

Cooper-Standard Holdings Inc.
Form 10-K
February 23, 2016

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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from _____ to _____
Commission file number 000-54305

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

Delaware
(State or other jurisdiction of
incorporation or organization)
20-1945088
(I.R.S. Employer
Identification No.)

39550 Orchard Hill Place Drive
Novi, Michigan 48375

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (248) 596-5900

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value \$0.001 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of voting and non-voting common stock held by non-affiliates as of June 30, 2015 was \$403,150,257.

The number of the registrant's shares of common stock, \$0.001 par value per share, outstanding as of February 17, 2016 was 17,532,935 shares.

Documents Incorporated by Reference

Certain portions, as expressly described in this report, of the Registrant's Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business

Cooper-Standard Holdings Inc. (together with its consolidated subsidiaries, the “Company,” “Cooper Standard,” “we,” “our” or “us”) is a leading manufacturer of sealing, fuel and brake delivery, fluid transfer and anti-vibration systems. Our products are primarily for use in passenger vehicles and light trucks that are manufactured by global automotive original equipment manufacturers (“OEMs”) and replacement markets. We conduct substantially all of our activities through our subsidiaries.

Cooper Standard is a New York Stock Exchange (“NYSE”) listed company under the ticker symbol “CPS”. The Company has more than 29,000 employees with 98 facilities in 20 countries. We believe we are the largest global producer of sealing systems, the second largest global producer of the types of fuel and brake delivery products that we manufacture, the third largest global producer of fluid transfer systems, and one of the largest North American producers of anti-vibration systems. We design and manufacture our products in each major region of the world through a disciplined and sustained approach to engineering and operational excellence. We operate in 79 manufacturing locations and 19 design, engineering, and administrative locations.

The Company has four operating segments: North America, Europe, Asia Pacific and South America. This operating structure allows us to offer our full portfolio of products and support our regional and global customers with complete engineering and manufacturing expertise in all major regions of the world. We have implemented a number of operational restructuring and expansion initiatives this year and in recent years to improve competitiveness, primarily related to footprint optimization in Europe and expansion in Asia and Mexico. See “Segment Results of Operations” under Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 19. “Business Segments” to our consolidated financial statements included under Item 8. “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K for further information on our segments.

Approximately 82% of our sales in 2015 were to OEMs, including Ford Motor Company (“Ford”), General Motors Company (“GM”), Fiat Chrysler Automobiles (“FCA”), PSA Peugeot Citroën, Volkswagen Group, Daimler, Renault-Nissan, BMW, Toyota, Volvo, Jaguar/Land Rover, Honda and various other OEMs based in India and China. The remaining 18% of our 2015 sales were primarily to Tier I and Tier II automotive suppliers, non-automotive manufacturers, and replacement market distributors.

Corporate History and Business Developments

Cooper-Standard Holdings Inc. was established in 2004 as a Delaware corporation and began operating on December 23, 2004 when it acquired the automotive segment of Cooper Tire & Rubber Company (the “2004 Acquisition”). Cooper-Standard Holdings Inc. operates the business primarily through its principal operating subsidiary, Cooper-Standard Automotive Inc. (“CSA U.S.”). Since the 2004 Acquisition, the Company has expanded and diversified its customer base through a combination of organic growth and strategic acquisitions.

In August 2009, following the onset of the financial crisis and economic downturn that severely impacted the global automotive industry, Cooper-Standard Holdings Inc. and its wholly-owned subsidiaries in the United States and Canada commenced reorganization proceedings in the United States (the “Chapter 11 proceedings”) and Canada. In May 2010, the Company consummated its reorganization pursuant to a court-confirmed plan of reorganization and emerged from the Chapter 11 proceedings and the Canadian proceedings.

In October 2013, Cooper Standard’s common stock was listed on the NYSE and began trading under the ticker symbol “CPS.” Prior to the NYSE listing, the Company’s common stock was traded on the Over-the-Counter (“OTC”) Bulletin Board under the symbol “COSH.”

From 2006 to 2013, the Company accelerated its growth through a number of strategic acquisitions including the Fluid Handling Systems Operations in North America, Europe and China (collectively, “FHS”) from ITT Industries, Inc.; Metzeler Automotive Profile Systems; a hose manufacturing operation in Mexico from the Gates Corporation; USi, Inc.; the sealing business of Sigit S.p.A.; a joint venture with Fonds de Modernisation des Equipementiers Automobiles (“FMEA”); and Jyco Sealing Technology.

We continued strategic acquisitions and partnerships in 2014 and 2015 with the acquisition of Cikautxo Borja, S.L.U. in Spain, a manufacturer of heating and cooling hoses; the purchase of an additional 47.5% of Huayu-Cooper Standard

Sealing Systems Co. (“Shenya”), increasing our equity ownership to 95% and positioning the Company as a leader in sealing systems in the Chinese automotive market; the formation of a joint venture with Polyrub Extrusions (India) Private Limited to grow the

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Company's fluid transfer systems business in Asia; and a joint venture with INOAC Corporation of Japan accelerating our fluid transfer systems strategy in Asia.

In 2014 and 2015, the Company divested its thermal and emissions product line and hard coat plastic exterior trim business, respectively, to focus on the product lines where Cooper Standard holds leading market positions.

Business Strategy

Cooper Standard has a well-defined and broadly communicated corporate vision: to drive for profitable growth and become one of the thirty largest global automotive suppliers in terms of sales, and among the top 5% in terms of return on invested capital (Top 30 / Top 5). The Company's strategic plan is geared to realize this vision by matching our priorities and strengths to the emerging global industry environment. To this end, we continue to:

Focus on our core product lines;

Produce superior products as a recognized innovation leader;

Create an advantaged global manufacturing footprint to support customers; and

Commonize and standardize world-class engineering and manufacturing operations.

As the Company continues to grow, we will look to further evolve our strategy to create additional opportunities to drive shareholder value.

Operational and Strategic Initiatives

As part of its profitable growth strategy, the Company implemented the Cooper Standard Operating System ("CSOS") to fully position the Company for growth and ensure global consistency in engineering design, program management, manufacturing process, purchasing and IT systems. Standardization across all regions is especially critical in support of customers' global platforms that require the same design, quality and delivery standards everywhere across the world.

The CSOS consists of the following areas, with a strategic focus that aligns with the Company's growth strategy:

CSOS Function	Strategic Focus
World-Class Safety	Implement globally consistent measurement system with zero incidents goal.
World-Class Operations	Optimize global performance by implementing best business practices across the organization.
Continuous Improvement	Implement lean manufacturing tools across all facilities to achieve cost savings and increased performance.
Global Purchasing	Develop an advantaged supply base to effectively leverage scale and optimize supplier quality.
Innovation Management	Focused innovation processes to create breakthrough technologies for market differentiation.
Global Program Management	Ensure consistent and flawless product launch process across all regions.
IT Systems	Implement common systems to effectively communicate information throughout the business.

Leverage Technology for Innovative Solutions

We utilize our technical expertise to provide customers with innovative solutions. Our engineers combine product design with a broad understanding of material characteristics for enhanced vehicle performance. We believe our reputation for successful innovation in product design and materials is the reason our customers consult us early in their vehicle development and design process of their next generation vehicles.

Cooper Standard has evolved and further energized its approach to innovation with its i³ Innovation Process (Imagine, Initiate, Innovate). This approach is used as a mechanism to capture ideas from across our Company and supply partners while promoting a culture of innovation.

Ideas are carefully evaluated by a Global Technology Council and those that are selected are put on an accelerated development cycle with a dedicated innovation team focused on breakthrough ideas. This team is developing game-changing technologies based on materials expertise, process know-how, and application vision, which will drive future product direction. Among recently announced technologies is ArmorHose™, a breakthrough technology which results in significantly more durable coolant hoses and eliminates the need for separate abrasion sleeves on

under-hood hose assemblies. Several other significant technologies, especially related to advanced materials, processing and weight reduction, have recently been realized. These include: Fortrex™, a revolutionary material that provides higher performance and lower weight to weather seals; and MagAlloy™, a new processing technology for brake lines that increases long term durability through superior corrosion resistance.

Continued Emphasis on Global Platforms

We believe global platforms, which require the same design, quality and delivery standards globally, will drive increased growth for capable global suppliers. It is predicted that the top ten global platforms produced by automakers will account for about 30% of the world's light vehicle volume by 2021, highlighting the importance of being well-positioned to participate in these high volume global programs. Based on our 2015 revenue, six of the top ten vehicle platforms on which we provide content are global platforms, which demonstrates that customers already look to us to support global platforms. Our global presence and technological capabilities ideally position us to continue to win business on global platforms.

Pursue Acquisitions and Alliances to Enhance Capabilities and Accelerate Growth

We intend to continue to selectively pursue complementary acquisitions and joint ventures to enhance our customer base, geographic penetration, scale and technology. Consolidation is an industry trend and is encouraged by the OEMs desire for global automotive suppliers. We believe we have a strong platform for growth through acquisitions based on our past integration successes, experienced management team, global presence and operational excellence. Our operations currently include several successful joint ventures.

Industry

The automotive industry is one of the world's largest and most competitive. Consumer demand for new vehicles largely determines sales and production volumes of global OEMs.

The automotive supplier industry is generally characterized by high barriers to entry, significant start-up costs and long-standing customer relationships. The criteria by which OEMs judge automotive suppliers include quality, price, service, performance, design and engineering capabilities, innovation, timely delivery, financial stability and global footprint. Over the last decade, suppliers that have been able to achieve manufacturing scale, reduce structural costs, diversify their customer base and establish a global manufacturing footprint have been successful.

Markets Served

The passenger car and light truck market, better known as the light vehicle market, is our largest market and accounts for approximately 95% of our global sales. The focus of this market is on passenger cars and light trucks, up to and including Class 3 Full Size Frame trucks.

In addition to the global team focused on the light vehicle market, we also established dedicated sales and engineering teams in North America and Europe to leverage core product technology into adjacent markets to profitably grow Cooper Standard. The adjacent markets include: commercial vehicle (on-highway and off-highway), specialty markets and technical rubber.

Customers

We are a leading supplier to the following OEMs and are increasing our presence with major OEMs throughout the world. The following table shows the approximate percentage of sales to our top customers for the years ended December 31, 2015 and 2014:

Customer	2015	2014
Ford	26%	24%
GM	16%	16%
FCA	12%	13%
PSA Peugeot Citroën	5%	6%
Volkswagen Group	5%	5%

Our other customers include OEMs such as Daimler, Renault-Nissan, BMW, Toyota, Volvo, Jaguar/Land Rover, Honda and various other OEMs based in India and China. Our business with any given customer is typically split among several contracts for different parts on a number of platforms.

Segment Information

See Note 19. "Business Segments" to the consolidated financial statements for segment information.

Products

We have four distinct product lines. These products are produced and supplied globally to a broad range of customers in multiple markets. The percentage of sales by product for the years ended December 31, 2015, 2014 and 2013 are as follows:

Product Lines	Percentage of Sales		
	2015	2014	2013
Sealing systems	53%	52%	51%
Fuel and brake delivery systems	20%	20%	23%
Fluid transfer systems	14%	14%	13%
Anti-vibration systems	8%	8%	9%

In addition to these product lines, we also have sales to other adjacent markets.

Product Lines		Market Position*
SEALING SYSTEMS	<p>Protect vehicle interiors from weather, dust and noise intrusion for improved driving experience; provide aesthetic and functional class-A exterior surface treatment</p> <p>Products:</p> <ul style="list-style-type: none"> – Fortrex™ – Dynamic seals – Static seals – Encapsulated glass – Stainless steel trim – Flush glass systems – Variable extrusion – Specialty sealing products 	Global leader
FUEL & BRAKE DELIVERY SYSTEMS	<p>Sense, deliver and control fluids to fuel and brake systems</p> <p>Products:</p> <ul style="list-style-type: none"> – Chassis and tank fuel lines and bundles (fuel lines, vapor lines and bundles) – Metallic brake lines and bundles – Direct injection & port fuel rails (fuel rails and fuel charging assemblies) – Quick connects 	Top 2 globally
FLUID TRANSFER SYSTEMS	<p>Sense, deliver and control fluid and vapors for optimal powertrain & HVAC operation</p> <p>Products:</p> <ul style="list-style-type: none"> – Heater/coolant hoses – Quick connects – DPF and SCR emission lines – Degas tanks – Air intake and charge – Transmission Oil Cooling Hoses – Turbo charger hoses – Secondary air hoses – Brake and clutch hoses – ArmorHose™ – ArmorHose™ II – ArmorHose™ TPV 	Top 3 globally
ANTI-VIBRATION SYSTEMS	<p>Control and isolate vibration and noise in the vehicle to improve ride and handling</p> <p>Products:</p> <ul style="list-style-type: none"> – Powertrain Mount Systems: (Multi-state Vacuum Switchable Hydraulic Engine Mounts, Bi-state Electric Switchable Hydraulic Engine Mounts, Conventional Hydraulic Mounts, Elastomeric Mounts) 	North America Leader