

Cooper-Standard Holdings Inc.
Form 10-K
March 31, 2008

Table of Contents

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, 2007

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 333-123708

COOPER-STANDARD HOLDINGS INC.

Edgar Filing: Cooper-Standard Holdings Inc. - Form 10-K

(Exact name of registrant as specified in its charter)

Delaware

20-1945088 (State or other jurisdiction of
incorporation or organization) (I.R.S. Employer Identification No.)
39550 Orchard Hill Place Drive
Novi, Michigan 48375
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of the registrant's shares of common stock, \$0.01 par value per share, outstanding as of March 21, 2008 was 3,483,600 shares.

The registrant's common stock is not publicly traded.

TABLE OF CONTENTS

Page	PART I	Item 1. Business	1	Item 1A. Risk Factors	13	Item 1B. Unresolved Staff Comments	19	
		Item 2. Properties	19	Item 3. Legal Proceedings	19	Item 4. Submission of Matters to a Vote of Security Holders	19	
	PART II	Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	20	Item 6. Selected Financial Data	20	Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	21	
		Item 7A. Quantitative and Qualitative Disclosures About Market Risk	40	Item 8. Financial Statements and Supplementary Data	42	Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	88	
		Item 9A(T). Controls and Procedures	88	Item 9B. Other Information	89	PART III	Item 10. Directors, Executive Officers and Corporate Governance	90
		Item 11. Executive Compensation	94	Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	122	Item 13. Certain Relationships and Related Transactions and Director Independence	123	
		Item 14. Principal Accountant Fees and Services	123	PART IV	Item 15. Exhibits and Financial Statement Schedules	124	Signatures	131
		Supplemental Information	132					

Table of Contents

PART I

Item 1. Business

The terms the “Company,” “Cooper-Standard,” “we,” “us,” and “our” in this Form 10-K refer to Cooper-Standard Holdings Inc. and its consolidated subsidiaries, unless the context requires otherwise.

General:

Cooper-Standard provides innovative solutions to the automotive industry. We are a leading global manufacturer of fluid handling, body sealing, and noise, vibration and harshness control (“NVH”) components, systems, subsystems, and modules, primarily for use in passenger vehicles and light trucks for global original equipment manufacturers (“OEMs”) and replacement markets. The Company conducts substantially all of its activities through its subsidiaries. The Company’s principal executive offices are located at 39550 Orchard Hill Place Drive, Novi, Michigan 48375, and its telephone number is (248) 596-5900. We also maintain a website at www.cooperstandard.com, which is not a part of this Form 10-K.

We believe that we are the largest global producer of body sealing systems, one of the two largest North American producers in the NVH control business, and the second largest global producer of the types of fluid handling products that we manufacture. Approximately 80% of our sales in 2007 were to automotive original equipment manufacturers (“OEMs”), including Ford, General Motors, Chrysler (collectively, the “Detroit 3”), Audi, BMW, Fiat, Honda, Mercedes Benz, Porsche, PSA Peugeot Citroën, Renault/Nissan, Toyota, and Volkswagen. The remaining 20% of our 2007 sales were primarily to Tier I and Tier II automotive suppliers. In 2007, our products were found in 19 of the 20 top-selling models in North America and in 17 of the 20 top-selling models in Europe.

We operate in 69 manufacturing locations and nine design, engineering, and administrative locations in 18 countries around the world. The Company’s global locations, and the number of facilities in each country with more than one facility, are as follows:

Americas Europe Asia Pacific Brazil Belarus Australia Camaçari Baranovichi Adelaide Varginha Sao Paulo* Belgium China Gent Changchun Canada Chongqing Georgetown, ON Czech Republic Huai-an Glencoe, ON Zdar Jingzhou Mitchell, ON Kunshan Stratford, ON (3) France Panyu Argenteuil* Shanghai Mexico Baclair Wuhu Aguascalientes Creutzwald Atacomulco Lillebonne India Guaymas Vitré Chennai Juarez Ghaziabad Saltillo Germany Gurgaon Torreón (2) Grünberg Halol Hockenheim Pune USA Lindau Archbold, OH Mannheim Japan Auburn, IN Marsberg Hiroshima* Auburn Hills, MI* Schelklingen Nagoya* Bowling Green, OH (2)

Table of Contents

Americas Europe Asia Pacific Bremen, IN Italy Korea East Tawas, MI Battipaglia Cheong-Ju Fairview, MI
Ciriè Incheon* Farmington Hills, MI* Seo-Cheon Gaylord, MI Poland Goldsboro, NC (2) Bielsko-Biala
Leonard, MI Dzierzoniow (2) Mt. Sterling, KY Myslenice New Lexington, OH Piotrkow Novi, MI*
Oscoda, MI Spain Spartanburg, SC Getafe Surgoinsville, TN Topeka, IN United Kingdom
Coventry*

* Denotes

non-manufacturing locations.

Our net sales have grown from \$1.8 billion for the year ended December 31, 2005, to \$2.5 billion for the year ended December 31, 2007. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Company Overview.”

Some market data and other statistical information used throughout this Form 10-K is based on data available from CSM Worldwide, an independent market research firm. Other data are based on our good faith estimates, which are derived from our review of internal surveys, as well as third party sources. Although we believe all of these third party sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness. To the extent that we have been unable to obtain information from third party sources, we have expressed our belief on the basis of our own internal analyses and estimates of our and our competitors’ products and capabilities. The Company’s principal shareholders are affiliates of The Cypress Group L.L.C. and GS Capital Partners 2000, L.P., whom we refer to as our “Sponsors.” Each of the Sponsors, including their respective affiliates, currently owns approximately 49.2% of the equity of Cooper-Standard Holdings Inc. See “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

Acquisition History

On December 23, 2004, Cooper-Standard Holdings Inc. acquired the automotive segment of Cooper Tire & Rubber Company (the “2004 Acquisition”) and began operating the business on a stand-alone basis primarily through its principal operating subsidiary, Cooper-Standard Automotive Inc. See “Item 8. Financial Statements and Supplementary Data” (especially Notes 8 and 17, respectively) for further descriptions of the Senior Notes, Senior Subordinated Notes, and Senior Credit Facilities and of the equity contributions relating to the 2004 Acquisition.

In July 2005, the Company acquired Gates Corporation’s Enfriamientos de Automoviles manufacturing operations in Atlacomulco, Mexico (the “Atlacomulco business”). The Atlacomulco business manufactures low pressure heating and cooling hose, principally for the OEM automotive market.

In February 2006, the Company acquired the automotive fluid handling systems business of ITT Industries, Inc. (“FHS” or the “FHS business”). See “Item 8. Financial Statements and Supplementary Data” (especially Note 3).

In March 2007, the Company acquired Automotive Components Holdings’ El Jarudo manufacturing operations located in Juarez, Mexico (the “El Jarudo business”). The El Jarudo business manufactures automotive fuel rails.

Table of Contents

In August 2007, the Company completed the acquisition of nine Metzeler Automotive Profile Systems sealing systems operations in Germany, Italy, Poland, Belarus, and Belgium, and a joint venture interest in China (“MAPS” or the “MAPS business”) from Automotive Sealing Systems S.A. (“ASSSA”). See “Item 8. Financial Statements and Supplementary Data” (especially Note 3).

In December 2007, the Company acquired the 74% joint venture interest of ASSSA in Metzeler Automotive Profiles India Private Limited (“MAP India”), a leading manufacturer of automotive sealing products in India. See “Item 8. Financial Statements and Supplementary Data” (especially Note 3).

Strategy:

We intend to build on our position as one of the world’s leading automotive suppliers of body sealing, NVH control and fluid handling components and systems by focusing on the following key strategic areas:

Strengthening relationships with the Detroit 3 and expanding relationships with other OEMs

We plan to strengthen our leading positions with the Detroit 3 while aggressively pursuing additional business opportunities with New American Manufacturers (“NAMs”) and European and Asian OEMs. The Detroit 3 are long established, highly valued customers with revenue streams spread among all platform categories, including cars, light trucks, and SUVs. However, we believe NAMs and European and Asian OEMs will provide significant opportunities to further grow our business, especially as Asian OEMs have been rapidly penetrating North American and European markets, and Asian markets are relatively young and growing at a higher rate than other automotive markets. In particular, China’s light vehicle market is projected to grow at an 11% compound annual growth rate (“CAGR”) between 2007 and 2012, according to CSM Worldwide estimates, which will make it the world’s fastest growing market.

To further strengthen our customer relationships, we plan to continue to focus on our program management capabilities, engineering excellence, and customer service, and to utilize our technological and design capabilities to enhance the value we offer our customers. We will continue to seek customer feedback with respect to quality manufacturing, design and engineering, delivery, and after-sales support in an effort to provide the highest level of customer service and responsiveness. We believe our efforts have been successful to date and we continue to be awarded content on the Detroit 3’s most important platforms. We have also achieved several recent successes with other OEMs, such as Nissan, Toyota, Honda, Audi, and Volkswagen. Further, our acquisition of MAPS diversified our customer base with significant new volume with key customers such as Fiat, BMW, Daimler and Volkswagen Group. In Asia, and particularly in China, we have been successful in entering new markets and are developing a substantial manufacturing and marketing presence to serve local OEMs and to follow our customers as they expand into these markets. We operate eight manufacturing locations in China, which provide products and services to both Chinese OEMs and our traditional customers.

Targeting high-volume vehicle platforms and increasing content per vehicle

We intend to target high-volume platforms and to maximize the amount of content we provide to each platform. We expect that high-volume platforms will allow us to efficiently gain market share, create greater economies of scale, and provide more opportunities to realize cost savings from our Lean initiatives program, an internally developed program intended to optimize manufacturing by eliminating waste, controlling cost and enhancing productivity. Supplying OEMs’ high-volume platforms is increasingly important because OEMs are using fewer platforms to cover a greater number of vehicle models. Maximizing content-per-vehicle is important not only to increase revenue per vehicle, but also to increase our relative importance to the platform and strengthen our customer relationships with the

OEMs which continue to consolidate their supplier base.

By leveraging our extensive product portfolio and providing superior customer service and product innovations, we have been and expect to continue to be successful in winning significant business on high-volume platforms.

Developing new modular solutions and other value-added products

We believe that significant opportunities exist to grow our current portfolio of products, including components as well as complete sub-systems, modules, and assemblies, by continuing to design, develop,

3

Table of Contents

and launch new products that distinguish us from our competitors. As a leader in design, engineering, and technical capabilities, we are able to focus on improving products, developing new technologies, and implementing more efficient processes in each of our product lines. Our body sealing products, which are part of our body & chassis product portfolio, are visible to vehicle passengers and can enhance the vehicle's aesthetic appeal, in addition to creating a barrier to wind, precipitation, dust, and noise. Our noise, vibration and harshness control products, which are also part of our body & chassis products, are a fundamental part of the driving experience and can be important to the vehicle quality. Our fluid handling modules and sub-systems are designed to increase functionality and decrease cost to the OEM, which can be the deciding factor in winning new business.

To remain a leader in new product innovation, we will continue to invest in research and development and to focus on new technologies, materials, and designs. We believe that extensive use of Design for Six Sigma and other development strategies and techniques has led to some of our most successful recent product innovations, including our ESP Thermoplastic Glassruns (body & chassis), a proprietary plastics-to-aluminum overmolding process (fluid handling), and our Truck Tuff Hydromounts (body & chassis). Examples of successful modular innovations include engine cooling systems, fuel and brake systems, and exhaust gas recirculation modules in our fluid handling product category, and Daylight Opening Modules in our body & chassis category.

Selectively pursuing complementary acquisitions and alliances

We intend to selectively pursue acquisitions, joint ventures, and technology alliances to enhance our customer base, geographic penetration, market diversity, scale, and technology. Consolidation is an industry trend and is encouraged by OEMs' desire for fewer supplier relationships. We believe joint ventures allow us to penetrate new markets with less relative risk and capital investment. Technology alliances are important because they are an effective way to share development costs, best-practices, and specialized knowledge.

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. We also operate through several successful joint ventures and technical alliances, including those with Nishikawa Rubber Company, Zhejiang Saiyang Seal Products Co., Ltd. ("Saiyang Sealing"), Guyoung Technology Co. Ltd. ("Guyoung"), Hubei Jingda Precision Steel Tube Industry Co., Ltd. ("Jingda"), Shanghai Automotive Industry Corporation ("SAIC") and Toyoda Gosei Co., Ltd. ("Toyoda Gosei").

In July of 2005, we acquired the Atlacomulco business. The business manufactures low pressure heating and cooling hose, principally for the OEM automotive market.

In February of 2006, we furthered our strategy by acquiring the FHS business. We believe that the FHS acquisition has allowed us to provide a more complete line of fluid management solutions for new vehicle platforms, diversified our customer base, and secured our position as the second largest global fluid handling systems supplier in the automotive industry.

In March of 2007, we acquired the El Jarudo business. The business is located in Juarez, Mexico and is a producer of automotive fuel rails.

In August of 2007, we acquired the MAPS business, including nine sealing systems operations in Germany, Italy, Poland, Belarus, and Belgium, and a joint venture interest in China. MAPS is a leader in Europe in the development and manufacture of complete automotive body sealing systems.

In December of 2007, we completed the acquisition of a 74% joint venture interest in MAP India, a leading manufacturer of automotive sealing products in India.

Expanding our footprint in Asia

While we have, through new facilities, acquisitions, and joint ventures, significantly expanded our presence in Asia, particularly China and India, we believe that significant opportunities for growth exist in this fast-growing market. We will continue to evaluate opportunities that enable us to establish or expand our design, technology and commercial support operations in that region and enhance our ability to serve current and future customers.

4

Table of Contents

Focusing on operational excellence and cost structure

We will continue to intensely focus on the efficiency of our manufacturing operations and on opportunities to reduce our cost structure. Although the automotive supply sector is highly competitive, we believe that we have been able to maintain strong operating margins due in part to our ability to constantly improve our manufacturing processes and to selectively relocate or close facilities. Our primary areas of focus are:

- Identifying and implementing Lean initiatives throughout the Company. Our Lean initiatives are focused on optimizing manufacturing by eliminating waste, controlling cost, and enhancing productivity. Lean initiatives have been implemented at each of our manufacturing and design facilities.

- Evaluating opportunities to relocate operations to lower-cost countries. We have successfully employed this strategy to date by relocating operations to the Czech Republic and Poland from higher-cost countries in Western Europe and from the United States and Canada to Mexico, China, and India. We plan to continue to emphasize our operations in lower-cost countries to capitalize on reduced labor and other costs.

- Consolidating facilities to reduce our cost structure. Our restructuring efforts were primarily undertaken to streamline our global operations. We will continue to take a disciplined approach to evaluating restructuring opportunities that would improve our efficiency, profitability, and cost structure.

- Maintaining flexibility in all areas of our operations. Our operational capital needs are generally lower compared to many in the automotive industry. Our manufacturing machinery is re-programmable and easily movable from job-to-job providing us with a high degree of flexibility in adapting to market changes and serving customers.

Further exploring non-transportation applications for products and technology

While the automotive industry will continue to be our core business, we have recently begun exploring new industries in which we can apply our expertise and manufacture new products utilizing our existing facilities and capabilities. As a leader in the development and manufacture of equipment using rubber, metals and extruded materials, we believe there may be opportunities in other sectors requiring the use of these materials.

Products:

We supply a diverse range of products on a global basis to a broad group of customers. For the year ended December 31, 2007, body & chassis and fluid handling products accounted for 55% and 45%, of net sales, respectively. For the year ended December 31, 2006, body & chassis and fluid handling products accounted for 53% and 47% of net sales, respectively. Our top ten platforms by sales accounted for nearly 40% of net sales in 2007, with the remainder derived from a multitude of platforms, composed of a diversity of sport-utility, light truck, and various classes of sedans and other vehicles. For information related to our reportable segments, please refer to Note 18 to the Consolidated Financial Statements.

Our principal product lines are described below:

Body & Chassis Products

We are a leading global supplier of body & chassis products. Body & chassis products consist of body sealing systems and components that protect vehicle interiors from weather, dust, and noise intrusion and NVH control systems and components that control and isolate noise vibration in a vehicle to improve ride and handling. For the years ended December 31, 2007 and 2006, we generated approximately 55% and 53%, respectively of total revenue before corporate eliminations from the sale of body & chassis products.

We believe we are the largest provider of body sealing products in the world based on sales. We have an extensive product offering and believe we are known for exceptional quality and strong design and

5

Table of Contents

technical capabilities, including advanced skills in adhesives, mixing, and plastics technology. Our products are found on some of the world's top-selling platforms, including the Ford F-Series, GMT900 (Silverado/Tahoe/Yukon), General Motors' GMX 211 (Impala), and Ford B Car (Fiesta/Fusion).

Our body sealing products are comprised of manufactured EPDM (synthetic rubber) and TPE (thermoplastic elastomer) seals to provide environmental closure to the hood, trunk, and interior of vehicles. These products are highly engineered and are developed and manufactured with regard to aesthetic, performance, and durability requirements. The typical production process involves mixing of rubber/plastic compounds, extrusion (supported with metal and woven wire carriers or unsupported), cutting, notching, forming, injection molding, and assembly. Below is a description of the major body sealing products produced:

	Product
Category	
Description	
Door Seals	Sectional weatherstrip design that fits the door structure and body cabin to seal rain, dust, and noise from the occupants of vehicles
Hood Seals	A primary seal offering protection against water penetration and reducing loud engine and road noise during high speed travel
Auxiliary Seals	Seal encapsulated metal reinforcements for corner mirror mounting and sealing of assembly door to door and glass systems
Belt Line Seals	Primary seal offering protection for moveable glass against water, dust, and noise entering the vehicle cabin
Lower Door Seals	A primary body seal that offers protection against water penetration. Reduces loud road noise entering the cabin and maintains quietness during high speed driving
Glass Run Channel Assembly	Enables the movable door glass and door to form one surface, improving glass movement and sealing
Quarter Window Trim	Weatherstrip seals, integral pillar moldings, and decorative plastic or metal corner trims to seal fixed quarter side glass windows and glass encapsulation
Trunk Lid Seals	A metal-compound type, triple extrusion product that creates a seal when applied onto the body flange
Roof Seal	Convertible Roof Sealing: Weatherstrip sealing materials that combine compressibility with superior design for use on soft top weathersealing applications
Sunroof Sealing and Trim:	An original design and specification are required to create a narrow sealing space and minimize sliding resistance

As a result of our global presence, patented technologies and engineering capabilities, as well as our strong relationships with the global OEMs, we believe we are positioned for future growth and product expansion. We are currently developing additional system integration opportunities, particularly in window regulators, plastics, door components, and exterior trim.

We have expertise in nearly every aspect of automotive sealing technology, including adhesives, exterior coatings, corner molding, and rubber extrusion techniques, and have been a leader in the use of plastic applications, with a dedicated facility in Spartanburg, South Carolina that primarily produces plastic weathersealing components. This expertise has helped provide us with an entry with Japanese manufacturers, such as Nissan, in the use of TPE inner belt lines that their traditional suppliers have been unable to offer as competitively. We have been an early adopter of thermoplastic elastomers, which provide a lightweight, cost-effective alternative to rubber seals in some applications. We are a leader in the application of plastic supported glassrun systems through engineered stretched plastic and patent-protected daylight opening systems, which often provide cost savings, reduction of assembly time, and performance improvement. To further our capabilities, we exchange plastics technology with Nishikawa Rubber Company, one of our joint venture partners, and are currently cooperating on the development of a protected "blown sponge plastic" process as well as other innovative plastic applications with our

Table of Contents

customers. We are also currently collaborating on several customer-funded, advanced engineering projects with Ford and General Motors.

To grow our customer base, we intend to continue to strengthen our relationship with the Detroit 3 and are aggressively targeting other OEMs, particularly NAMs and European and Asian OEMs. Over the past two years we have secured business from Toyota, Nissan, Honda, and Audi. Further, our acquisition of the MAPS business diversified our customer base with the addition of customers such as Fiat, BMW, Daimler, Volkswagen Group and several India and Chinese OEMs. We intend to continue to develop new customer relationships by forming new strategic alliances and building on our existing joint ventures and long standing relationships. We own 50% of Nishikawa Standard Company (“NISCO”), a joint venture with Nishikawa Rubber Company; 89% of Cooper Saiyang Wuhu Automotive Co., Ltd., a joint venture with Saiyang Sealing in Wuhu, China; 47.5% of Shanghai SAIC-Metzeler Sealing Systems Co. Ltd., a joint venture with SAIC which also owns 47.5%; and 74% of MAP India, a joint venture with Toyoda Gosei. We believe our strong Asian presence in rapidly expanding markets gives us the base and the abilities to engineer and deliver weathersealing products not enjoyed by our competition. These relationships and engineering and design capabilities have helped us to provide content on some of the world’s top-selling platforms.

We believe we are one of the two largest providers of noise, vibration and harshness control products in North America based on sales. We provide a comprehensive line of powertrain and suspension products and active noise and vibration cancellation systems. We are a leader in engineering, design, testing, and rubber-to-metal bonding technology, and provide superior integrated customer service and problem-solving capabilities.

Noise vibration control products include various engine and body mounts, dampers, isolators, and other equipment. Engine mounts secure and isolate vehicle powertrain noise, vibration, and harshness from the uni-body or frame. Body and cradle mounts enable isolation of the cabin from the vehicle frame, reducing noise, vibration, and harshness, and are manufactured with a variety of materials, such as natural rubber and butyl. Tuned dampers are designed to reduce specific vibration issues, such as for the steering wheel and column, exhaust system, and internal driveshaft.

		Product
Category	Description	Body Cushions Enable isolation of the cabin from the vehicle frame reducing noise, vibration, and harshness
	Engine Mounts	Secure and isolate vehicle powertrain noise, vibration, and harshness from the uni-body or frame