—“Risk Factors” and Part I—Item 2—“Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q and elsewhere in the Quarterly Report and those described from time to time in our other reports filed with the Securities and Exchange Commission.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the risks described herein should not be considered to be a complete list. Any forward-looking statement speaks only as of the date on which such statement is made, and the company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and notes thereto and with the audited Consolidated Financial Statements and notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Executive Overview

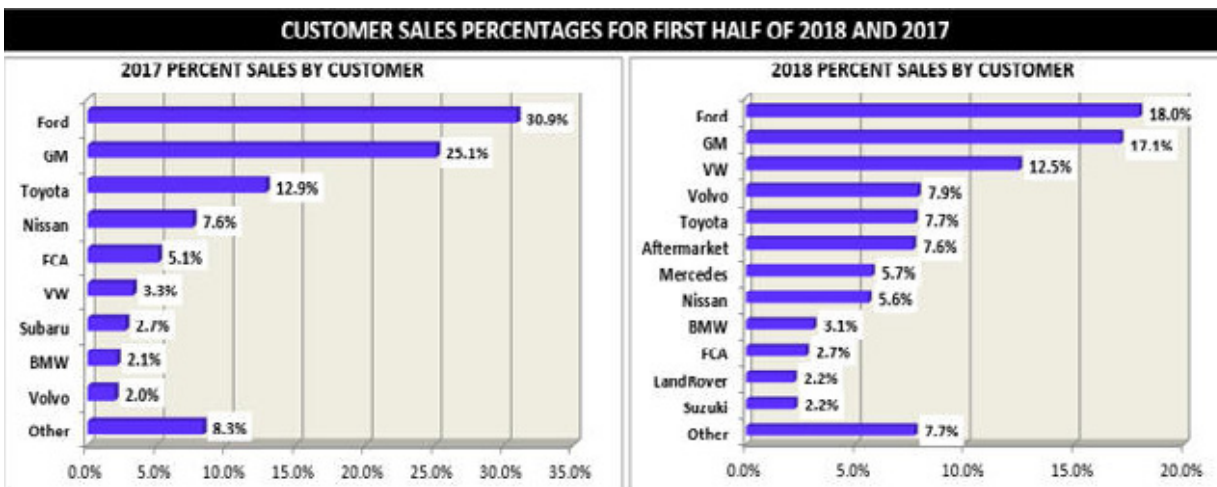
Overview of Superior

Our principal business is the design and manufacture of aluminum wheels for sale to original equipment manufacturers (OEMs) in North America and Europe and aftermarket suppliers in Europe. We employ approximately 8,000 employees, operating in nine manufacturing facilities in North America and Europe with a combined annual manufacturing capacity of approximately 22 million wheels. We believe we are the #1 North American aluminum wheel manufacturer, the #3 European aluminum wheel manufacturer and the #1 European aluminum wheel aftermarket supplier. Our OEM aluminum wheels accounted for approximately 92 percent of our sales in the second quarter of 2018 and are primarily sold for factory installation on many vehicle

models manufactured by Audi, BMW, FCA, Ford, GM, Jaguar-Land Rover, Mercedes-Benz, Mitsubishi, Nissan, Subaru, Toyota, Volkswagen and Volvo. We sell aluminum wheels to the European aftermarket under the brands ATS, RIAL, ALUTEC and ANZIO. North America and Europe represent the principal markets for our products but we have a global presence and influence with North American, European and Asian OEMs. With the acquisition of our European operations on May 30, 2017, we diversified our customer base from predominately North American OEMs (e.g. Ford and GM) to a global customer base of OEMs (e.g. Audi, Mercedes-Benz, and Toyota). With the acquisition we have taken a major step toward delivering on our strategic plan to become one of the largest light vehicle aluminum wheel suppliers in the world.

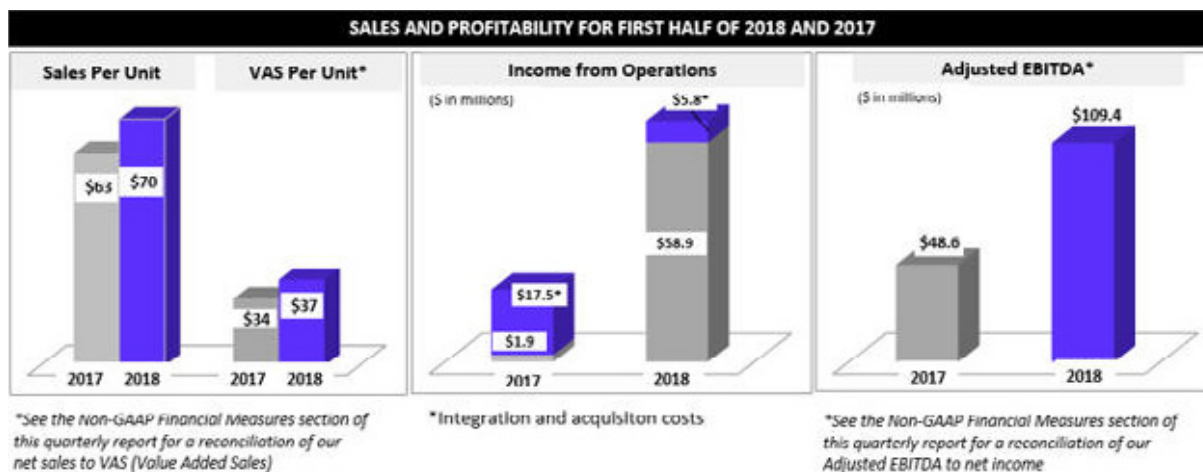
The market for our wheels is trending to larger diameter wheels, more aggressive styling, and more sophisticated finishes. In order to improve our strategic position and better serve our customers, we are augmenting our product portfolio with wheels containing higher technical content and greater differentiation. We believe this direction is consistent with current trends in the market and needs of our customers. To achieve this objective, we have invested in the past and continue to invest in new manufacturing capabilities in order to produce more sophisticated finishes and larger diameter products, which typically provide higher value in the market. The acquisition of our European operations and the construction of a new finishing facility align with this strategic mission. We have recently completed the construction of a physical vapor deposition (“PVD”) finishing facility, which will establish us as the first OEM automotive wheel manufacturer to have this capability in-house in North America and Europe. PVD is a wheel coating process that creates bright chrome-like surfaces in an environmentally friendly manner. We also recently received a patent for our AluLite technology, which reduces the weight of a wheel by as much as 10%. Additionally, as customers seek greater customization, we continue to increase our offerings of specialized product inscriptions through pad printing and laser etching.

As a result of the acquisition of our European operations on May 30, 2017, we have broadened our product portfolio and acquired a significant customer share with European OEMs, including Audi, Jaguar-Land Rover, Mercedes Benz and Volvo. The acquisition is not only complementary in terms of customers, market coverage and product offerings but also very much aligned with our strategic direction with a priority focus on larger diameter wheels, premium finishes, luxury brands and specialty wheels for high performance motorsport racing vehicles, all providing enhanced opportunity for higher margin business. With the acquisition, our global reach encompasses sales to nine of the ten largest OEMs in the world. The following chart shows our sales by customer for the first half 2018 as compared to the first half of 2017:



Overview of the first half of the year

Operational performance improved in the first half of 2018 in comparison to the same period in 2017 due to the inclusion of six months of our European operations versus only one-month last year and improved performance globally. The following chart shows the improved performance in the first half of 2018 in comparison to 2017.



Fiscal vs. Calendar Weeks

In the past, Superior has used a 4-4-5 convention for our fiscal quarters, which are thirteen-week periods (referred to as quarters) ending on the last Sunday of each calendar quarter. Therefore, the first quarter in 2017 started on December 26, 2016 and ended on March 26, 2017 and the second quarter in 2017 started on March 27, 2017 and ended on June 25, 2017. Our European operations, which were acquired on May 30, 2017, have historically reported on a calendar year end. Beginning on December 31, 2017, both our North American and European operations are reported on a calendar fiscal year with each month ending on the last day of the calendar month. Thus, the first and the second quarters of 2018 ended on March 31, 2018 and June 30, 2018, respectively.

Listed in the table below are several key indicators we use to monitor our financial condition and operating performance.

Results of Operations

	Three Months Ended		
	June 30, 2018	June 25, 2017	Net Change
<i>(Thousands of dollars, except per share amounts)</i>			
Net sales			
North America	\$204,758	\$186,898	\$ 17,860
Europe	184,186	53,730	130,456
Net sales	388,944	240,628	148,316
Cost of sales	335,385	220,601	114,784
Restructuring costs	—	(78)	78
Gross profit	53,559	20,105	33,454
Percentage of net sales	13.8%	8.4%	5.4%
Selling, general and administrative	22,289	22,103	186
Income (loss) from operations	31,270	(1,998)	33,268
Percentage of net sales	8.0%	(0.8%)	8.8%
Interest expense, net	(13,182)	(14,729)	1,547
Other (expense) income, net	(570)	7,486	(8,056)
Change in fair value of redeemable preferred stock embedded derivative	(4,588)	—	(4,588)
Income tax (provision) benefit	(4,795)	1,722	(6,517)
Less: Net loss attributable to non-controlling interest	—	247	(247)
Net income (loss)	8,135	(7,272)	15,407
Percentage of net sales	2.1%	(3.0%)	5.1%
Diluted earnings (loss) per share	\$ 0.09	\$ (0.41)	\$ 0.50
Value added sales*	\$204,395	\$130,381	\$ 74,014
Adjusted EBITDA*	\$ 57,232	\$ 29,479	\$ 27,753
Percentage of net sales*	14.7%	12.3%	2.4%
Percentage of value added sales*	28.0%	22.6%	5.4%
Unit shipments in thousands	5,553	3,794	1,759

* Refer to definition of the terms in the “Non-GAAP Financial Measures” section.

Net sales

Net sales for the second quarter of 2018 increased in comparison to the second quarter of 2017 due to the inclusion of three months of sales of our European operations in 2018 versus one month in 2017, higher sales in North America and higher aluminum prices. There were no sales included for the first two months of the second quarter in the 2017 results for our European operations because the acquisition was completed on May 30, 2017.

Cost of sales

Cost of sales for the second quarter of 2018 increased significantly primarily due to the inclusion of three months of cost from our European operations compared to one month of cost of sales in the second quarter of 2017 and higher aluminum prices. Aluminum costs increased due to higher market prices, which is mainly passed through to our customers.

Selling, general and administrative expenses

Selling, general and administrative expenses for the second quarter of 2018 increased slightly in comparison to second quarter of 2017 due to higher European costs because of the inclusion of three months of our European operations largely offset by lower acquisition-related expenses in the second quarter of 2018 versus one month in 2017. The acquisition and integration costs were \$2.5 million and \$10.5 million for the second quarter of 2018 and 2017, respectively.

Interest expense

Net interest expense in the second quarter of 2018 was \$13.2 million versus \$14.7 million in the second quarter of 2017, a decrease of \$1.5 million. The decrease is due to 2017 debt issuance costs related to bridge loan financing for the European business acquisition. These debt issuance costs were expensed upon repayment of the bridge loan financing in the second quarter of 2017 using a portion of the proceeds from the acquisition financing. This decrease is partially offset by interest expense on the acquisition debt which was outstanding for the entire three-month period in 2018 versus only one month in 2017.

Other (expense) income, net

Other (expense) income for the second quarter for 2018 and 2017 was \$0.6 million expense and \$7.5 million income, respectively. The significant decrease was due to the foreign exchange gain related to the acquisition recorded in the second quarter of 2017.

Change in fair value of redeemable preferred stock embedded derivative

The \$4.6 million loss recorded in the second quarter of 2018 on the embedded derivative on the preferred shares issued as part of the European business acquisition was mainly due to the increase in our stock price. The embedded derivative was recognized near the end of the second quarter of 2017 so there was not a significant change in the fair value during the second quarter of 2017.

Income tax benefit (provision)

The income tax provision for the second quarter ended June 30, 2018 was \$4.8 million on pre-tax income of \$12.9 million, representing an effective income tax rate of 37.1 percent. The effective tax rate for the second quarter ended June 30, 2018 was higher than the statutory rate primarily due to the US taxation of foreign earnings under the GILTI provisions of the Act, offset in part by earnings in countries with tax rates lower than the U.S. statutory rate.

Net income (loss)

Net income in the second quarter of 2018 was \$8.1 million, or \$0.09 per diluted share, compared to net loss of \$7.3 million, or \$0.41 loss per diluted share, in the second quarter of 2017. The increase in net income was largely due to lower acquisition and integration costs in the second quarter of 2018 compared to the second quarter of 2017.

Segment Sales and Income from Operations

	Three Months Ended		
	June 30, 2018	June 25, 2017	Change
<i>(Dollars in thousands)</i>			
<u>Selected data</u>			
Net sales			
North America	\$204,758	\$186,898	\$ 17,860
Europe	<u>184,186</u>	<u>53,730</u>	<u>130,456</u>
Total net sales	<u>\$388,944</u>	<u>\$240,628</u>	<u>\$148,316</u>
Income (loss) from operations			
North America	\$ 9,676	\$ (1,098)	\$ 10,774
Europe	<u>21,594</u>	<u>(900)</u>	<u>22,494</u>
Total income (loss) from operations	<u>\$ 31,270</u>	<u>\$ (1,998)</u>	<u>\$ 33,268</u>

North America

In the second quarter of 2018, net sales of our North America plants increased by \$17.9 million as compared to the second quarter of 2017. The increase is primarily due to the increase in price of aluminum in the second quarter of 2018 versus the second quarter of 2017. Favorable price and product mix also contributed to the increased sales in the second quarter of 2018 in comparison to the second quarter of 2017.

Income from operations increased by \$10.8 million in the second quarter of 2018 in comparison to 2017 due to lower non-recurring costs in 2018 and a lower gross margin in 2017. During the second quarter of 2017, the company incurred \$10.2 million of costs associated with the acquisition of our European business.

Europe

We acquired our European operations on May 30, 2017 and, as a result, we included three months of the European business' operations in our consolidated statements in 2018 versus one month in 2017. In June 2017, our European operations had a loss from operations of \$0.9 million for the one month included in our consolidated statements. The loss was due to the amortization related to the new intangibles and other adjustments related to the acquisition.

Results of Operations

	Six Months Ended		
	June 30, 2018	June 25, 2017	Net Change
<i>(Thousands of dollars, except per share amounts)</i>			
Net sales			
North America	\$408,908	\$361,118	\$ 47,790
Europe	366,484	53,730	312,754
Net sales	775,392	414,848	360,544
Cost of sales	671,842	375,409	296,433
Restructuring costs	—	130	(130)
Gross profit	103,550	39,309	64,241
Percentage of net sales	13.4%	9.5%	3.9%
Selling, general and administrative	44,646	37,363	7,283
Income from operations	58,904	1,946	56,958
Percentage of net sales	7.6%	0.5%	7.1%
Interest expense, net	(25,039)	(15,025)	(10,014)
Other (expense) income, net	(3,558)	7,138	(10,696)
Change in fair value of redeemable preferred stock embedded derivative	(3,690)	—	(3,690)
Income tax (provision) benefit	(8,165)	1,524	(9,689)
Less: Net loss attributable to non-controlling interest	—	247	(247)
Net income	18,452	(4,170)	22,622
Percentage of net sales	2.4%	(1.0%)	3.4%
Diluted earnings (loss) per share	\$ 0.16	\$ (0.28)	\$ 0.44
Value added sales *	\$411,831	\$225,842	\$185,989
Adjusted EBITDA *	\$109,436	\$ 48,602	\$ 60,834
Percentage of net sales *	14.1%	11.7%	2.4%
Percentage of value added sales *	26.6%	21.5%	5.1%
Unit shipments in thousands	11,090	6,637	4,453

* Refer to definition of the terms in the “Non-GAAP Financial Measures” section.

Net sales

Net sales for the first half of 2018 increased in comparison to the first half of 2017 due to the inclusion of six months of sales of our European operations in 2018 versus one month in 2017 and higher aluminum prices. Due to the timing of our European operations acquisition on May 30, 2017, we only included the month of June in our 2017 year-to-date sales.

Cost of sales

Consolidated cost of sales for the first half of 2018 were \$671.8 million, as compared to \$375.4 million for the first half of 2017. The increase was mainly due to the inclusion of six months of our European operations coupled with higher raw material costs of aluminum. The increase in aluminum cost was driven by higher market prices and is mainly passed through to the customer.

Selling, general and administrative expenses

Selling, general and administrative expenses for the first half of 2018 increased in comparison to the first half of 2017 due to the inclusion of six months of our European operations in 2018 offset by a decrease in acquisition-related costs in the first half of 2018 as compared to 2017. The acquisition and integration support costs were \$5.8 million in the first half of 2018 as compared to \$17.5 million in the first half of 2017.

Interest expense

Net interest expense in the first half of 2018 was \$25.0 million versus \$15.0 million in the first half of 2017, an increase of \$10.0 million. The increase is due to the debt instruments executed to finance the acquisition being in place for the entire six-month period in 2018 versus only one month in 2017. Partially offsetting this increase were one-time interest costs in 2017 related to the European business acquisition.

Other (expense) income, net

Other expense was \$3.6 million in the first half of 2018 compared to other income of \$7.1 million in the first half of 2017. This is due to recognition of a \$2.4 million foreign exchange loss in 2018 as compared to a foreign exchange gain of \$6.1 million in the first half of 2017 primarily due to a one-time acquisition-related gain.

Change in fair value of redeemable preferred stock embedded derivative

The \$3.7 million loss recorded in the first half of 2018 on the embedded derivative on the preferred shares issued as part of the European business acquisition was mainly due to the increase in our stock price during that period. The embedded derivative was recognized near the end of the second quarter of 2017 so there was not a significant change in the fair value during the first six months of 2017.

Income tax (provision) benefit

The income tax provision for the first half of 2018 was \$8.2 million on a pre-tax profit of \$26.6 million, representing an effective income tax rate of 30.7 percent. The effective tax rate for the six months ended June 30, 2018 was higher than the statutory rate primarily due to the US taxation of foreign earnings under the GILTI provisions of the Act, offset in part by earnings in countries with tax rates lower than the U.S. statutory rate. The income tax benefit for the six months ended June 25, 2017, was \$1.5 million, representing an effective income tax rate of 25.6 percent. The effective tax rate for the six months ended June 25, 2017 was lower than the statutory rate due to earnings in countries with tax rates lower than the U.S. statutory rate and a discrete tax benefit due to recognition of transaction costs incurred during the first six months ended June 25, 2017 related to the acquisition of our European business.

Net income (loss)

Net income in the first half of 2018 was \$18.4 million, or \$0.16 per diluted share, compared to net loss in the first half of 2017 of \$4.2 million, or \$0.28 loss per diluted share. The increase in net income was largely due to lower acquisition and integration costs in the first six months of 2018 compared to the first six months of 2017.

Segment Sales and Income from Operations

(Dollars in thousands)	Six Months Ended		Change
	June 30, 2018	June 25, 2017	
Selected data			
Net sales			
North America	\$408,908	\$361,118	\$ 47,790
Europe	366,484	53,730	312,754
Total net sales	<u>\$775,392</u>	<u>\$414,848</u>	<u>\$360,544</u>
Income (loss) from operations			
North America	\$ 23,461	\$ 2,846	\$ 20,615
Europe	35,443	(900)	36,343
Total income from operations	<u>\$ 58,904</u>	<u>\$ 1,946</u>	<u>\$ 56,958</u>

North America

Net sales in the first six months of 2018 increased \$47.8 million due to an increase in the price of aluminum and an increase in volume. On a customer level, shipments increased for GM, Toyota, and Nissan partially offset by a decrease in sales for Ford and BMW.

Income from operations for North America increased in the first half of 2018 in comparison to the first half of 2017 primarily due to lower non-recurring acquisition support costs in 2018 and a lower gross profit in 2017. North America incurred \$17.3 million of costs associated with the acquisition of our European business in the first half of 2017 and \$3.9 million in the first half of 2018.

Europe

We acquired our European operations on May 30, 2017 and, as a result, we included six months of the European business' operations in our consolidated statements in 2018 versus one month in 2017. In June 2017, our European operations had a loss from operations of \$0.9 million for the one month included in our consolidated statements. The loss was due to the amortization related to the new intangibles and other adjustments related to the acquisition.

Financial Condition, Liquidity and Capital Resources

Our sources of liquidity primarily include cash, cash equivalents and short-term investments and net cash provided by operating activities, our senior notes and borrowings under available debt facilities and, from time to time, other external sources of funds. Working capital (current assets minus current liabilities) and our current ratio (current assets divided by current liabilities) were \$243.9 million and 2.3:1 at June 30, 2018, versus \$222.3 million and 2.1:1 at December 31, 2017. As of June 30, 2018, our cash, cash equivalents, and short-term investments totaled \$19.8 million compared to \$47.1 million at December 31, 2017.

Our working capital requirements, investing activities and cash dividend payments have historically been funded from internally generated funds, debt facilities, cash equivalents and short-term investments, and we believe these sources will continue to meet our capital requirements in the foreseeable future.

In connection with the acquisition of our European business, we entered into several debt and equity financing arrangements during 2017. On March 22, 2017, we entered into a senior secured credit agreement (the "Credit Agreement") with Citibank, N.A., JP Morgan Chase N.A., Royal Bank of Canada and Deutsche Bank A.G. New York Branch (collectively, the "Lenders"). The Credit Agreement consists of a \$400.0 million senior secured term loan facility (the "Term Loan Facility") and a \$160.0 million revolving credit facility. On May 22, 2017, we issued 140,202 shares of Series A redeemable preferred stock and 9,798 shares of Series B redeemable preferred stock to TPG Superior and TPG Growth III Sidewall, L.P. ("TPG") for an aggregate purchase price of \$150.0 million. On June 15, 2017, we issued €250.0 million aggregate principal amount of 6.00% Senior Notes (the "Notes") due June 15, 2025. In addition, as a part of our European business acquisition, we assumed \$70.7 million of outstanding debt. At June 30, 2018, balances outstanding under the Term Loan Facility, Notes and an equipment loan were \$384.8 million, \$291.7 million and \$18.7 million, respectively. Unused commitments under the revolving credit facility were \$157.2 million and there was 30 million Euro available under our European business line of credit as of June 30, 2018.

The following table presents a summary of the net increase in cash and cash equivalents in the periods presented:

(Dollars in thousands)	June 30, 2018	Six Months Ended June 25, 2017	Change
Net cash provided by (used in) operating activities	\$ 30,801	\$ (10,093)	\$ 40,894
Net cash used in investing activities	(38,138)	(720,684)	682,546
Net cash (used in) provided by financing activities	(19,698)	793,596	(813,294)
Effect of exchange rate changes on cash	(258)	615	(873)
Net (decrease) increase in cash and cash equivalents	<u>\$(27,293)</u>	<u>\$ 63,434</u>	<u>\$ (90,727)</u>

Operating Activities

Net cash provided by operating activities was \$30.8 million for the six-month period ended June 30, 2018, compared to net cash used by operating activities of \$10.1 million for the comparable period a year ago. The increase in cash flow provided by operating activities was mainly due to higher net income, which was primarily driven by lower acquisition and integration related fees, partially offset by increases in inventory and receivable levels during the first six months of 2018.

Investing Activities

Net cash used in investing activities was \$38.1 million for the first six months of 2018 compared to \$720.7 million in the comparable period last year. Net cash used in investing activities was higher in 2017 due to our European business acquisition in 2017.

Financing Activities

Net cash used in financing activities was \$19.7 million for the first six months of 2018 compared to net cash provided by financing activities of \$793.6 million in the comparable period last year. Net cash provided by financing activities was higher in 2017 due to debt levels and preferred stock issued to finance the European business acquisition.

Non-GAAP Financial Measures

In this quarterly report, we discuss two important measures that are not calculated according to U.S. GAAP, value added sales and Adjusted EBITDA.

Value added sales is a key measure that is not calculated according to U.S. GAAP. In the discussion of operating results, we provide information regarding value added sales. Value added sales represent net sales less the value of aluminum and services provided by outside service providers that are included in net sales. As discussed further below, arrangements with our customers

allow us to pass on changes in aluminum prices and outside service provider costs; therefore, fluctuations in underlying aluminum prices and the use of outside service providers generally do not directly impact our profitability. Accordingly, value added sales is worthy of being highlighted for the benefit of users of our financial statements. Our intent is to allow users of the financial statements to consider our net sales information both with and without the aluminum and outside service provider cost components thereof. Management utilizes value added sales as a key metric to determine growth of the company because it eliminates the volatility of aluminum prices.

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
(Dollars in thousands)				
Net sales	\$ 388,944	\$ 240,628	\$ 775,392	\$ 414,848
Less, aluminum value and outside service provider costs	(184,549)	(110,247)	(363,561)	(189,006)
Value added sales	<u>\$ 204,395</u>	<u>\$ 130,381</u>	<u>\$ 411,831</u>	<u>\$ 225,842</u>

Adjusted EBITDA is a key measure that is not calculated according to U.S. GAAP. Adjusted EBITDA is defined as earnings before interest income and expense, income taxes, depreciation, amortization, acquisition and integration costs, change in fair value of preferred derivative, restructuring and other closure costs and impairments of long-lived assets and investments. We use Adjusted EBITDA as an important indicator of the operating performance of our business. We use Adjusted EBITDA in our internal financial forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our Board of Directors and evaluating short-term and long-term operating trends in our operations. We believe the Adjusted EBITDA financial measure assists in providing a more complete understanding of our underlying operational measures used to manage our business, to evaluate our performance compared to prior periods and the marketplace and to establish operational goals. We believe that these non-GAAP financial measures are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making. Adjusted EBITDA is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with U.S. GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies.

Adjusted EBITDA as a percentage of net sales is a key measure that is not calculated according to U.S. GAAP. Adjusted EBITDA as a percentage of net sales is defined as Adjusted EBITDA divided by net sales.

Adjusted EBITDA as a percentage of value added sales is a key measure that is not calculated according to U.S. GAAP. Adjusted EBITDA as a percentage of value added sales is defined as Adjusted EBITDA divided by value added sales.

The following table reconciles our net income (loss), the most directly comparable GAAP financial measure, to our Adjusted EBITDA:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 25, 2017	June 30, 2018	June 25, 2017
Net income (loss)	\$ 8,135	\$ (7,272)	\$ 18,452	\$ (4,170)
Interest expense, net	13,182	14,729	25,039	15,025
Income tax provision (benefit)	4,795	(1,722)	8,165	(1,524)
Depreciation	17,365	11,100	34,891	19,470
Amortization	6,621	2,190	13,449	2,190
Acquisition and integration costs	2,546	10,532	5,750	17,481
Change in fair value of preferred derivative	4,588	—	3,690	—
Closure costs (excluding accelerated depreciation)	—	(78)	—	130
Adjusted EBITDA	<u>\$ 57,232</u>	<u>\$ 29,479</u>	<u>\$ 109,436</u>	<u>\$ 48,602</u>
Adjusted EBITDA as a percentage of net sales	14.7%	12.3%	14.1%	11.7%
Adjusted EBITDA as a percentage of value added sales	28.0%	22.6%	26.6%	21.5%

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to apply significant judgment in making estimates and assumptions that affect amounts reported therein, as well as financial information included in this Management's Discussion and Analysis of Financial Condition and Results of Operations. These estimates and assumptions, which are based upon historical experience, industry trends, terms of various past and present agreements and contracts, and information available from other sources that are believed to be reasonable under the circumstances, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent through other sources. There can be no assurance that actual results reported in the future will not differ from these estimates, or that future changes in these estimates will not adversely impact our results of operations or financial condition.

Risk Management

We are subject to various risks and uncertainties in the ordinary course of business due, in part, to the competitive global nature of the industry in which we operate, changing commodity prices for the materials used in the manufacture of our products and the development of new products.

We have operations in Mexico with sale and purchase transactions denominated in both pesos and dollars. The peso is the functional currency of certain of our operations in Mexico. The settlement of accounts receivable and accounts payable for these operations requires the transfer of funds denominated in the Mexican peso, the value of which decreased 1.3 percent in relation to the U.S. dollar in the first half of 2018. Foreign currency transaction losses totaled \$0.5 million in the first half of 2018 and foreign currency translation gains totaled \$8.1 million during the first half of 2017. All transaction gains and losses are included in other income (expense) in the condensed consolidated statements of operations.

As it relates to foreign currency translation gains and losses, however, since 1990, the Mexican peso has experienced periods of relative stability followed by periods of major declines in value. The impact of these changes in value relative to our Mexico operations resulted in a cumulative unrealized translation loss at June 30, 2018 of \$102.5 million. Translation gains and losses are included in other comprehensive income in the condensed consolidated statements of comprehensive income.

We also have operations in Europe with sale and purchase transactions denominated in Euros and Zlotys. The Euro is the functional currency of our operations in Europe. A significant component of our European production operations is located in Poland. The settlement of accounts receivable and accounts payable for these operations requires the transfer of funds denominated in Zlotys. The value of the Euro has decreased 2.6 percent in relation to the U.S. dollar in the six months ended June 30, 2018. During that same period the value of the Zloty has decreased 4.7 percent in relation to the Euro. Foreign currency transaction losses totaled \$0.1 million in the first six months of 2018. All transaction gains and losses are included in other income (expense) in the condensed consolidated statements of operations.

As it relates to foreign currency translation gains and losses, the Euro has experienced periods of relative stability in value. The impact of these changes in value relative to our European operations resulted in a cumulative unrealized translation gain at June 30, 2018 of \$10 million. Translation gains and losses are included in other comprehensive income in the condensed consolidated statements of comprehensive income.

The Company hedges aluminum purchases in its aftermarket business to mitigate the effect of fluctuations in aluminum prices but prior to March 1, 2018 had not applied hedge accounting to these hedges. Aluminum prices declined 2.6 percent in the six months ended June 30, 2018. As a result, during this period the company incurred a loss of \$1.9 million through February 28, 2018 on its aluminum hedges. Effective March 1, 2018, the Company has elected to designate the aluminum hedges and apply hedge accounting to the related gains and losses. Accordingly, effective March 1, 2018 unrealized gains or losses are recorded in accumulated other comprehensive income ("AOCI") until the hedged item is recognized in earnings and the related hedges are settled, at which point accumulated gains or losses will be recognized in earnings and classified with the underlying hedged expense.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency. A significant portion of our business operations are conducted in Mexico and Europe. As a result, we have a certain degree of market risk with respect to our cash flows due to changes in foreign currency exchange rates when transactions are denominated in currencies other than our functional currency, including inter-company transactions.

In accordance with our corporate risk management policies, we may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions and forecasted future cash flows. We have implemented a program to hedge a portion of our material foreign exchange exposures in Mexico and Poland, for up to approximately 48 months. However, we may choose not to hedge certain foreign exchange exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. We do not use derivative contracts for trading, market-making, or speculative purposes. For additional information on our derivatives, see Note 6, "Derivative Financial Instruments" in Notes to Condensed Consolidated Financial Statements in Item 1.

At June 30, 2018, the fair value liability of foreign currency exchange derivatives for the Peso was \$5.8 million. The potential loss in fair value for such financial instruments from a 10 percent adverse change in quoted foreign currency exchange rates would be \$24 million at June 30, 2018.

During the first half of 2018, the Mexican peso to U.S. dollar exchange rate averaged 19.07 pesos to \$1.00. Based on the balance sheet at June 30, 2018 the value of net assets for our operations in Mexico was 2,101 million pesos. Accordingly, a 10 percent change in the relationship between the Peso and the U.S. dollar would result in a translation impact of \$11 million, which would be recognized in other comprehensive income.

At June 30, 2018, the fair value liability for the company's Euro/ U.S. dollar foreign currency exchange derivatives was \$1.0 million. The potential loss in fair value for such financial instruments from a 10 percent adverse change in quoted foreign currency exchange rates would be \$2.8 million at June 30, 2018.

From December 31, 2017 through June 30, 2018, the Euro to U.S. dollar exchange rate averaged \$1.21 to 1 Euro. Based on the balance sheet at June 30, 2018, the value of net assets for our operations in Europe was 700.1 million Euros. Accordingly, a 10 percent change in the relationship between the Euro and the U.S. dollar would result in a translation impact of \$84.7 million, which would be recognized in other comprehensive income.

At June 30, 2018, the fair value liability of foreign currency exchange derivatives for the Zloty was \$10.3 million. The potential loss in fair value for such financial instruments from a 10 percent adverse change in quoted foreign currency exchange rates would be \$26 million at June 30, 2018.

Our business requires us to settle transactions between currencies in both directions—i.e., Peso, Euro and Zloty to U.S. dollar and vice versa. To the greatest extent possible, we attempt to match the timing of transaction settlements between currencies to create a “natural hedge.” For the first six months of 2018, we had a \$0.6 million net foreign exchange transaction loss related to the Peso, Euro and Zloty. The net imbalance between currencies depends on many factors including but not limited to, the company’s business model, location of production operations and associated currencies, and geographic distribution sales activity and associated currencies. Changes in the terms of the contracts with our customers may create an imbalance between currencies that we are hedging with foreign currency forward contracts. There can be no assurances that our hedging program will effectively offset the impact of the imbalance between currencies or that the net transaction balance will not change significantly in the future.

Commodity Purchase Commitments. When market conditions warrant, we may enter into purchase commitments to secure the supply of certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. Our European business has entered into forward contracts to hedge price fluctuations in its aluminum raw materials. At June 30, 2018, the fair value asset of forward contracts for aluminum was \$0.8 million. The potential loss in fair value for such financial instruments from a 10 percent adverse change in aluminum prices would be \$1.7 million at June 30, 2018.

Also see Item 7A—“Quantitative and Qualitative Disclosures About Market Risk” in Part II of our 2017 Annual Report on Form 10-K and Item 2—“Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Management” in this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The company's management, with the participation of Don Stebbins, as Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2018. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Based on this evaluation, Don Stebbins, as Principal Executive Officer and Principal Financial Officer, concluded that, as of June 30, 2018, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the six months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are 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.

Item 1A. Risk Factors

See Part I—Item 1A—“Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 6. Exhibits

- 10.1 [Superior Industries International, Inc. 2018 Equity Incentive Plan \(filed herewith\).](#)*
- 10.2 [Fourth Amendment to the Credit Agreement, dated as of June 29, 2018, among Superior Industries International Inc., Citibank N/ A, and the Lenders party thereto \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed June 29, 2018\).](#)
- 31.1 [Certification of Donald J. Stebbins, Chief Executive Officer and President \(Principal Executive Officer\), Pursuant to Exchange Act Rules 13a-14\(a\) and 15d-14\(a\), as Adopted Pursuant to Section 302\(a\) of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 31.2 [Certification of Donald J. Stebbins, Chief Executive Officer and President \(Principal Financial Officer\), Pursuant to Exchange Act Rules 13a-14\(a\) and 15d- 14\(a\), as Adopted Pursuant to Section 302\(a\) of the Sarbanes-Oxley Act of 2002 \(filed herewith\)](#)
- 32.1 [Certification of Donald J. Stebbins, Chief Executive Officer and President \(Principal Executive Officer and Principal Financial Officer\), Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002 \(furnished herewith\).](#)
- 101.INS XBRL Instance Document (submitted electronically herewith).
- 101.SCH XBRL Taxonomy Extension Schema Document (submitted electronically herewith).
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (submitted electronically herewith).
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (submitted electronically herewith).
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (submitted electronically herewith).
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (submitted electronically herewith).

* Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements 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)

Date: August 8, 2018

/s/ Donald J. Stebbins
Donald J. Stebbins
Chief Executive Officer and President

SUPERIOR INDUSTRIES INTERNATIONAL, INC.
2018 EQUITY INCENTIVE PLAN

SECTION 1
BACKGROUND AND PURPOSE

- 1.1 Background. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights (SARs), Restricted Stock, Restricted Stock Units, Performance Awards and Other Stock-Based Awards.
- 1.2 Purpose of the Plan. The Plan is intended to attract, motivate and retain the following individuals: (a) employees of the Company or its Affiliates; (b) consultants who provide significant services to the Company or its Affiliates and (c) directors of the Company or any of its Affiliates who are employees of neither the Company nor any Affiliate. The Plan is also designed to encourage stock ownership by such individuals, thereby aligning their interests with those of the Company's shareholders.

SECTION 2
DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

- 2.1 "1934 Act" means the Securities Exchange Act of 1934, as amended. Reference to a specific section of the Act shall include such section, any valid rules or regulations promulgated under such section, and any comparable provisions of any future legislation, rules or regulations amending, supplementing or superseding any such section, rule or regulation.
- 2.2 "Administrator" means, collectively, (i) the Board, (ii) a committee of the Board designated in accordance with Section 4.1, or (iii) one or more Directors or executive officers of the Company designated by the Board to administer the Plan or specific portions thereof as provided in Section 4.4; provided, however, that Awards to Nonemployee Directors may only be granted by a committee of the Board consisting of two or more Independent Directors.
- 2.3 "Affiliate" means any corporation or any other entity (including, but not limited to, Subsidiaries, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.
- 2.4 "Applicable Law" means the legal requirements relating to the administration of an Award issued pursuant to the Plan and similar incentive plans under any applicable laws, including but not limited to federal and state employment, labor, privacy and securities laws, the Code, and applicable rules and regulations promulgated by any stock exchange or quotation system upon which the Shares may then be listed or quoted.
- 2.5 "Award" means, individually or collectively, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Restricted Stock Units, Performance Awards, and Other Stock-Based Awards.
- 2.6 "Award Agreement" means the written agreement or program document between the Company and a Participant setting forth the terms and provisions applicable to each Award granted under the Plan, including the Grant Date.
- 2.7 "Board" or "Board of Directors" means the Board of Directors of the Company.
- 2.8 "Cause" shall have the meaning assigned to such term in any Company or Affiliate employment, severance, or similar agreement or Award Agreement with the Participant or, if no such agreement exists or the agreement does not define "Cause," Cause means (i) commission of, indictment for, or conviction of a felony or crime involving moral turpitude or dishonesty, (ii) an act of theft, fraud, embezzlement or

misappropriation, (iii) violation of Company (or any Affiliate) policies, with or acting against the interests of the Company (or any Affiliate), including employing or recruiting any present, former or future employee of the Company (or any Affiliate), (iv) willful failure to perform duties on behalf of the Company (or any Affiliate), (v) misuse of any confidential, secret, privileged or non-public information relating to the Company's (or any Affiliate's) business, or (vi) participating in a hostile takeover attempt of the Company or an Affiliate.

2.9 "Change in Control" means the occurrence of any of the following:

- a) Any "person" (as such term is used in Sections 13(d) and 14(d) of the 1934 Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the 1934 Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;
- b) The following individuals cease for any reason to constitute a majority of the number of Directors then serving on the Board: individuals who, during any period of two (2) consecutive years, constitute the Board and any new Director (other than a Director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent solicitation, relating to the election of Directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the two (2) year period or whose appointment, election or nomination for election was previously so approved or recommended;
- c) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or
- d) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

2.10 "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.11 "Committee" means any committee of the Board designated to administer the Plan in accordance with Section 4.1.

2.12 "Company" means Superior Industries International, Inc., or any successor thereto.

2.13 "Consultant" means any consultant, independent contractor or other person who provides significant services (other than capital-raising activities) to the Company or its Affiliates or any employee or affiliate of any of the foregoing, but who is neither an Employee nor a Director.

2.14 "Continuous Service" means that a Participant's employment or service relationship with the Company or any Affiliate is not interrupted or terminated. Continuous Service shall not be considered interrupted in the following cases: (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company and any Subsidiary or successor. A leave of absence approved by the Company shall include sick leave, military leave or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no leave of absence may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If such reemployment is approved by the Company but not guaranteed by statute or contract, then such employment will be considered terminated on the ninety-first (91st) day of such leave and on such date any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option. In the event a Participant's status

changes among the positions of Employee, Director and Consultant, the Participant's Continuous Service shall not be considered terminated solely as a result of any such changes in status. Whether military, government or other service or other leave of absence shall constitute a termination of Continuous Service shall be determined in each case by the Administrator at its discretion, and any determination by the Administrator shall be final and conclusive; provided, however, that for purposes of any Award that is subject to Section 409A of the Code, the determination of a leave of absence must comply with the requirements of a "bona fide leave of absence" as provided in Treasury Regulations Section 1.409A-1(h).

- 2.15 "Director" means any individual who is a member of the Board of Directors of the Company or an Affiliate of the Company.
- 2.16 "Disability" means a permanent and total disability within the meaning of Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.
- 2.17 "Eligible Participant" means an Employee, Director or Consultant.
- 2.18 "Employee" means any individual who is a common-law employee (including a leased employee) of the Company or of an Affiliate.
- 2.19 "Exercise Price" means the price at which a Share may be purchased by a Participant pursuant to the exercise of an Option, and the base price used to determine the amount of cash or number of Shares payable to a Participant upon the exercise of a SAR.
- 2.20 "Fair Market Value" means with respect to a Share, as of any date, the closing sales price for such Share on the Grant Date of the Award, provided the Shares are listed on an established stock exchange or a national market system, including without limitation the New York Stock Exchange ("NYSE"). If no sales were reported on such Grant Date of the Award, the Fair Market Value of a Share shall be the closing price for such Share as quoted on the NYSE (or the exchange with the greatest volume of trading in the Shares) on the last market trading day with reported sales prior to the date of determination. In the case where the Company is not listed on an established stock exchange or national market system, Fair Market Value shall be determined by the Board in good faith in accordance with Code Section 409A and the applicable Treasury regulations.
- 2.21 "Fiscal Year" means a fiscal year of the Company.
- 2.22 "Full-Value Award" means an Award other than in the form of an Option or SAR, and which is settled by the issuance of Shares (or at the discretion of the Administrator, settled in cash valued by reference to Share value).
- 2.23 "Full-Value Award Limitation" means the limit on Full-Value Awards specified in Section 5.4.
- 2.24 "Good Reason" shall have the meaning assigned to such term in any Company or Affiliate employment, severance, or similar agreement or Award Agreement with the Participant, to the extent applicable.
- 2.25 "Grant Date" means the first date on which all necessary corporate action has been taken to approve the grant of the Award as provided in the Plan, or such later date as is determined and specified as part of that authorization process. Notice of the grant shall be provided to the grantee within a reasonable time after the Grant Date.
- 2.26 "Incentive Stock Option" means an Option to purchase Shares, which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.
- 2.27 "Independent Director" means a Nonemployee Director who is (i) a "nonemployee director" within the meaning of Rule 16b-3 of the 1934 Act and (ii) "independent" as determined under the applicable rules of the NYSE, as any of these definitions may be modified or supplemented from time to time.
- 2.28 "Nonemployee Director" means a Director who is not employed by the Company or an Affiliate.
- 2.29 "Nonqualified Stock Option" means an option to purchase Shares that is not intended to be an Incentive Stock Option.

- 2.30 “Option” means an Incentive Stock Option or a Nonqualified Stock Option.
- 2.31 “Other Stock-Based Award” means a right or other interest granted to a Participant pursuant to Section 11 of the Plan that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares, including, but not limited to, unrestricted Shares or dividend equivalents, each of which may be subject to the attainment of Performance Goals or a period of continued employment or other terms or conditions as permitted under the Plan.
- 2.32 “Participant” means an Employee, Consultant or Nonemployee Director who has an outstanding Award.
- 2.33 “Performance Award” means an Award granted to a Participant pursuant to Section 10 of the Plan, the vesting of which is contingent on the satisfaction of specified performance conditions.
- 2.34 “Period of Restriction” means the period during which the transfer of Shares underlying Awards of Restricted Stock or Restricted Stock Units are subject to restrictions that subject the Shares to a substantial risk of forfeiture.
- 2.35 “Plan” means this Superior Industries International, Inc. 2018 Equity Incentive Plan, as set forth in this instrument and as hereafter amended from time to time.
- 2.36 “Restricted Stock” means an Award granted to a Participant pursuant to Section 9 of the Plan. An Award of Restricted Stock constitutes a transfer of ownership of Shares to a Participant from the Company subject to restrictions against transferability, assignment, and hypothecation. Under the terms of the Award, the restrictions against transferability are removed when the Participant has met the specified vesting requirement.
- 2.37 “Restricted Stock Unit” means an Award granted to a Participant pursuant to Section 9 of the Plan. An Award of Restricted Stock Units constitutes the right to receive Shares (or the equivalent value in cash or other property if the Administrator so provides) in the future, which right is subject to certain restrictions and to risk of forfeiture.
- 2.38 “Retirement” shall mean satisfactory completion of the Company’s guidelines for retirement as specified by the Company’s retirement policy, as may be in effect from time to time.
- 2.39 “SEC” means the U.S. Securities and Exchange Commission.
- 2.40 “Section 16 Person” means a person who, with respect to the Shares, is subject to Section 16 of the 1934 Act.
- 2.41 “Shares” means shares of common stock of the Company.
- 2.42 “Stock Appreciation Right” or “SAR” means an Award granted to a Participant pursuant to Section 8 of the Plan. Upon exercise, a SAR gives a Participant a right to receive a payment in cash, or the equivalent value in Shares, equal to the difference between the Fair Market Value of the Shares on the exercise date and the Exercise Price. Both the number of SARs and the Exercise Price are determined on the Grant Date. For example, assume a Participant is granted 100 SARs at an Exercise Price of \$10 and the award agreement specifies that the SARs will be settled in Shares. Also assume that the SARs are exercised when the underlying Shares have a Fair Market Value of \$20 per Share. Upon exercise of the SAR, the Participant is entitled to receive 50 Shares $[(\$20-\$10)\times 100]/\$20$.
- 2.43 “Subsidiary” means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

SECTION 3 EFFECTIVE DATE AND TERM

- 3.1 Effective Date. The Superior Industries International, Inc. 2008 Equity Incentive Plan was originally approved by the Company's shareholders at the 2008 Annual Meeting of shareholders and became effective on May 30, 2008 (the "Original Plan"). The Original Plan was subsequently amended and restated and re-approved by the Company's shareholders at the 2013 Annual Meeting (the "Amended and Restated Plan"). The Amended and Restated Plan is further amended and restated hereby in order to, among other things, (i) rename the Plan to the Superior Industries International, Inc. 2018 Equity Incentive Plan, (ii) extend the termination date of the Plan, (iii) increase the number of Shares available for issuance pursuant to Awards granted under the Plan and (iv) expand the types of Awards that may be granted under the Plan. Subject to the approval of the Company's shareholders at the 2018 Annual Meeting, the Plan, as amended and restated hereby, will become effective on the date that it is approved by the Company's shareholders (the "Effective Date").
- 3.2 Term. Unless earlier terminated as provided herein, the Plan shall continue in effect until the tenth (10th) anniversary of the Effective Date. The termination of the Plan on such date shall not affect the validity of any Award outstanding on the date of termination, which shall continue to be governed by the applicable terms and conditions of the Plan.

SECTION 4 ADMINISTRATION

- 4.1 The Administrator. The Plan shall be administered by a Committee of the Board appointed by the Board (which Committee shall consist of at least two Directors) or, at the discretion of the Board from time to time, the Plan may be administered by the Board. It is intended that at least two of the Directors appointed to serve on the Committee shall be Independent Directors and that any such members of the Committee who do not so qualify shall abstain from participating in any decision to make or administer Awards that are made to Eligible Participants who at the time of consideration for such Award are Section 16 Persons. However, the mere fact that a Committee member shall fail to qualify as an Independent Director or shall fail to abstain from such action shall not invalidate any Award made by the Committee which Award is otherwise validly made under the Plan. The members of the Committee shall be appointed by, and may be changed at any time and from time to time in the discretion of, the Board. Unless and until changed by the Board, the Compensation and Benefits Committee of the Board is designated as the Administrator to administer the Plan. The Board may reserve to itself any or all of the authority and responsibility of the Committee under the Plan or may act as administrator of the Plan for any and all purposes. Notwithstanding any of the foregoing, grants of Awards to Nonemployee Directors under the Plan shall be subject to the applicable award limit set forth in Section 5.4 hereof.
- 4.2 Action and Interpretation by the Administrator. For purposes of administering the Plan, the Administrator may from time to time adopt rules, regulations, guidelines and procedures for carrying out the provisions and purposes of the Plan and make such other determinations, not inconsistent with the Plan, as the Administrator may deem appropriate. The Administrator may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner and to the extent it deems necessary to carry out the intent of the Plan. The Administrator's interpretation of the Plan, any Awards granted under the Plan, any Award Agreement and all decisions and determinations by the Administrator with respect to the Plan are final, binding, and conclusive on all persons and shall be given the maximum deference permitted by Applicable Law. Each member of the Administrator is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Affiliate, the Company's or an Affiliate's independent certified public accountants, Company counsel or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan. No member of the Administrator will be liable for any good faith determination, act or omission in connection with the Plan or any Award.

- 4.3 Authority of the Administrator. It shall be the duty of the Administrator to administer the Plan in accordance with the Plan's provisions and in accordance with Applicable Law. The Administrator shall have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to: (a) determine which Employees, Consultants and Directors shall be granted Awards; (b) determine the vesting conditions, if any, applicable to Awards and the circumstances under which vesting conditions may be modified, (c) determine the other terms and conditions of the Awards, (d) interpret the Plan, (e) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith, (f) interpret, amend or revoke any such rules, and (g) adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of the United States or any non-U.S. jurisdictions in which the Company or any Affiliate may operate, in order to assure the viability of the benefits of Awards granted to participants located in the United States or such other jurisdictions and to further the objectives of the Plan.
- 4.4 Delegation. The Board may, by resolution, expressly delegate to a special committee, consisting of one or more Board members who may but need not be officers of the Company, the authority, within specified parameters as to the number and terms of Awards, to (i) designate Eligible Participants to be recipients of Awards under the Plan, and (ii) to determine the number of such Awards to be received by any such Participants; provided, however, that such delegation of duties and responsibilities to an officer of the Company may not be made with respect to the grant of Awards to Eligible Participants (a) who are Nonemployee Directors or (b) who are Section 16 Persons at the Grant Date. The acts of such delegates shall be treated hereunder as acts of the Board and such delegates shall report regularly to the Board and the Compensation and Benefits Committee regarding the delegated duties and responsibilities and any Awards so granted. The Administrator may also delegate nondiscretionary administrative duties to other parties as it deems appropriate.

SECTION 5 SHARES SUBJECT TO THE PLAN

- 5.1 Number of Shares. Subject to adjustment as provided in Section 5.3, the total number of Shares available for grant under the Plan shall be 4,350,000 Shares, including Shares issued or issuable with respect to Awards granted since May 30, 2008. Shares granted under the Plan may be authorized but unissued Shares or reacquired Shares bought on the market or otherwise.
- 5.2 Share Counting. Shares covered by an Award shall be subtracted from the Plan share reserve as of the Grant Date, but shall be added back to the Plan share reserve in accordance with this Section 5.2:
- a) To the extent that an Award is canceled, terminates, expires, is forfeited or lapses for any reason, any unissued or forfeited Shares originally subject to the Award will be added back to the Plan share reserve and again be available for issuance pursuant to Awards granted under the Plan.
 - b) Shares subject to Awards settled in cash will be added back to the Plan share reserve and again be available for issuance pursuant to Awards granted under the Plan.
 - c) The following Shares may not again be made available for issuance as Awards under the Plan: (i) Shares not issued or delivered as a result of the net settlement of an outstanding Option or SAR, (ii) Shares used to pay the Exercise Price or withholding taxes related to an outstanding Option or SAR, (iii) Shares repurchased on the open market with the proceeds of the exercise price of an Option or (iv) Shares surrendered or withheld to cover taxes due upon the vesting of an Award.
 - d) To the extent that the full number of Shares subject to an Award other than an Option or SAR is not issued for any reason, including by reason of failure to achieve maximum performance goals, the unissued Shares originally subject to the Award will be added back to the Plan share reserve and again be available for issuance pursuant to Awards granted under the Plan. For the avoidance of doubt, Shares underlying Awards that are subject to the achievement of performance goals shall be counted against the Plan share reserve based on the target value of such Awards unless and until such time as such Awards become vested and settled in Shares.

- e) Substitute Awards granted pursuant to Section 5.6 of the Plan shall not count against the Shares otherwise available for issuance under the Plan under Section 5.1.
- f) Subject to applicable stock exchange requirements, shares available under a shareholder-approved plan of a company acquired by the Company (as appropriately adjusted to Shares to reflect the transaction) may be issued under the Plan pursuant to Awards granted to individuals who were not employees of the Company or its Affiliates immediately before such transaction and will not count against the maximum share limitation specified in Section 5.1.

5.3 Adjustments in Awards and Authorized Shares. The number and kind of shares authorized for grant under the Plan in Section 5.1, the Award limits in Section 5.4, the number and kind of shares covered by each outstanding Award, and the per share exercise price of each such Option or SAR, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, recapitalization, combination, reclassification, spin-off, stock dividend on the Shares, or any other increase or decrease in the number of such Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been “effected without receipt of consideration.” The Administrator shall make such adjustments to the Plan and Awards as it deems necessary, in its sole discretion, to prevent dilution or enlargement of rights immediately resulting from such transaction, and the decisions of the Administrator in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option. Notwithstanding any anti-dilution provision in the Plan, the Administrator shall not make any adjustments to outstanding Options or SARs that would constitute a modification or substitution of the stock right under Treasury Regulations Sections 1.409A-1(b)(5)(v) that would be treated as the grant of a new stock right or change in the form of payment for purposes of Code Section 409A.

5.4 Limitations on Awards. Notwithstanding any provision in the Plan to the contrary (but subject to adjustment as provided in Section 5.3):

- a) Incentive Stock Options Limitation. No more than 3,000,000 Shares may be granted over the life of the Plan in the form of Incentive Stock Options.
- b) Full-Value Award Limitation. No more than 1,200,000 Shares may be issued over the life of the Plan in the form of Full Value Awards that are settled in Shares. To the extent that the full number of Shares subject to a Full Value Award is not issued for any reason, including by reason of failure to achieve maximum performance goals, the unissued Shares originally subject to the Award will not count against the Full-Value Award Limitation. Cash-settled Full Value Awards shall not count against this Full-Value Award Limitation.
- c) Awards to Nonemployee Directors. The maximum aggregate number of Shares associated with any Award granted under the Plan in any 12-month period to any one Nonemployee Director shall be 20,000 Shares.

5.5 Minimum Vesting Requirements. Except in the case of substitute Awards granted pursuant to Section 5.6 and subject to the following sentence, Awards granted under the Plan shall be subject to a minimum vesting period of one year. Notwithstanding the foregoing, (i) the Administrator may permit acceleration of vesting of an Award in the event of the Participant’s death, Disability, or Retirement, or the occurrence of a Change in Control, and (ii) the Administrator may grant Awards covering five percent (5%) or fewer of the total number of Shares authorized under the Plan without respect to the above-described minimum vesting requirements. Notwithstanding the foregoing, with respect to Awards to Nonemployee Directors, the vesting of such Awards will be deemed to satisfy the one-year minimum vesting requirement to the extent that the Awards vest based on the approximately one-year period beginning on each regular annual meeting of the Company’s shareholders and ending on the date of the next regular annual meeting of the Company’s shareholders.

5.6 Substitute Awards. In the event that the Company or an Affiliate consummates a transaction described in Section 424(a) of the Code (e.g., the acquisition of property or stock from an unrelated corporation),

persons who become Employees, Directors or Consultants on account of such transaction may be granted Awards in substitution for awards granted by their former employer, and any such substitute such Options or SARs may be granted with an Exercise Price less than the Fair Market Value of a Share on the Grant Date; provided, however, the grant of such substitute Option or SAR shall not constitute a “modification” as defined in Code Section 424(h)(3) and the applicable Treasury regulations.

SECTION 6 ELIGIBILITY

- 6.1 General. Awards may be granted only to Eligible Participants. Incentive Stock Options may be granted only to Eligible Participants who are employees of the Company or a Subsidiary as defined in Section 424(e) and (f) of the Code. Eligible Participants who are service providers to an Affiliate may be granted Options or SARs under this Plan only if the Affiliate qualifies as an “eligible issuer of service recipient stock” within the meaning of Treasury Regulations §1.409A-1(b)(5)(iii)(E).

SECTION 7 STOCK OPTIONS

- 7.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted at any time and from time to time as determined by the Administrator in its discretion. The Administrator may grant Incentive Stock Options, Nonqualified Stock Options, or a combination thereof, and the Administrator, in its discretion and subject to Section 5.4, shall determine the number of Shares subject to each Option. Unless the Administrator expressly provides in an Award Agreement that an Award of Options is intended to be Incentive Stock Options, the Award shall be Nonqualified Stock Options.
- 7.2 Award Agreement. Each Option shall be evidenced by an Award Agreement that shall specify the Exercise Price, the expiration date of the Option, the number of Shares to which the Option pertains, any conditions to exercise the Option, and such other terms and conditions as the Administrator, in its discretion, shall determine. The Award Agreement shall also specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.
- 7.3 Exercise Price. The Administrator shall determine the Exercise Price for each Option subject to the provisions of this Section 7.3. Other than an Option issued as a substitute Award pursuant to Section 5.6, the per Share Exercise Price of an Option shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date.
- 7.4 Incentive Stock Options. The grant of Incentive Stock Options shall be subject to all of the requirements of Code Section 422, including the following limitations:
- a) The Exercise Price of an Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date; provided, however, that if on the Grant Date, the Employee (together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code) owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, the Exercise Price shall be not less than one hundred and ten percent (110%) of the Fair Market Value of a Share on the Grant Date;
 - b) Incentive Stock Options may be granted only to persons who are, as of the Grant Date, Employees of the Company or a Subsidiary, and may not be granted to Consultants or Nonemployee Directors.
 - c) To the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonqualified Stock Options. For purposes of this Section 7.4(c), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted; and

- d) In the event of a Participant's change of status from Employee to Consultant or Director, an Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option three (3) months and one (1) day following such change of status.

7.5 Expiration of Options.

7.5.1 Expiration Dates. Unless otherwise specified in the Award Agreement, but in any event no later than ten (10) years from the Grant Date, each Option shall terminate no later than the first to occur of the following events:

- a) Date in Award Agreement. The date for termination of the Option set forth in the written Award Agreement;
- b) Termination of Service. The thirtieth (30th) day following the date the Participant's Continuous Service terminates (other than for a reason described in subsections (c), (d), (e), or (f) below);
- c) Termination for Cause. In the event a Participant's Continuous Service terminates because the Participant has committed an act of Cause, as determined by the Administrator, all unexercised Options held by such Participant, whether or not vested, shall expire immediately following written notice from the Company to the Participant;
- d) Disability. In the event that a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Option at any time within twelve (12) months following the date of such termination, but only to the extent that the Participant was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of the Option as set forth in the Award Agreement). If, at the date of termination, the Participant is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan;
- e) Death. In the event of the death of a Participant, the Participant's Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the Participant was entitled to exercise the Option at the date of death. If, at the time of death, the Participant was not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall immediately revert to the Plan. If, after death, the Participant's estate or a person who acquired the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan; or
- f) Ten Years from Grant. An Option shall expire no more than ten (10) years after the Grant Date; provided, however, that if an Incentive Stock Option is granted to an Employee who, together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of the stock of the Company or any of its Subsidiaries, such Incentive Stock Option may not be exercised after the expiration of five (5) years from the Grant Date.

7.5.2 Administrator Discretion. Notwithstanding the foregoing, the Administrator may, after an Option is granted, extend the exercise period that an Option is exercisable following termination of a Participant's Continuous Service (subject to limitations applicable to Incentive Stock Options); provided, however that such extension does not exceed the maximum term of the Option.

7.6 Exercise of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions as set forth in the Award Agreement and conditions as the Administrator shall determine in its discretion.

- 7.7 Exercise and Payment. Options shall be exercised by the Participant's delivery of a written notice of exercise to the Secretary of the Company (or its designee), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.
- 7.7.1 Form of Consideration. Upon the exercise of any Option, the Exercise Price shall be payable to the Company in full. The Administrator shall determine the methods by which the exercise price of an Option may be paid, the form of payment, and the methods by which Shares shall be delivered or deemed to be delivered to Participants. Unless otherwise determined by the Administrator at or after the Grant Date, payment of the exercise price of an Option may be made in, in whole or in part, in the form of (i) cash or cash equivalents, (ii) delivery (by either actual delivery or attestation) of previously-acquired Shares based on the Fair Market Value of the Shares on the date the Option is exercised, (iii) withholding of Shares from the Option based on the Fair Market Value of the Shares on the date the Option is exercised, (iv) broker-assisted market sales, or (v) by any other means that the Administrator, in its discretion, determines to provide legal consideration for the Shares and to be consistent with the purposes of the Plan.
- 7.7.2 Delivery of Shares. As soon as practicable after receipt of a written notification of exercise and full payment for the Shares purchased, the Company shall deliver Shares to the Participant (or the Participant's designated broker), which may be in book entry form or certificated form.
- 7.8 No "Re-Pricing" Without Shareholder Approval. Except as otherwise provided in Section 5.3, without the prior approval of shareholders of the Company: (i) the Exercise Price of an Option may not be reduced, directly or indirectly, (ii) an Option may not be cancelled in exchange for cash, other Awards, or Options or SARs with an Exercise Price that is less than the Exercise Price of the original Option, or otherwise, and (iii) the Company may not repurchase an Option for value (in cash or otherwise) from a Participant if the current Fair Market Value of the Shares underlying the Option is lower than the Exercise Price per share of the Option.
- 7.9 No Deferral Feature. No Option shall provide for any feature for the deferral of compensation other than the deferral of recognition of income until the exercise or disposition of the Option.
- 7.10 No Dividend Equivalents. No Option shall provide for dividend equivalents.

SECTION 8 STOCK APPRECIATION RIGHTS

- 8.1 Grant of SARs. Subject to the terms and provisions of the Plan, SARs may be granted at any time and from time to time as determined by the Administrator in its discretion.
- 8.1.1 Number of Shares. The Administrator shall have complete discretion to determine the number of SARs granted to any Participant.
- 8.1.2 Exercise Price and Other Terms. The Administrator, subject to the provisions of the Plan, shall have discretion to determine the terms and conditions of SARs granted under the Plan, including whether upon exercise the SARs will be settled in Shares or cash. However, other than a SAR issued as a substitute Award pursuant to Section 5.6, the Exercise Price of a SAR shall be no less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date.
- 8.2 Exercise of SARs. SARs granted under the Plan shall be exercisable at such times and be subject to such restrictions as set forth in the Award Agreement and conditions as the Administrator shall determine in its discretion.
- 8.3 SAR Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the Exercise Price, the term of the SAR, the conditions of exercise and such other terms and conditions as the Administrator shall determine.
- 8.4 Expiration of SARs. A SAR granted under the Plan shall expire upon the date determined by the Administrator in its discretion as set forth in the Award Agreement, or otherwise pursuant to the provisions relating to the expiration of Options as set forth in Section 7.5.

- 8.5 Payment of SAR Amount. Upon exercise of a SAR, a Participant shall be entitled to receive from the Company either (whichever is specified in the Award Agreement) (a) a cash payment in an amount equal to (x) the difference between the Fair Market Value of a Share on the date of exercise and the SAR Exercise Price, multiplied by (y) the number of Shares with respect to which the SAR is exercised, or (b) a number of Shares determined by dividing such cash amount by the Fair Market Value of a Share on the exercise date. If the Administrator designates in the Award Agreement that the SAR will be settled in cash, upon Participant's exercise of the SAR the Company shall make a cash payment to Participant as soon as reasonably practical.
- 8.6 No "Re-Pricing" Without Shareholder Approval. Except as otherwise provided in Section 5.3, without the prior approval of shareholders of the Company: (i) the Exercise Price of a SAR may not be reduced, directly or indirectly, (ii) a SAR may not be cancelled in exchange for cash, other Awards, or Options or SARs with an Exercise Price that is less than the Exercise Price of the original SAR, or otherwise, and (iii) the Company may not repurchase a SAR for value (in cash or otherwise) from a Participant if the current Fair Market Value of the Shares underlying the SAR is lower than the Exercise Price per share of the SAR.
- 8.7 No Deferral Feature. No SAR shall provide for any feature for the deferral of compensation other than the deferral of recognition of income until the exercise or disposition of the SAR.
- 8.8 No Dividend Equivalents. No SAR shall provide for dividend equivalents.

SECTION 9 RESTRICTED STOCK OR RESTRICTED STOCK UNITS

- 9.1 Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock or Restricted Stock Units to Eligible Participants in such amounts as the Administrator, in its discretion, shall determine, subject to the Full-Value Award Limitation in Section 5.4.
- 9.2 Award Agreement. An Award of Restricted Stock or Restricted Stock Units shall be evidenced by an Award Agreement setting forth the terms, conditions, and restrictions applicable to the Award, as the Administrator, in its discretion, shall determine. Unless the Administrator determines otherwise, Shares of Restricted Stock shall be held by the Company as escrow agent until the restrictions on such Shares have lapsed.
- 9.3 Transferability. Except as provided in this Section 9, Shares of Restricted Stock or Awards of Restricted Stock Units may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until expiration of the applicable Period of Restriction.
- 9.4 Other Restrictions. Restricted Stock and Restricted Stock Units shall be subject to such other restrictions as the Administrator may impose. These restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, upon the satisfaction of performance goals or otherwise, as the Administrator determines at the time of the grant of the Award or thereafter, subject to Section 5.5.
- 9.5 Legend on Certificates. The Administrator, in its discretion, may place a legend or legends on the certificates representing Restricted Stock to give appropriate notice of such restrictions.
- 9.6 Removal of Restrictions. Except as otherwise provided in this Section 9, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall be released from escrow as soon as practicable after expiration of the Period of Restriction. After the restrictions have lapsed, the Participant shall be entitled to have any legend or legends under Section 9.5 removed from his or her Share certificate, and the Shares shall be freely transferable by the Participant, subject to Applicable Law.
- 9.7 Voting Rights. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless otherwise provided in the Award Agreement. Except as otherwise provided in an Award Agreement, a Participant shall have none of the rights of a shareholder with respect to Restricted Stock Units until such time as Shares are paid in settlement of such Awards.

- 9.8 Dividends and Other Distributions. Unless otherwise provided by the Administrator in an Award Agreement, Participants holding Shares of Restricted Stock shall be entitled to receive all dividends and other distributions declared with respect to such Shares during the Period of Restriction; provided, that such dividends and other distributions shall be accumulated and paid to the Participants at such time as the restrictions applicable to the Shares of Restricted Stock lapse.
- 9.9 Return of Restricted Stock to Company. On the date that any forfeiture event set forth in the Award Agreement occurs, the Restricted Stock or Restricted Stock Units for which restrictions have not lapsed shall revert to the Company and again shall become available for grant under the Plan.

SECTION 10 PERFORMANCE AWARDS

- 10.1 Grant of Performance Awards. The Administrator is authorized to grant any Award under this Plan, including Options, SARs, Restricted Stock, Restricted Stock Units or Other Stock-Based Awards, with performance-based vesting criteria, on such terms and conditions as may be selected by the Administrator. Any such Awards with performance-based vesting criteria are referred to herein as Performance Awards. The Administrator shall have the complete discretion to determine the number of Performance Awards granted to each Participant, subject to Section 5.4, and to designate the provisions of such Performance Awards as provided in Section 10.2. All Performance Awards shall be evidenced by an Award Agreement or a written program established by the Administrator, pursuant to which Performance Awards are awarded under the Plan under uniform terms, conditions and restrictions set forth in such written program.
- 10.2 Performance Goals. The Administrator may establish performance goals for Performance Awards which may be based on any criteria selected by the Administrator. Such performance goals may be described in terms of Company-wide objectives or in terms of objectives that relate to the performance of the Participant, an Affiliate or a division, region, department or function within the Company or an Affiliate. The time period during which the performance goals or other vesting provisions must be met will be called the "Performance Period." If the Administrator determines that a change in the business, operations, corporate structure or capital structure of the Company or the manner in which the Company or an Affiliate conducts its business, or other events or circumstances render performance goals to be unsuitable, the Administrator may modify such performance goals in whole or in part, as the Administrator deems appropriate. If a Participant is promoted, demoted or transferred to a different business unit or function during a Performance Period, the Administrator may determine that the performance goals or Performance Period are no longer appropriate and may (i) adjust, change or eliminate the performance goals or the applicable Performance Period as it deems appropriate to make such goals and period comparable to the initial goals and period, or (ii) make a cash payment to the Participant in an amount determined by the Administrator.

SECTION 11 OTHER STOCK-BASED AWARDS

- 11.1 Grant of Other Stock-Based Awards. The Administrator is authorized to grant Awards to Participants in the form of Other Stock-Based Awards, as deemed by the Administrator to be consistent with the purposes of the Plan and as evidenced by an Award Agreement. The Administrator shall determine the terms and conditions of such Awards, consistent with the terms of the Plan, at the Grant Date or thereafter. Shares or other securities or property delivered pursuant to an Award in the nature of a purchase right granted under this Section 11 shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, Shares, other Awards, notes or other property, as the Administrator shall determine, subject to any required corporate action.

SECTION 12 MISCELLANEOUS

- 12.1 Change in Control. Unless otherwise provided in the Award Agreement, in the event of a Change in Control, unless an Award is assumed or substituted by the successor corporation, then (i) all outstanding Options or SARs shall become fully vested and exercisable as of the date of the Change in Control, whether or not otherwise then exercisable, (ii) all service-based restrictions and conditions on any Award then outstanding shall lapse as of the date of the Change in Control, and (iii) the payout level under all Performance Awards shall be deemed to have been earned as of the date of the Change in Control based upon an assumed achievement of all relevant performance goals at the “target” level. If an Award is assumed or substituted by the successor corporation, then if within two (2) years after the effective date of the Change in Control, a Participant’s Continuous Service is terminated without Cause or the Participant resigns for Good Reason, then as of the date of termination (i) all of that Participant’s outstanding Options and SARs shall become fully vested and exercisable, (ii) all service-based vesting restrictions applicable to his or her outstanding Awards shall lapse, and (iii) the payout level under all of that Participant’s Performance Awards that were outstanding immediately prior to effective time of the Change in Control shall be determined and deemed to have been earned as of the date of employment termination based upon an assumed achievement of all relevant performance goals at the “target” level. To the extent that this provision causes Incentive Stock Options to exceed the dollar limitation set forth in Code Section 422(d), the excess Options shall be deemed to be Nonqualified Stock Options.
- 12.2 Transfers Upon a Change in Control. In the sole and absolute discretion of the Administrator, an Award Agreement may provide that in the event of certain Change in Control events, which may include any or all of the Change in Control events described in Section 2.9, Shares obtained pursuant to this Plan shall be subject to certain rights and obligations, which include but are not limited to the following: (i) the obligation to vote all such Shares in favor of such Change in Control transaction, whether by vote at a meeting of the Company’s shareholders or by written consent of such shareholders; (ii) the obligation to sell or exchange all such Shares and all rights to acquire Shares, under this Plan pursuant to the terms and conditions of such Change in Control transaction; (iii) the right to transfer less than all but not all of such Shares pursuant to the terms and conditions of such Change in Control transaction, and (iv) the obligation to execute all documents and take any other action reasonably requested by the Company to facilitate the consummation of such Change in Control transaction.
- 12.3 Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. Notwithstanding anything to the contrary contained in this Plan or in any Award Agreement, the Participant shall have the right to exercise his or her Award for a period not less than ten (10) days immediately prior to such dissolution or liquidation as to all of the Shares covered thereby, including Shares as to which the Award would not otherwise be exercisable.
- 12.4 No Effect on Employment or Service. Nothing in the Plan shall interfere with or limit in any way the right of the Company or an Affiliate to terminate any Participant’s employment or service at any time, with or without Cause. Unless otherwise provided by written contract, employment or service with the Company or any of its Affiliates is on an at-will basis only. Additionally, the Plan shall not confer upon any Director any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which such Director or the Company may have to terminate his or her directorship at any time.
- 12.5 Compensation Recoupment Policy. The Plan and all Awards issued hereunder shall be subject to any compensation recovery and/or recoupment policy adopted by the Company to comply with Applicable Law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or to comport with good corporate governance practices, as such policies may be amended from time to time.
- 12.6 Participation. No Employee, Consultant or Nonemployee Director shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

- 12.7 Successors. All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or, otherwise, sale or disposition of all or substantially all of the business or assets of the Company.
- 12.8 Beneficiary Designations. If permitted by the Administrator, a Participant under the Plan may name a beneficiary or beneficiaries to whom any vested but unpaid Award shall be paid in the event of the Participant's death. Each such designation shall revoke all prior designations by the Participant and shall be effective only if given in a form and manner acceptable to the Administrator. In the absence of any such designation, any vested benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate and, subject to the terms of the Plan and of the applicable Award Agreement, any unexercised vested Award may be exercised by the administrator or executor of the Participant's estate.
- 12.9 Limited Transferability of Awards. No Award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. All rights with respect to an Award granted to a Participant shall be available during his or her lifetime only to the Participant. Notwithstanding the foregoing, the Participant may, in a manner specified by the Administrator, (a) transfer a Nonqualified Stock Option to a Participant's spouse, former spouse or dependent pursuant to a court-approved domestic relations order which relates to the provision of child support, alimony payments or marital property rights and (b) transfer a Nonqualified Stock Option by bona fide gift and not for any consideration to (i) a member or members of the Participant's immediate family, (ii) a trust established for the exclusive benefit of the Participant and/or member(s) of the Participant's immediate family, (iii) a partnership, limited liability company or other entity whose only partners or members are the Participant and/or member(s) of the Participant's immediate family or (iv) a foundation in which the Participant and/or member(s) of the Participant's immediate family control the management of the foundation's assets.
- 12.10 Restrictions on Share Transferability. The Administrator may impose such restrictions on any Shares acquired pursuant to the exercise of an Award as it may deem advisable, including, but not limited to, restrictions related to applicable federal securities laws, the requirements of any national securities exchange or system upon which Shares are then listed or traded or any blue sky or state securities laws.
- 12.11 Legal Compliance. Shares shall not be issued pursuant to the making or exercise of an Award unless the exercise of Options and rights and the issuance and delivery of Shares shall comply with the Securities Act of 1933, as amended, the 1934 Act and other Applicable Law, and shall be further subject to the approval of counsel for the Company with respect to such compliance. Any Award or exercise made in violation hereof shall be null and void.
- 12.12 Investment Representations. As a condition to the exercise of an Option or other right, the Company may require the person exercising such Option or right to represent and warrant at the time of exercise that the Shares are being acquired only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

SECTION 13 SPECIAL PROVISIONS RELATED TO SECTION 409A OF THE CODE

- 13.1 General. It is intended that the payments and benefits provided under the Plan and any Award shall either be exempt from the application of, or comply with, the requirements of Section 409A of the Code. The Plan and all Award Agreements shall be construed in a manner that effects such intent. Nevertheless, the tax treatment of the benefits provided under the Plan or any Award is not warranted or guaranteed. Neither the Company, its Affiliates nor their respective directors, officers, employees or advisers (other than in his or her capacity as a Participant) shall be held liable for any taxes, interest, penalties or other monetary amounts owed by any Participant or other taxpayer as a result of the Plan or any Award.

- 13.2 Definitional Restrictions. Notwithstanding anything in the Plan or in any Award Agreement to the contrary, to the extent that any amount or benefit that would constitute non-exempt “deferred compensation” for purposes of Section 409A of the Code (“Non-Exempt Deferred Compensation”) would otherwise be payable or distributable, or a different form of payment (e.g., lump sum or installment) of such Non-Exempt Deferred Compensation would be effected, under the Plan or any Award Agreement by reason of the occurrence of a Change in Control, or the Participant’s Disability or separation from service, such Non-Exempt Deferred Compensation will not be payable or distributable to the Participant, and/or such different form of payment will not be effected, by reason of such circumstance unless the circumstances giving rise to such Change in Control, Disability or separation from service meet any description or definition of “change in control event”, “disability” or “separation from service”, as the case may be, in Section 409A of the Code and applicable regulations (without giving effect to any elective provisions that may be available under such definition). This provision does not affect the dollar amount or prohibit the vesting of any Award upon a Change in Control, Disability or separation from service, however defined. If this provision prevents the payment or distribution of any amount or benefit, or the application of a different form of payment of any amount or benefit, such payment or distribution shall be made at the time and in the form that would have otherwise applied absent the non-409A-conforming event.
- 13.3 Allocation among Possible Exemptions. If any one or more Awards granted under the Plan to a Participant could qualify for any separation pay exemption described in Treasury Regulations Section 1.409A-1(b)(9), but such Awards in the aggregate exceed the dollar limit permitted for the separation pay exemptions, the Company (acting through the Administrator or the General Counsel) shall determine which Awards or portions thereof will be subject to such exemptions.
- 13.4 Six-Month Delay in Certain Circumstances. Notwithstanding anything in the Plan or in any Award Agreement to the contrary, if any amount or benefit that would constitute Non-Exempt Deferred Compensation would otherwise be payable or distributable under this Plan or any Award Agreement by reason of a Participant’s separation from service during a period in which the Participant is a Specified Employee (as defined below), then, subject to any permissible acceleration of payment by the Administrator under Treasury Regulations Section 1.409A-3(j)(4)(ii) (domestic relations order), (j)(4)(iii) (conflicts of interest), or (j)(4)(vi) (payment of employment taxes): (i) the amount of such Non-Exempt Deferred Compensation that would otherwise be payable during the six-month period immediately following the Participant’s separation from service will be accumulated through and paid or provided on the first day of the seventh month following the Participant’s separation from service (or, if the Participant dies during such period, within 30 days after the Participant’s death) (in either case, the “Required Delay Period”); and (ii) the normal payment or distribution schedule for any remaining payments or distributions will resume at the end of the Required Delay Period. For purposes of this Plan, the term “Specified Employee” has the meaning given such term in Code Section 409A and the final regulations thereunder; provided, however, that, as permitted in such final regulations, the Company’s Specified Employees and its application of the six-month delay rule of Code Section 409A(a)(2)(B)(i) shall be determined in accordance with rules adopted by the Board or any committee of the Board, which shall be applied consistently with respect to all nonqualified deferred compensation arrangements of the Company, including this Plan.
- 13.5 Installment Payments. If, pursuant to an Award, a Participant is entitled to a series of installment payments, such Participant’s right to the series of installment payments shall be treated as a right to a series of separate payments and not to a single payment. For purposes of the preceding sentence, the term “series of installment payments” has the meaning provided in Treasury Regulations Section 1.409A-2(b)(2)(iii) (or any successor thereto).
- 13.6 Timing of Release of Claims. Whenever an Award conditions a payment or benefit on the Participant’s execution and non-revocation of a release of claims, such release must be executed and all revocation periods shall have expired within 60 days after the date of termination of the Participant’s employment, failing which such payment or benefit shall be forfeited. If such payment or benefit is exempt from Section 409A of the Code, the Company may elect to make or commence payment at any time during such 60-day period. If such payment or benefit constitutes Non-Exempt Deferred Compensation, then, subject to Section 13.4, (i) if such 60-day period begins and ends in a single calendar year, the Company may make or commence payment at any time during such period at its discretion, and (ii) if such 60-day period begins

in one calendar year and ends in the next calendar year, the payment shall be made or commence during the second such calendar year (or any later date specified for such payment under the applicable Award), even if such signing and non-revocation of the release occur during the first such calendar year included within such 60-day period. In other words, a Participant is not permitted to influence the calendar year of payment based on the timing of signing the release.

- 13.7 Permitted Acceleration. The Company shall have the sole authority to make any accelerated distribution permissible under Treasury Regulations section 1.409A-3(j)(4) to Participants of deferred amounts, provided that such distribution(s) meets the requirements of Treasury Regulations section 1.409A-3(j)(4).
- 13.8 Timing of Distribution of Dividend Equivalents. Unless otherwise provided in the applicable Award Agreement, any dividend equivalents granted with respect to an Award hereunder (other than Options or SARs, which shall have no dividend equivalents) will be paid or distributed no later than the 15th day of the 3rd month following the later of (i) the calendar year in which the corresponding dividends were paid to shareholders, or (ii) the first calendar year in which the Participant's right to such dividends equivalents is no longer subject to a substantial risk of forfeiture. In addition, notwithstanding anything to the contrary in the Plan, in no event shall dividends or dividend equivalents payable in connection with an Award granted under the Plan be paid earlier than at the time that the Award or applicable portion thereof becomes vested in accordance with the applicable Award Agreement.

SECTION 14 AMENDMENT, SUSPENSION, AND TERMINATION

- 14.1 Amendment, Suspension, or Termination. Except as provided in Section 14.2, the Board, in its sole discretion, may amend, suspend or terminate the Plan, or any part thereof, at any time and for any reason. The amendment, suspension or termination of the Plan shall not, without the consent of the Participant, materially adversely alter or impair any rights or obligations under any Award theretofore granted to such Participant. No Award may be granted during any period of suspension or after termination of the Plan.
- 14.2 No Amendment without Shareholder Approval. The Company shall obtain shareholder approval of any material Plan amendment (including but not limited to any provision to reduce the exercise or purchase price of any outstanding Options or other Awards after the Grant Date (other than for adjustments made pursuant Section 5.3), or to cancel and re-grant Options or other rights at a lower exercise price), to the extent necessary or desirable to comply with Applicable Law.

SECTION 15 TAX WITHHOLDING

- 15.1 Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).
- 15.2 Withholding Arrangements. The Administrator, in its discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (a) electing to have the Company withhold otherwise deliverable Shares or (b) delivering to the Company already-owned Shares having a Fair Market Value equal to the applicable withholding amount. The amount of the withholding requirement shall be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made; provided, however, in the case Shares are withheld by the Company to satisfy the tax withholding that would otherwise be issued to the Participant, the amount of such tax withholding shall be determined by applying the relevant federal, state or local withholding tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered shall be determined as of the date taxes are required to be withheld.

SECTION 16 LEGAL CONSTRUCTION

- 16.1 Liability of Company. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful grant or any Award or the issuance and sale of any Shares hereunder, shall relieve the Company, its officers, Directors and Employees of any liability in respect of the failure to grant such Award or to issue or sell such Shares as to which such requisite authority shall not have been obtained.
- 16.2 Grants Exceeding Allotted Shares. If the Shares covered by an Award exceed, as of the date of grant, the number of Shares, which may be issued under the Plan without additional shareholder approval, such Award shall be void with respect to such excess Shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained.
- 16.3 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.
- 16.4 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.
- 16.5 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all Applicable Law and to such approvals by any governmental agencies or national securities exchanges as may be required.
- 16.6 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Michigan, without giving effect to principles of conflicts of law of such state.
- 16.7 Captions. Captions are provided herein for convenience only, and shall not serve as a basis for interpretation or construction of the Plan.
- 16.8 Plan Document Controls. All awards granted pursuant to the Plan, including the Original Plan and the Amended and Restated Plan, shall be subject to the terms and conditions of the Plan as amended and restated herein. The Plan and each Award Agreement constitute the entire agreement with respect to the subject matter hereof and thereof; provided that in the event of any inconsistency between the Plan and such Award Agreement, the terms and conditions of the Plan shall control.

CERTIFICATION
PURSUANT TO EXCHANGE ACT RULES 13a-14(a)
AND 15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Donald J. Stebbins, certify that:

- 1 I have reviewed this Quarterly Report on Form 10-Q of Superior Industries International, Inc.;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2018

/s/ Donald J. Stebbins

Donald J. Stebbins
Chief Executive Officer and President
(Principal Executive Officer)

CERTIFICATION
PURSUANT TO EXCHANGE ACT RULES 13a-14(a)
AND 15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Donald J. Stebbins, certify that:

- 1 I have reviewed this Quarterly Report on Form 10-Q of Superior Industries International, Inc.;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2018

/s/ Donald J. Stebbins

Donald J. Stebbins
Chief Executive Officer and President
(Principal Financial Officer)

**CERTIFICATION
PURSUANT TO 18
U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in his capacity as an officer of Superior Industries International, Inc. (the “company”), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- The Quarterly Report of the company on Form 10-Q for the period ended June 30, 2018 as filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the company.

Dated: August 8, 2018

/s/ Donald J. Stebbins

Name: Donald J. Stebbins
Title: Chief Executive Officer and President
(Principal Executive Officer and Principal
Financial Officer)