STONERIDGE INC
Form 10-K
March 16, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

o 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: 001-13337

STONERIDGE, INC.
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	34-1598949 (I.R.S. Employer Identification No.)
9400 East Market Street, Warren, Ohio (Address of principal executive offices)	44484 (Zip Code)

(330) 856-2443
Registrant's telephone number, including area code

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

Title of each class	Name of each exchange on which registered
Common Shares, without par value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes x 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.
o Yes x 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. x Yes o 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. o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

As of June 30, 2008, the aggregate market value of the registrant's Common Shares, without par value, held by non-affiliates of the registrant was approximately $247.1 million. The closing price of the Common Shares on June 30, 2008 as reported on the New York Stock Exchange was $17.06 per share. As of June 30, 2008, the number of Common Shares outstanding was 24,660,471.

The number of Common Shares, without par value, outstanding as of February 20, 2009 was 24,664,529.

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 4, 2009, into Part III, Items 10, 11, 12, 13 and 14.

STONERIDGE, INC. AND SUBSIDIARIES

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PART I

Item 1. Business.

Overview

Founded in 1965, Stoneridge, Inc. (the "Company") is an independent designer and manufacturer of highly engineered electrical and electronic components, modules and systems for the medium- and heavy-duty truck, agricultural, automotive and off-highway vehicle markets. Our custom-engineered products are predominantly sold on a sole-source basis and consist of application-specific control devices, sensors, vehicle management electronics and power and signal distribution systems. These products comprise the elements of every vehicle's electrical system, and individually interface with a vehicle's mechanical and electrical systems to (i) activate equipment and accessories, (ii) display and monitor vehicle performance and (iii) control and distribute electrical power and signals. Our products improve the performance, safety, convenience and environmental monitoring capabilities of our customers' vehicles. As such, the growth in many of the product areas in which we compete is driven by the increasing consumer desire for safety, security and convenience. This is coupled with the need for original equipment manufacturers ("OEM") to meet safety requirements in addition to the general trend of increased electrical and electronic content per vehicle. Our technology and our partnership-oriented approach to product design and development enables us to develop next-generation products and to excel in the transition from mechanical-based components and systems to electrical and electronic components, modules and systems.

Products

We conduct our business in two reportable segments: Electronics and Control Devices. Under the provisions of Statement of Financial Accounting Standard ("SFAS") No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company's operating segments are aggregated based on sharing similar economic characteristics. Other aggregation factors include the nature of the products offered and management and oversight responsibilities. The core products of the Electronics reportable segment include vehicle electrical power and distribution systems and electronic instrumentation and information display products. The core products of the Control Devices reportable segment include electronic and electrical switch products, control actuation devices and sensors. We design and manufacture the following vehicle parts:

Electronics. The Electronics reportable segment produces electronic instrument clusters, electronic control units, driver information systems and electrical distribution systems, primarily wiring harnesses and connectors for electrical power and signal distribution. These products collect, store and display vehicle information such as speed, pressure, maintenance data, trip information, operator performance, temperature, distance traveled and driver messages related to vehicle performance. In addition, power distribution systems regulate, coordinate and direct the operation of the entire electrical system within a vehicle compartment. These products use state-of-the-art hardware, software and multiplexing technology and are sold principally to the medium- and heavy-duty truck, agricultural and off-highway vehicle markets.

Control Devices. The Control Devices reportable segment produces products that monitor, measure or activate a specific function within the vehicle. Product lines included within the Control Devices segment are sensors, switches, actuators, as well as other electronic products. Sensor products are employed in most major vehicle systems, including the emissions, safety, powertrain, braking, climate control, steering and suspension systems. Switches transmit a signal that activates specific functions. Hidden switches are not typically seen by vehicle passengers, but are used to activate or deactivate selected functions. Customer activated switches are used by a vehicle's operator or passengers to manually activate headlights, rear defrosters and other accessories. In addition, the Control Devices segment designs and manufactures electromechanical actuator products that enable users to deploy power functions in a vehicle and can be designed to integrate switching and control functions. We sell these products principally to the automotive market.

The following table presents net sales by reportable segment, as a percentage of total net sales:

	For the Years Ended December 31,		
	2008	2007	2006
Electronics	69%	61%	62%
Control Devices	31	39	38
Total	100%	100%	100%

For further information related to our reportable segments and financial information about geographic areas, see Note 13, "Segment Reporting," to the consolidated financial statements included in this report.

Production Materials

The principal production materials used in the manufacturing process for both reportable segments include: copper wire, zinc, cable, resins, plastics, printed circuit boards, and certain electrical components such as microprocessors, memory devices, resistors, capacitors, fuses, relays and connectors. We purchase such materials pursuant to both annual contract and spot purchasing methods. Such materials are readily available from multiple sources, but we generally establish collaborative relationships with a qualified supplier for each of our key production materials in order to lower costs and enhance service and quality. Any change in the supply of, or price for, these raw materials could materially affect our results of operations and financial condition.

Patents and Intellectual Property

Both of our reportable segments maintain and have pending various U.S. and foreign patents and other rights to intellectual property relating to our business, which we believe are appropriate to protect the Company's interests in existing products, new inventions, manufacturing processes and product developments. We do not believe any single patent is material to our business, nor would the expiration or invalidity of any patent have a material adverse effect on our business or ability to compete. We are not currently engaged in any material infringement litigation, nor are there any material infringement claims pending by or against the Company.

Industry Cyclicality and Seasonality

The markets for products in both of our reportable segments have historically been cyclical. Because these products are used principally in the production of vehicles for the medium- and heavy-duty truck, agricultural, automotive and off-highway vehicle markets, sales, and therefore results of operations, are significantly dependent on the general state of the economy and other factors, like the impact of environmental regulations on our customers, which affect these markets. A decline in medium- and heavy-duty truck, agricultural, automotive and off-highway vehicle production of our principal customers could adversely impact the Company. Approximately 70%, 60% and 62% of our net sales in 2008, 2007 and 2006, respectively, were derived from the medium- and heavy-duty truck, agricultural and off-highway vehicle markets. Approximately 30%, 40% and 38% of our net sales in 2008, 2007 and 2006, respectively, were made to the automotive market.

We typically experience decreased sales during the third calendar quarter of each year due to the impact of scheduled OEM plant shutdowns in July for vacations and new model changeovers. The fourth quarter is similarly impacted by plant shutdowns for the holidays.

Customers

We are dependent on a small number of principal customers for a significant percentage of our sales. The loss of any significant portion of our sales to these customers or the loss of a significant customer would have a material adverse impact on the financial condition and results of operations of the Company. We supply numerous different parts to each of our principal customers. Contracts with several of our customers provide for supplying their requirements for a particular model, rather than for manufacturing a specific quantity of products. Such contracts range from one year to the life of the model, which is generally three to seven years. Therefore, the loss of a contract for a major model or a significant decrease in demand for certain key models or group of related models sold by any of our major customers could have a material adverse impact on the Company. We may also enter into contracts to supply parts, the introduction of which may then be delayed or not used at all. We also compete to supply products for successor models and are therefore subject to the risk that the customer will not select the Company to produce products on any such model, which could have a material adverse impact on the financial condition and results of operations of the Company. In addition, we sell products to other customers that are ultimately sold to our principal customers.

The following table presents the Company's principal customers, as a percentage of net sales:

	For the Ended December 31,		
	2008	2007	2006
Navistar International	26%	20%	25%
Deere & Company	10	7	6
Ford Motor Company	6	8	6
Chrysler LLC	6	5	5
MAN AG	4	6	6
General Motors	4	6	5
Other	44	48	47
Total	100%	100%	100%

Backlog

Our products are produced from readily available materials and have a relatively short manufacturing cycle; therefore our products are not on backlog status. Each of our production facilities maintains its own inventories and production schedules. Production capacity is adequate to handle current requirements and can be expanded to handle increased growth if needed.

Competition

Markets for our products in both reportable segments are highly competitive. The principal methods of competition are technological innovation, price, quality, service and timely delivery. We compete for new business both at the beginning of the development of new models and upon the redesign of existing models. New model development generally begins two to five years before the marketing of such models to the public. Once a supplier has been selected to provide parts for a new program, an OEM customer will usually continue to purchase those parts from the selected supplier for the life of the program, although not necessarily for any model redesigns.

Our diversity in products creates a wide range of competitors, which vary depending on both market and geographic location. We compete based on strong customer relations and a fast and flexible organization that develops technically effective solutions at or below target price. We compete against the following primary competitors:

Electronics. Our primary competitors include Continental AG/Siemens VDO, Delphi and Leoni.

Control Devices. Our primary competitors include Methode, Denso, Delphi, Bosch, Continental AG/Siemens VDO, Hella, TRW and BEI Duncan.

Product Development

Our research and development efforts are largely product design and development oriented and consist primarily of applying known technologies to customer generated problems and situations. We work closely with our customers to creatively solve problems using innovative approaches. The majority of our development expenses are related to customer-sponsored programs where we are involved in designing custom-engineered solutions for specific applications or for next generation technology. To further our vehicles platform penetration, we have also developed collaborative relationships with the design and engineering departments of key customers. These collaborative efforts have resulted in the development of new and complimentary products and the enhancement of existing products.

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Development work at the Company is largely performed on a decentralized basis. We have engineering and product development departments located at a majority of our manufacturing facilities. To ensure knowledge sharing among decentralized development efforts, we have instituted a number of mechanisms and practices whereby innovation and best practices are shared. The decentralized product development operations are complimented by larger technology groups in Canton, Massachusetts, Lexington, Ohio and Stockholm, Sweden.

We use efficient and quality oriented work processes to address our customers' high standards. Our product development technical resources include a full complement of computer-aided design and engineering ("CAD/CAE") software systems, including (i) virtual three-dimensional modeling, (ii) functional simulation and analysis capabilities and (iii) data links for rapid prototyping. These CAD/CAE systems enable the Company to expedite product design and the manufacturing process to shorten the development time and ultimately time to market.

We have further strengthened our electrical engineering competencies through investment in equipment such as (i) automotive electro-magnetic compliance test chambers, (ii) programmable automotive and commercial vehicle transient generators, (iii) circuit simulators and (iv) other environmental test equipment. Additional investment in product machining equipment has allowed us to fabricate new product samples in a fraction of the time required historically. Our product development and validation efforts are supported by full service, on-site test labs at most manufacturing facilities, thus enabling cross-functional engineering teams to optimize the product, process and system performance before tooling initiation.

We have invested, and will continue to invest in technology to develop new products for our customers. Research and development costs incurred in connection with the development of new products and manufacturing methods, to the extent not recoverable from the customer, are charged to selling, general and administrative expenses, as incurred. Such costs amounted to approximately $45.6 million, $44.2 million and $40.8 million for 2008, 2007 and 2006, respectively, or 6.1%, 6.1% and 5.8% of net sales for these periods.

We will continue shifting our investment spending toward the design and development of new products rather than focusing on sustaining existing product programs for specific customers. This shift is essential to the future growth of the Company. However, the typical product development process takes three to five years to show tangible results. As part of our effort to shift our investment spending, we reviewed our current product portfolio and adjusted our spending to either accelerate or eliminate our investment in these products, based on our position in the market and the potential of the market and product.

Environmental and Other Regulations

Our operations are subject to various federal, state, local and foreign laws and regulations governing, among other things, emissions to air, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. We believe that our business, operations and facilities have been and are being operated in compliance, in all material respects, with applicable environmental and health and safety laws and regulations, many of which provide for substantial fines and criminal sanctions for violations.

Employees

As of December 31, 2008, we had approximately 6,400 employees, approximately 1,600 of whom were salaried and the balance of whom were paid on an hourly basis. Except for certain employees located in Mexico, Sweden, and the United Kingdom, our employees are not represented by a union. Our unionized workers are not covered by collective bargaining agreements. We believe that relations with our employees are good.

Joint Ventures

We form joint ventures in order to achieve several strategic objectives including gaining access to new markets, exchanging technology and intellectual capital, broadening our customer base and expanding our product offerings. Specifically we have formed joint ventures in Brazil, PST Eletrônica S.A. ("PST"), and India, Minda Stoneridge Instruments Ltd. ("Minda"), and continue to explore similar business opportunities in other global markets. We have a 50% interest in PST and a 49% interest in Minda. We entered into our PST joint venture in October 1997 and our Minda joint venture in August 2004. Each of these investments is accounted for using the equity method of accounting.

Our joint ventures have contributed positively to our financial results in 2008, 2007 and 2006. Equity earnings by joint venture for the years ended December 31, 2008, 2007 and 2006 are summarized in the following table (in thousands):

	For the Years Ended December 31,		
	2008	2007	2006
PST	$ 12,788	$ 10,351	$ 6,771
Minda	702	542	354
Total equity earnings of investees	$ 13,490	$ 10,893	$ 7,125

In Brazil, our PST joint venture, which is an electronic system provider focused on security and convenience applications primarily for the vehicle and motorcycle industry, generated net sales of $174.3 million, $133.0 million and $94.1 million in 2008, 2007 and 2006, respectively. We also received dividend payments of $4.2 million, $5.6 million and $3.7 million from PST in 2008, 2007 and 2006, respectively.

Executive Officers of the Company

Each executive officer of the Company is appointed by the Board of Directors, serves at its pleasure and holds office until a successor is appointed, or until the earlier of death, resignation or removal. The Board of Directors generally appoints executive officers annually. The executive officers of the Company are as follows:

Name	Age	Position
John C. Corey	61	President, Chief Executive Officer and Director
George E. Strickler	61	Executive Vice President, Chief Financial Officer and Treasurer
Thomas A. Beaver	55	Vice President of Global Sales and Systems Engineering
Mark J. Tervalon	42	Vice President of the Company and President of the Stoneridge Electronics Division

John C. Corey, President, Chief Executive Officer and Director. Mr. Corey has served as President and Chief Executive Officer since being appointed by the Board of Directors in January 2006. Mr. Corey has served as a Director on the Board of Directors since January 2004. Prior to his employment with the Company, Mr. Corey served from October 2000, as President and Chief Executive Officer and Director of Safety Components International, a supplier of airbags and components, with worldwide operations.

George E. Strickler, Executive Vice President, Chief Financial Officer and Treasurer. Mr. Strickler has served as Executive Vice President and Chief Financial Officer since joining the Company in January of 2006. Mr. Strickler was appointed Treasurer of the Company in February 2007. Prior to his employment with the Company, Mr. Strickler served as Executive Vice President and Chief Financial Officer for Republic Engineered Products, Inc. (“Republic”), from February 2004 to January of 2006. Before joining Republic, Mr. Strickler was BorgWarner Inc.’s Executive Vice President and Chief Financial Officer from February 2001 to November 2003.

Thomas A. Beaver, Vice President of Global Sales and Systems Engineering. Mr. Beaver has served as Vice President of Global Sales and Systems Engineering of the Company since January of 2005. Prior to this time, Mr. Beaver served as Vice President of Stoneridge Sales and Marketing from January 2000 to January 2005.

Mark J. Tervalon, Vice President of the Company and President of the Stoneridge Electronics Division. Mr. Tervalon has served as President of the Stoneridge Electronics Division and Vice President of the Company since August of

2006. Prior to that, Mr. Tervalon served as Vice President and General Manager of the Electronic Products Division from May 2002 to December 2003 when he became Vice President and General Manager of the Stoneridge Electronics Group.

Available Information

We make available, free of charge through our website (www.stoneridge.com), our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, and other filings with the Securities and Exchange Commission ("SEC"), as soon as reasonably practicable after they are filed with the SEC. Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, Whistleblower Policy and Procedures and the charters of the Board's Audit, Compensation and Nominating and Corporate Governance Committees are posted on our website as well. Copies of these documents will be available to any shareholder upon request. Requests should be directed in writing to Investor Relations at 9400 East Market Street, Warren, Ohio 44484.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company.

Item 1A. Risk Factors.

Set forth below and elsewhere in this Annual Report on Form 10-K are some of the principal risks and uncertainties that could cause our actual business results to differ materially from any forward-looking statements contained in this Report. In addition, future results could be materially affected by general industry and market conditions, changes in laws or accounting rules, general U.S. and non-U.S. economic and political conditions, including a global economic slow-down, fluctuation of interest rates or currency exchange rates, terrorism, political unrest or international conflicts, political instability or major health concerns, natural disasters, commodity prices or other disruptions of expected economic and business conditions. These risk factors should be considered in addition to our cautionary comments concerning forward-looking statements in this Report, including statements related to markets for our products and trends in our business that involve a number of risks and uncertainties. Our separate section to follow, "Forward-Looking Statements," on page 32 should be considered in addition to the following statements.

Current worldwide economic conditions and credit tightening may adversely affect our business, operating results and financial condition.

General worldwide economic conditions have experienced a downturn due to the effects of the sub-prime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. We are not immune to changes in economic conditions. We believe the current worldwide economic crisis has resulted and may continue to result in a further decline in current and forecasted production volumes for light and commercial vehicles, which will likely result in decreased demand for our products. The worldwide economic crisis also may have other adverse implications on our business. For example, the ability of our customers to borrow money from their existing lenders or to obtain credit from other sources to purchase our products may be impaired. Although we maintain an allowance for doubtful accounts for estimating losses resulting from the inability of our customers to make required payments and such losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same loss rates that we have in the past, especially given the current turmoil in the worldwide economy. A significant change in the liquidity or financial condition of our customers could cause unfavorable trends in our receivable collections and additional allowances may be required, which could adversely affect our operating results. In addition, the worldwide economic crisis may adversely impact the ability of suppliers to provide us with materials and components, which could adversely affect our business and operating results.

The North American and European automotive industries are in distress and further deterioration could adversely impact our business.

Global automotive market sales represented 30%, 40% and 38% of our total net sales in 2008, 2007 and 2006, respectively. A number of companies in the global automotive industry are facing severe financial difficulties. In North America, General Motors, Ford, and Chrysler have experienced a market decline. They have announced significant restructuring actions in an effort to improve profitability and some have received Federal financing assistance. The North American automotive manufacturers are also burdened with substantial structural costs, such as pension and healthcare costs, that have impacted their profitability and labor relations and may ultimately result in severe financial difficulty, including bankruptcy. Automakers across Europe and Japan are also experiencing difficulties from a weakened economy and tightening credit markets. Automotive industry conditions have adversely affected our supply base. Lower production levels for some of our key suppliers, increases in certain raw material, commodity and energy costs and the global credit market crisis has resulted in severe financial distress among many companies within the automotive supply base. The continuation of financial distress within the automotive industry and the supply base and/or the bankruptcy of one or more of the automakers may lead to supplier bankruptcies, commercial disputes, supply chain interruptions, supplier requests for company sponsored capital support, or a collapse of the supply chain.

Our business is cyclical and seasonal in nature and downturns in the medium- and heavy-duty truck, agricultural, automotive and off-road vehicle markets could reduce the sales and profitability of our business.

The demand for our products is largely dependent on the domestic and foreign production of medium- and heavy-duty trucks, agricultural, automobiles and off-road vehicles. The markets for our products have historically been cyclical, because new vehicle demand is dependent on, among other things, consumer spending and is tied closely to the overall strength of the economy. Because our products are used principally in the production of vehicles for the medium- and heavy-duty truck, agricultural, automotive and off-road vehicle markets, our sales, and therefore our results of operations, are significantly dependent on the general state of the economy and other factors which affect these markets. A decline in medium- and heavy-duty truck, agricultural, automotive and off-highway vehicle production could adversely impact our results of operations and financial condition. In 2008, approximately 70% were derived from the medium- and heavy-duty truck, agricultural and off-highway vehicle markets and approximately 30% of our net sales were made to the automotive market. Seasonality experienced by the automotive industry also impacts our operations. We typically experience decreased sales during the third quarter of each year due to the impact of scheduled OEM customer plant shutdowns in July for vacations and new model changeovers. The fourth quarter is also impacted by plant shutdowns for the holidays.

We may not realize sales represented by awarded business.

We base our growth projections, in part, on commitments made by our customers. There commitments generally renew yearly during a program life cycle. If actual production orders from our customers do not approximate such commitments, it could adversely affect our business.

The prices that we can charge some of our customers are predetermined and we bear the risk of costs in excess of our estimates.

Our supply agreements with some of our customers require us to provide our products at predetermined prices. In some cases, these prices decline over the course of the contract and may require us to meet certain productivity and cost reduction targets. In addition, our customers may require us to share productivity savings in excess of our cost reduction targets. The costs that we incur in fulfilling these contracts may vary substantially from our initial estimates. Unanticipated cost increases or the inability to meet certain cost reduction targets may occur as a result of several factors, including increases in the costs of labor, components or materials. In some cases, we are permitted to pass on to our customers the cost increases associated with specific materials. Cost overruns that we cannot pass on to our customers could adversely affect our business, results of operations and financial condition.

We are dependent on the availability and price of raw materials.

We require substantial amounts of raw materials and substantially all raw materials we require are purchased from outside sources. The availability and prices of raw materials may be subject to curtailment or change due to, among other things, new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and worldwide price levels. Any change in the supply of, or price for, these raw materials could materially affect our results of operations and financial condition.

The loss or insolvency of any of our major customers would adversely affect our future results.

We are dependent on a small number of principal customers for a significant percentage of our net sales. In 2008, our top three principal customers were Navistar International, Deere & Company and Ford Motor Company, which comprised 26%, 10% and 6% of our net sales respectively. In 2008, our top ten customers accounted for 68% of our net sales. The loss of any significant portion of our sales to these customers or any other customers would have a material adverse impact on our results of operations and financial condition. The contracts we have entered into with many of our customers provide for supplying the customers' requirements for a particular model, rather than for manufacturing a specific quantity of products. Such contracts range from one year to the life of the model, which is generally three to seven years. These contracts are subject to renegotiation, which may affect product pricing and generally may be terminated by our customers at any time. Therefore, the loss of a contract for a major model or a significant decrease in demand for certain key models or group of related models sold by any of our major customers could have a material adverse impact on our results of operations and financial condition by reducing cash flows and our ability to spread costs over a larger revenue base. We also compete to supply products for successor models and are subject to the risk that the customer will not select us to produce products on any such model, which could have a material adverse impact on our results of operations and financial condition. In addition, we have significant receivable balances related to these customers and other major customers that would be at risk in the event of their bankruptcy.

Consolidation among vehicle parts customers and suppliers could make it more difficult for us to compete favorably.

The vehicle part supply industry has undergone a significant consolidation as OEM customers have sought to lower costs, improve quality and increasingly purchase complete systems and modules rather than separate components. As a result of the cost focus of these major customers, we have been, and expect to continue to be, required to reduce prices. Because of these competitive pressures, we cannot assure you that we will be able to increase or maintain gross margins on product sales to our customers. The trend toward consolidation among vehicle parts suppliers is resulting in fewer, larger suppliers who benefit from purchasing and distribution economies of scale. If we cannot achieve cost savings and operational improvements sufficient to allow us to compete favorably in the future with these larger, consolidated companies, our results of operations and financial condition could be adversely affected.

Our physical properties and information systems are subject to damage as a result of disasters, outages or similar events.

Our offices and facilities, including those used for design and development, material procurement, manufacturing, logistics and sales are located throughout the world and are subject to possible destruction, temporary stoppage or disruption as a result of any number of unexpected events. If any of these facilities or offices were to experience a significant loss as a result of any of the above events, it could disrupt our operations, delay production, shipments and revenue, and result in large expenses to repair or replace these facilities or offices.

In addition, network and information system shutdowns caused by unforeseen events such as power outages, disasters, hardware or software defects; computer viruses and computer security breaks pose increasing risks. Such an event could also result in the disruption of our operations, delay production, shipments and revenue, and result in large expenditures necessary to repair or replace such network and information systems.

We must implement and sustain a competitive technological advantage in producing our products to compete effectively.

Our products are subject to changing technology, which could place us at a competitive disadvantage relative to alternative products introduced by competitors. Our success will depend on our ability to continue to meet customers' changing specifications with respect to quality, service, price, timely delivery and technological innovation by implementing and sustaining competitive technological advances. Our business may, therefore, require significant ongoing and recurring additional capital expenditures and investment in research and development and manufacturing and management information systems. We cannot assure you that we will be able to achieve the technological advances or introduce new products that may be necessary to remain competitive. Our inability to continuously improve existing products and to develop new products and to achieve technological advances could have a material adverse effect on our results of operations and financial condition.

We may experience increased costs associated with labor unions that could adversely affect our financial performance and results of operations.

As of December 31, 2008, we had approximately 6,400 employees, approximately 1,600 of whom were salaried and the balance of whom were paid on an hourly basis. Certain employees located in Mexico, Sweden, and the United Kingdom are represented by a union but not collective bargaining agreements. We cannot assure you that our employees will not be covered by collective bargaining agreements in the future or that any of our facilities will not experience a work stoppage or other labor disruption. Any prolonged labor disruption involving our employees, employees of our customers, a large percentage of which are covered by collective bargaining agreements, or employees of our suppliers could have a material adverse impact on our results of operations and financial condition by disrupting our ability to manufacture our products or the demand for our products.

Compliance with environmental and other governmental regulations could be costly and require us to make significant expenditures.

Our operations are subject to various federal, state, local and foreign laws and regulations governing, among other things:

- the discharge of pollutants into the air and water;
- the generation, handling, storage, transportation, treatment, and disposal of waste and other materials;
- the cleanup of contaminated properties; and
- the health and safety of our employees.

We believe that our business, operations and facilities have been and are being operated in compliance in all material respects with applicable environmental and health and safety laws and regulations, many of which provide for substantial fines and criminal sanctions for violations. The operation of our manufacturing facilities entails risks and we cannot assure you that we will not incur material costs or liabilities in connection with these operations. In addition, potentially significant expenditures could be required in order to comply with evolving environmental and health and safety laws, regulations or requirements that may be adopted or imposed in the future.

We may incur material product liability costs.

We are subject to the risk of exposure to product liability claims in the event that the failure of any of our products results in personal injury or death and we cannot assure you that we will not experience material product liability losses in the future. In addition, if any of our products prove to be defective, we may be required to participate in government-imposed or customer OEM-instituted recalls involving such products. We maintain insurance against such product liability claims, but we cannot assure you that such coverage will be adequate for liabilities ultimately incurred or that it will continue to be available on terms acceptable to us. A successful claim brought against us that exceeds available insurance coverage or a requirement to participate in any product recall could have a material adverse effect on our results of operations and financial condition.

We are subject to risks related to our international operations.

Approximately 25.9% of our net sales in 2008 were derived from sales outside of North America. Non-current assets outside of North America accounted for approximately 13.6% of our non-current assets as of December 31, 2008. International sales and operations are subject to significant risks, including, among others:

- political and economic instability;
- restrictive trade policies;
- economic conditions in local markets;
- currency exchange controls;
- labor unrest;
- difficulty in obtaining distribution support and potentially adverse tax consequences; and
- the imposition of product tariffs and the burden of complying with a wide variety of international and U.S. export laws.

Additionally, to the extent any portion of our net sales and expenses are denominated in currencies other than the U.S. dollar, changes in exchange rates could have a material adverse effect on our results of operations and financial condition.

We face risks through our equity investments in companies that we do not control.

Our net earnings include significant equity earnings from unconsolidated subsidiaries. For the year ended December 31, 2008, we recognized $13.5 million of equity earnings and received $4.2 million in cash dividends from our unconsolidated subsidiaries. Our equity investments may not always perform at the levels we have seen in recent years.

Our annual effective tax rate could be volatile and materially change as a result of changes in mix of earnings and other factors.

The overall effective tax rate is equal to our total tax expense as a percentage of our total earnings before tax. However, tax expense and benefits are not recognized on a global basis but rather on a jurisdictional or legal entity basis. Losses in certain jurisdictions provide no current financial statement tax benefit. As a result, changes in the mix of earnings between jurisdictions, among other factors, could have a significant impact on our overall effective tax rate.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The Company and our joint ventures currently own or lease 16 manufacturing facilities, which together contain approximately 1.4 million square feet of manufacturing space. Of these manufacturing facilities, nine are used by our Electronics reportable segment, four are used by our Control Devices reportable segment and three are owned by our joint venture companies. The following table provides information regarding our facilities:

Location	Owned/ Leased	Use	Square Footage
Electronics			
Portland, Indiana	Owned	Manufacturing	182,000
Juarez, Mexico	Owned	Manufacturing/Division Office	178,000
Chihuahua, Mexico	Owned	Manufacturing	135,569
El Paso, Texas	Leased	Warehouse	93,000
Tallinn, Estonia	Leased	Manufacturing	85,911
Orebro, Sweden	Leased	Manufacturing	77,472
Mitcheldean, England	Leased	Manufacturing (Vacant)	74,790
Monclova, Mexico	Leased	Manufacturing	68,436
Chihuahua, Mexico	Leased	Manufacturing	49,805
Cheltenham, England	Leased	Manufacturing (Vacant)	39,983
Stockholm, Sweden	Leased	Engineering Office/Division Office	37,714
Dundee, Scotland	Leased	Manufacturing/Sales Office/Engineering Office	32,753
Warren, Ohio	Leased	Engineering Office/Division Office	24,570
Chihuahua, Mexico	Leased	Manufacturing	10,000
Bayonne, France	Leased	Sales Office/Warehouse	8,267
Portland, Indiana	Leased	Warehouse	8,250
Madrid, Spain	Leased	Sales Office/Warehouse	1,560
Rome, Italy	Leased	Sales Office	1,216
Control Devices			
Lexington, Ohio	Owned	Manufacturing/Division Office	209,492
Canton, Massachusetts	Owned	Manufacturing/Division Office	132,560
Sarasota, Florida	Owned	Manufacturing (Vacant)	115,000
Suzhou, China	Leased	Manufacturing/Warehouse	25,737
Lexington, Ohio	Owned	Manufacturing	10,120
Sarasota, Florida	Owned	Warehouse (Vacant)	7,500
Lexington, Ohio	Leased	Warehouse	5,000
Lexington, Ohio	Leased	Warehouse	4,000
Corporate			
Novi, Michigan	Leased	Sales Office/Engineering Office	9,400
Warren, Ohio	Owned	Headquarters	7,500
Stuttgart, Germany	Leased	Sales Office/Engineering Office	1,000
Shanghai, China	Leased	Sales Office	270
Seoul, South Korea	Leased	Sales Office	154

Joint Ventures			
Pune, India	Owned	Manufacturing/Engineering Office/Sales Office	76,000
Manaus, Brazil	Owned	Manufacturing	73,550
São Paulo, Brazil	Owned	Manufacturing/Engineering Office/Sales Office	45,343
Buenos Aires, Argentina	Leased	Sales Office	3,551

Item 3. Legal Proceedings.

The Company is involved in certain legal actions and claims arising in the ordinary course of business. The Company, however, does not believe that any of the litigation in which it is currently engaged, either individually or in the aggregate, will have a material adverse effect on its business, consolidated financial position or results of operations. The Company is subject to the risk of exposure to product liability claims in the event that the failure of any of its products causes personal injury or death to users of the Company’s products and there can be no assurance that the Company will not experience any material product liability losses in the future. The Company maintains insurance against such product liability claims. In addition, if any of the Company’s products prove to be defective, the Company may be required to participate in the government-imposed or customer OEM-instituted recall involving such products.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our shares are listed on the New York Stock Exchange ("NYSE") under the symbol "SRI." As of February 20, 2009, we had 24,664,529 Common Shares without par value, issued and outstanding, which were owned by approximately 300 registered holders, including Common Shares held in the names of brokers and banks (so-called "street name" holdings) who are record holders with approximately 2,000 beneficial owners.

The Company has not historically paid or declared dividends, which are restricted under both the senior notes and the asset-based credit facility, on our Common Shares. We may only pay cash dividends in the future if immediately prior to and immediately after the payment is made, no event of default shall have occurred and outstanding indebtedness under our asset-based credit facility is not greater than or equal to $20.0 million before and after the payment of the dividend. We currently intend to retain earnings for acquisitions, working capital, capital expenditures, general corporate purposes and reduction in outstanding indebtedness. Accordingly, we do not expect to pay cash dividends in the foreseeable future.

High and low sales prices (as reported on the NYSE composite tape) for our Common Shares for each quarter ended during 2008 and 2007 are as follows:

	Quarter Ended	High	Low
2008	March 31	$ 14.15	$ 6.97
	June 30	$ 17.98	$ 13.04
	September 30	$ 19.06	$ 11.25
	December 31	$ 10.32	$ 2.42
2007	March 31	$ 12.17	$ 8.25
	June 30	$ 13.53	$ 10.29
	September 30	$ 13.76	$ 9.15
	December 31	$ 10.98	$ 8.00

The Company did not repurchase any Common Shares in 2008 or 2007.

Set forth below is a line graph comparing the cumulative total return of a hypothetical investment in our Common Shares with the cumulative total return of hypothetical investments in the Hemscott Group–Industry Group 333 (Automotive Parts) Index and the NYSE Market Index based on the respective market price of each investment at December 31, 2003, 2004, 2005, 2006, 2007 and 2008 assuming in each case an initial investment of $100 on December 31, 2003, and reinvestment of dividends.

	2003	2004	2005	2006	2007	2008
Stoneridge, Inc	100.00	100.53	43.99	54.42	53.42	30.30
Hemscott Group–Industry Group 333 Index	100.00	102.92	91.50	103.09	110.76	48.02
NYSE Market Index	100.00	112.92	122.25	143.23	150.88	94.76

For information on "Related Stockholder Matters" required by Item 201(d) of Regulation S-K, refer to Item 12 of this report.

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Item 6. Selected Financial Data.

The following table sets forth selected historical financial data and should be read in conjunction with the consolidated financial statements and notes related thereto and other financial information included elsewhere herein. The selected historical data was derived from our consolidated financial statements.

	For the Years Ended December 31, 2008	2007	2006	2005	2004
	(in thousands, except per share data)				
Statement of Operations Data:					
Net sales:					
Electronics	$ 533,328	$ 458,672	$ 456,932	$ 401,663	$ 403,322
Control Devices	236,038	289,979	271,943	291,434	299,408
Eliminations	(16,668)	(21,531)	(20,176)	(21,513)	(20,935)
Consolidated	$ 752,698	$ 727,120	$ 708,699	$ 671,584	$ 681,795
Gross profit	$ 166,287	$ 167,723	$ 158,906	$ 148,588	$ 174,987
Operating income (loss) (A)	$ (43,271)	$ 34,799	$ 35,063	$ 23,303	$ (125,570)
Equity in earnings of investees	$ 13,490	$ 10,893	$ 7,125	$ 4,052	$ 1,698
Income (loss) before income taxes (A)					
Electronics	$ 38,713	$ 20,692	$ 20,882	$ (216)	$ 27,562
Control Devices	(78,858)	15,825	13,987	19,429	(147,960)
Other corporate activities	10,078	8,676	6,392	8,217	(4,477)
Corporate interest	(20,708)	(21,969)	(21,622)	(22,994)	(24,281)
Consolidated	$ (50,775)	$ 23,224	$ 19,639	$ 4,436	$ (149,156)
Net income (loss) (A)	$ (97,527)	$ 16,671	$ 14,513	$ 933	$ (92,503)
Basic net income (loss) per share (A)	$ (4.17)	$ 0.72	$ 0.63	$ 0.04	$ (4.09)
Diluted net income (loss) per share (A)	$ (4.17)	$ 0.71	$ 0.63	$ 0.04	$ (4.09)
Other Data:					
Product development expenses	$ 45,508	$ 44,203	$ 40,840	$ 39,193	$ 36,145
Capital expenditures	$ 24,573	$ 18,141	$ 25,895	$ 28,934	$ 23,917
Depreciation and amortization (B)	$ 26,399	$ 28,503	$ 26,180	$ 26,157	$ 24,802
Balance Sheet Data (at period end):					

Working capital	$	160,387	$	184,788	$	135,915	$	116,689	$	123,317
Total assets	$	382,437	$	527,769	$	501,807	$	463,038	$	473,001
Long-term debt, less current portion	$	183,000	$	200,000	$	200,000	$	200,000	$	200,052
Shareholders' equity	$	91,758	$	206,189	$	178,622	$	153,991	$	155,605

(A) Our 2008 and 2004 operating loss, loss before income taxes, net loss, and related basic and diluted loss per share amounts include non-cash, pre-tax goodwill impairment losses of $65,175 and $183,450, respectively.

(B) These amounts represent depreciation and amortization on fixed and certain finite-lived intangible assets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The following Management Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Stoneridge, Inc. (the "Company"). This MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements.

We are an independent designer and manufacturer of highly engineered electrical and electronic components, modules and systems for the medium- and heavy-duty truck, agricultural, automotive and off-highway markets.

For the year ended December 31, 2008, net sales were $752.7 million, an increase of $25.6 million compared with $727.1 million for the year ended December 31, 2007.

Our net loss for the year ended December 31, 2008 was $97.5 million, or $(4.17) per diluted share, compared with net income of $16.7 million, or $0.71 per diluted share, for 2007. Earnings per share for 2008 include $(5.15) per share for restructuring expenses, an after-tax non-cash goodwill impairment charge and a non-cash deferred tax asset valuation allowance.

Our increase in net sales was predominantly attributable to net new business sales. This increase was partially offset by volume reductions and contractual price reductions at our major customers in the automotive vehicle market for the year ended December 31, 2008.

Our 2008 net loss was due to a non-cash goodwill impairment charge of $65.2 million and a non-cash deferred tax asset valuation of $62.0 million.

We achieved income from continuing operations excluding restructuring, the effect of the goodwill impairment charge and the deferred tax asset valuation allowance ("other non-recurring items") in 2008 of $22.8 million, or $0.98 per share, compared with $17.6 million, or $0.75 per share, in 2007. We aggressively pursued restructuring efforts starting in late 2007 and during 2008 to adjust the cost structure and eliminate overhead centers to enhance profitability in robust economic times and protect profitability when market adversity occurs. We recorded after-tax restructuring expenses of $12.3 million, or $0.53 per share in 2008. In accordance with Statement of Financial Accounting Standard ("SFAS") No. 142, Goodwill and Other Intangible Assets ("SFAS 142") and SFAS 109, Accounting for Income Taxes, the 2008 results also include an after-tax non-cash goodwill impairment charge in our Control Device reporting segment of $46.1 million, or $1.97 per share, and a non-cash valuation allowance against deferred tax assets of $62.0 million or $2.65 per share. The impact of the non-cash impairment charge and deferred tax asset valuation allowance was driven by adverse equity market conditions that caused a decrease in current market multiples and our stock price as of December 31, 2008.

Affecting our profitability were restructuring initiatives that began in the fourth quarter of 2007 to improve the Company's manufacturing efficiency and cost position by ceasing manufacturing operations at our Sarasota, Florida and Mitcheldean, United Kingdom locations. Related 2008 expenses, primarily comprised of one-time termination benefits and line-transfer expenses of approximately $15.4 million. Restructuring expenses that were general and administrative in nature were included in the Company's consolidated statements of operations as restructuring charges, while the remaining restructuring related expenses were included in cost of goods sold.

In 2008, our PST Eletrônica S.A. ("PST") joint venture in Brazil, which is an electronic system provider focused on security and convenience applications primarily for the vehicle and motorcycle industry, continued to perform well, resulting in equity earnings of $12.8 million compared to $10.4 million in the previous year. We also received dividend payments from PST of $4.2 million and $5.6 million in 2008 and 2007, respectively. We currently hold a 50% equity interest in PST. The results of PST in 2009 will be impacted by fluctuations in foreign exchange rates.

To supplement the Company's consolidated financial statements presented on a basis in accordance with generally accepted accounting principles ("GAAP") in the United States, the Company's management also uses and discloses certain non-GAAP financial measures. These non-GAAP financial measures are not in accordance with, nor are they alternatives for, GAAP-based financial measures. The Company includes these non-GAAP financial measures because it believes they provide useful information with which to evaluate the performance of the Company. The non-GAAP measures included in this Annual Report on Form 10-K have been reconciled to the comparable GAAP measures within the accompanying table, as required under Securities and Exchange Commission rules regarding the use of non-GAAP financial measures. They should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP.

A reconciliation of GAAP net loss and earnings per share ("EPS") to adjusted net income before restructuring related expenses and other non-recurring costs and EPS is presented below (in thousands except per share data):

	For the Year Ended December 31,			
	2008		2007	
	Dollars	EPS	Dollars	EPS
Adjusted net income per share before restructuring related expenses and other non-recurring items				
Net income (loss)	$ (97,527)	$ (4.17)	$ 16,671	$ 0.71
Total restructuring related expenses, net of tax benefits	12,286	0.53	915	0.04
Goodwill impairment, net of tax benefits	46,052	1.97	-	-
Deferred tax asset valuation allowance	62,006	2.65	-	-
Adjusted net income before restructuring related expenses and other non-recurring items	$ 22,817	$ 0.98	$ 17,586	$ 0.75
Diluted weighted average shares outstanding 1	23,367		23,548	

1 - Basic and Diluted weighted average shares outstanding are the same for 2008 periods as a net loss caused the dilutive shares to have an anti-dilutive effect.

Recent Trends and Market Conditions

The automotive and commercial vehicle industries experienced significantly unfavorable developments during 2008 (primarily the second half of 2008), particularly in North America and Europe. These trends include:

General Economic Factors:

Disruptions in financial markets and restrictions on liquidity are adversely impacting the availability and cost of incremental credit for many companies. These disruptions are also adversely affecting the global economy, further negatively impacting consumer spending patterns in the automotive and commercial vehicle industries. Our customers and suppliers are attempting to respond to rapidly changing consumer preferences, restricted liquidity and increased cost of capital any of which could negatively impact their business and could result in further restructuring or even reorganization or liquidation under bankruptcy laws. Any such negative event could, in turn, negatively affect our business either through loss of sales to our customers or through our inability to meet our commitments (or inability to meet them without excess expense), due to the loss of supplies from any of our suppliers so affected.

Production Levels and Product Mix:

In the U.S. and Europe, overall negative economic conditions, including the deterioration of global financial markets, reduced credit availability and lower consumer confidence have significantly impacted the automotive and commercial vehicle industries. As such, automotive and commercial vehicle production and sales have deteriorated substantially and are not expected to recover significantly in the near term. Therefore, considering the drastic changes to consumer demand for vehicles, and corresponding decrease in production and demand for our products, as well as are common share price, we tested our goodwill for impairment and recognized a pre-tax non-cash $65.2 million goodwill impairment charge in 2008.

In recent years, and continuing into 2008, General Motors, Ford and Chrysler (“Detroit Three”) have seen a steady decline in their market share for vehicle sales in North America. Declining market share, inherent legacy issues with the Detroit Three and the impact of declining consumer confidence have led to recent, unprecedented production cuts and permanent capacity reductions. During 2008, the Detroit Three North American production levels declined approximately 21% compared to 2007. These declines will have a continuing negative impact on our sales, liquidity and results of operations.

In addition, in order to address market share declines, reduced production levels, negative industry trends (such as change in mix of vehicles), general macroeconomic conditions and other structural issues specific to their companies (such as significant overcapacity and pension and healthcare costs), the Detroit Three and certain of our other customers continue to implement or may implement various forms of restructuring initiatives (including, in certain cases, reorganization under bankruptcy laws). These restructuring actions have had and may continue to have a significant impact throughout our industry, including our supply base.

Outlook

In the fourth quarter of 2008 the North American automotive and the global commercial vehicle markets experienced the beginning of a significant decline that is unprecedented in its breadth, depth and speed. It is currently accelerating into the first part of 2009. The uncertainty of the activity of the global economy makes it difficult to predict how demand for automotive and commercial vehicle products will develop in 2009.

Significant factors inherent to our markets that could affect our results for 2009 include general economic conditions and the financial stability of our customers and suppliers as well as our ability to successfully execute our planned restructuring, productivity and cost reduction initiatives. We are undertaking these initiatives to mitigate significant sales volume reductions in our served markets and customer-demanded price reductions. Our management team is focused on improving operational efficiency while adapting to the needs of our customers.

We continue our transition to low-cost manufacturing locations. Initially, this initiative will result in restructuring costs stemming from facility closures and production relocations. However, the longer-term effects of such an initiative will enable us to reduce our operating costs and increase global sourcing capacity to our customers.

We will continue to monitor business conditions and will take the necessary steps to address the current economic environment.

Results of Operations

We are primarily organized by markets served and products produced. Under this organizational structure, our operations have been aggregated into two reportable segments: Electronics and Control Devices. The Electronics reportable segment includes results of operations that design and manufacture electronic instrument clusters, electronic control units, driver information systems and electrical distribution systems, primarily wiring harnesses and connectors for electrical power and signal distribution. The Control Devices reportable segment includes results from our operations that design and manufacture electronic and electromechanical switches, control actuation devices and sensors.

Year Ended December 31, 2008 Compared To Year Ended December 31, 2007

Net Sales. Net sales for our reportable segments, excluding inter-segment sales, for the years ended December 31, 2008 and 2007 are summarized in the following table (in thousands):

	For the Years Ended December 31, 2008		2007		$ Increase / (Decrease)	% Increase / (Decrease)
Electronics	$ 520,936	69.2%	$ 441,717	60.7%	$ 79,219	17.9%
Control Devices	231,762	30.8	285,403	39.3	(53,641)	(18.8)%
Total net sales	$ 752,698	100.0%	$ 727,120	100.0%	$ 25,578	3.5%

The increase in net sales for our Electronics segment was primarily due to new business sales and increased sales volume in 2008. Contractual price reductions and foreign currency exchange rates negatively affected net sales by approximately $2.0 million in 2008.

The decrease in net sales for our Control Devices segment was primarily attributable to production volume reductions at our major customers in the North American automotive market. Additionally, the loss of sensor product revenue at our Sarasota, Florida, facility had a negative impact on net sales.

Net sales by geographic location for the years ended December 31, 2008 and 2007 are summarized in the following table (in thousands):

	For the Years Ended December 31, 2008		For the Years Ended December 31, 2007		$ Increase / (Decrease)	% Increase / (Decrease)
North America	$ 557,990	74.1%	$ 522,730	71.9%	$ 35,260	6.7%
Europe and other	194,708	25.9	204,390	28.1	(9,682)	(4.7)%
Total net sales	$ 752,698	100.0%	$ 727,120	100.0%	$ 25,578	3.5%

The increase in North American sales was primarily attributable to net new business sales of electronics products. The increase was partially offset by lower sales volume in our North American automotive market. Our decrease in sales outside North America was primarily due to reduced volume in light vehicle products and reduced European commercial vehicle sales volume.

Consolidated statements of operations as a percentage of net sales for the years ended December 31, 2008 and 2007 are presented in the following table (in thousands):

	For the Years Ended December 31, 2008		For the Years Ended December 31, 2007		$ Increase / (Decrease)
Net Sales	$ 752,698	100.0%	$ 727,120	100.0%	$ 25,578
Costs and Expenses:					
Cost of goods sold	586,411	77.9	559,397	76.9	27,014
Selling, general and administrative	136,563	18.1	133,708	18.4	2,855
Gain on sale of property, plant & equipment, net	(571)	(0.1)	(1,710)	(0.2)	1,139
Goodwill impairment charge	65,175	8.7	-	-	65,175
Restructuring charges	8,391	1.1	926	0.1	7,465
Operating Income (Loss)	(43,271)	(5.7)	34,799	4.8	(78,070)
Interest expense, net	20,575	2.7	21,759	3.0	(1,184)
Equity in earnings of investees	(13,490)	(1.8)	(10,893)	(1.5)	(2,597)
Loss on early extinguishment of debt	770	0.1	-	-	770
Other (income) expense, net	(351)	-	709	0.1	(1,060)
Income (Loss) Before Income Taxes	(50,775)	(6.7)	23,224	3.2	(73,999)

Provision for income taxes		46,752	6.2		6,553	0.9	40,199
Net Income (Loss)	$	(97,527)	(12.9)%	$	16,671	2.3%	$ (114,198)

Cost of Goods Sold. The increase in cost of goods sold as a percentage of sales was primarily due to $7.0 million of restructuring expenses included in cost of goods sold for the year ended December 31, 2008. The negative impact of restructuring expenses were partially offset by a more favorable product mix and new business sales.

Selling, General and Administrative Expenses. Product development expenses included in SG&A were $45.6 million and $44.2 million for the years ended December 31, 2008 and 2007, respectively. The increase was primarily related to development spending in the areas of instrumentation and wiring. The Company intends to reallocate its resources to focus on the design and development of new products rather than primarily focusing on sustaining existing product programs. The increase in SG&A expenses, excluding product development was due primarily to increased compensation related items.

Gain on Sale of Property, Plant and Equipment, net. The gain for 2008 was primarily a result of selling manufacturing lines which was part of the line transfer initiative at our Mitcheldean, United Kingdom facility. The gain for the year ended December 31, 2007 was primarily attributable to the sale of non-strategic assets including two idle facilities and the Company airplane.

Goodwill Impairment Charge. A goodwill impairment charge of $65.2 million was recorded during the year ended December 31, 2008. During the fourth quarter, as a result of the deterioration of the global economy and its effects on the automotive and commercial vehicle markets, we were required to perform an additional goodwill impairment test subsequent to our annual October 1, 2008 test. The result of the December 31, 2008 impairment test was that our goodwill was determined to be significantly impaired and was written off. The goodwill related to two reporting units in the Control Devices segment.

Restructuring Charges. The increase in restructuring charges that were general and administrative in nature, were primarily the result of the ratable recognition of one-time termination benefits that were due to employees and the cancellation of certain contracts upon the closure of our Sarasota, Florida, and Mitcheldean, United Kingdom, locations. Additionally, in 2008, we announced additional restructuring initiatives at our Canton, Massachusetts, Orebro, Sweden and Tallinn, Estonia locations. The majority of this charge resulted in the recognition of one-time termination benefits that were due to affected employees. No fixed-asset impairment charges were incurred because the assets were transferred to our other locations for continued production. Restructuring expenses that were general and administrative in nature were included in the Company’s consolidated statements of operations as restructuring charges, while the remaining restructuring related expenses were included in cost of goods sold. These initiatives were substantially completed in 2008.

Restructuring charges recorded by reportable segment during the year ended December 31, 2008 were as follows (in thousands):

	Electronics	Control Devices	Total Consolidated Restructuring Charges
Severance costs	$ 2,564	$ 2,521	$ 5,085
Contract termination costs	1,305	-	1,305
Other costs	23	1,978	2,001
Total restructuring charges	$ 3,892	$ 4,499	$ 8,391

Severance costs relate to a reduction in workforce. Contract termination costs represent expenditures associated with long-term lease obligations that were cancelled as part of the restructuring initiatives. Other exit costs include miscellaneous expenditures associated with exiting business activities, such as the transferring of production equipment.

Restructuring charges recorded by reportable segment during the year ended December 31, 2007 were as follows (in thousands):

	Electronics	Control Devices	Total Consolidated Restructuring Charges

Severance costs	$	542	$	357	$	899
Other costs		-		27		27
Total restructuring charges	$	542	$	384	$	926

Restructuring related expenses, general and administrative in nature, for the year ended December 31, 2007 were primarily severance costs as a result of the ratable recognition of one-time termination benefits that were due to employees upon the closure of our Sarasota, Florida and Mitcheldean, United Kingdom locations that were announced in 2007.

Equity in Earnings of Investees. The increase was predominately attributable to the increase in equity earnings recognized from our PST joint venture. The increase primarily reflects higher volume for PST's security product lines and favorable exchange rates throughout most of 2008.

Income (Loss) Before Income Taxes. Income (loss) before income taxes is summarized in the following table by reportable segment (in thousands):

	For the Years Ended December 31, 2008	For the Years Ended December 31, 2007	$ Increase / (Decrease)	% Increase / (Decrease)
Electronics	$ 38,713	$ 20,692	$ 18,021	87.1%
Control Devices	(78,858)	15,825	(94,683)	(598.3)%
Other corporate activities	10,078	8,676	1,402	16.2%
Corporate interest expense	(20,708)	(21,969)	1,261	5.7%
Income (loss) before income taxes	$ (50,775)	$ 23,224	$ (73,999)	(318.6)%

The increase in income before income taxes in the Electronics segment was related to higher net sales, which increased by $79.2 million in 2008. This was partially offset by increased restructuring related expenses of $3.4 million in 2008 when compared to 2007.

The decrease in income before income taxes in the Control Devices reportable segment was primarily due to the goodwill impairment charge of $65.2 million recognized in 2008. Additionally, net sales reduced by $53.6 million and the segment recognized an additional $4.1 million of restructuring related expenses in 2008.

The increase in income before income taxes from other corporate activities was primarily due to an increase in equity earnings from our PST joint venture of $2.4 million in 2008.

Income (loss) before income taxes by geographic location for the years ended December 31, 2008 and 2007 are summarized in the following table (in thousands):

	For the Years Ended December 31, 2008		2007		$ Decrease	% Decrease
North America	$ (47,795)	94.1%	$ 12,405	53.4%	$ (60,200)	(485.3)%
Europe and other	(2,980)	5.9	10,819	46.6	(13,799)	(127.5)%
Income (loss) before income taxes	$ (50,775)	100.0%	$ 23,224	100.0%	$ (73,999)	(318.6)%

Our North American 2008 profitability was adversely affected by the $65.2 million goodwill impairment charge, which was offset by new business sales of electronic products. Other factors impacting the 2008 results were increased restructuring related expenses of $8.9 million and lower North American automotive production. The decrease in profitability outside North America was primarily due to increased restructuring related expenses of $6.5

million and design and development expenses. The decrease was partially offset by increased European commercial vehicle production during the first half of 2008.

Provision for Income Taxes. We recognized a provision for income taxes of $46.8 million, or 92.1% of pre-tax loss, and $6.6 million, or 28.2% of pre-tax income, for federal, state and foreign income taxes for the years ended December 31, 2008 and 2007, respectively. The increase in the effective tax rate for 2008 was primarily attributable to the recording of a valuation allowance against our domestic deferred tax assets. Due to the impairment of goodwill the Company was in a cumulative loss position for the period 2006-2008. Pursuant to the accounting guidance the Company was required to record a valuation allowance. Additionally, the effective tax rate was unfavorably affected by the costs incurred to restructure our United Kingdom operations. Since we do not believe that the related tax benefit of those losses will be realized, a valuation allowance was recorded against the foreign deferred tax assets associated with those foreign losses. Finally, offsetting the impact of the current year valuation allowances, the effective tax rate was favorably impacted by a combination of audit settlements, successful litigation and the expiration of certain statutes of limitation.

Year Ended December 31, 2007 Compared To Year Ended December 31, 2006

Net Sales. Net sales for our reportable segments, excluding inter-segment sales, for the years ended December 31, 2007 and 2006 are summarized in the following table (in thousands):

	For the Years Ended December 31, 2007		For the Years Ended December 31, 2006		$ Increase / (Decrease)	% Increase / (Decrease)
Electronics	$ 441,717	60.7%	$ 442,427	62.4%	$ (710)	(0.2)%
Control Devices	285,403	39.3	266,272	37.6	19,131	7.2%
Total net sales	$ 727,120	100.0%	$ 708,699	100.0%	$ 18,421	2.6%

The decrease in net sales for our Electronics segment was primarily due to a substantial decline in medium- and heavy-duty truck production in North America. Medium- and heavy-duty truck production in 2007 was unfavorably impacted by the new 2007 diesel emissions regulations that were implemented on January 1, 2007 in the U.S. Offsetting the unfavorable impact of the new diesel emissions standards were new program revenues in North America and Europe, increased production volume in our European commercial vehicle operations and favorable foreign currency exchange. Favorable foreign currency exchange rates contributed $18.6 million to net sales for the year ended December 31, 2007.

The increase in net sales for our Control Devices segment was primarily attributable to new product launches in our temperature and speed sensor businesses. The increase was partially offset by production volume reductions at our major automotive customers.

Net sales by geographic location for the years ended December 31, 2007 and 2006 are summarized in the following table (in thousands):

	For the Years Ended December 31, 2007		For the Years Ended December 31, 2006		$ Increase / (Decrease)	% Increase / (Decrease)
North America	$ 522,730	71.9%	$ 541,479	76.4%	$ (18,749)	(3.5)%
Europe and other	204,390	28.1	167,220	23.6	37,170	22.2%
Total net sales	$ 727,120	100.0%	$ 708,699	100.0%	$ 18,421	2.6%

The decrease in North American sales was primarily attributable to lower sales to our commercial vehicle customers as a result of lower demand because of the new 2007 U.S. diesel emission regulations and lower production volume from our North American light vehicle customers. The decrease was partially offset by sales related to new program launches of sensor products and new electronic products supplied for the production of military vehicles. Our increase in sales outside of North America for the year was primarily due to increased production volume, new product revenues and favorable foreign currency exchange rates. The favorable effect of foreign currency exchange rates affected net sales outside North America by $18.6 million for the year ended December 31, 2007.

Consolidated statements of operations as a percentage of net sales for the years ended December 31, 2007 and 2006 are presented in the following table (in thousands):

	For the Years Ended December 31, 2007		For the Years Ended December 31, 2006		$ Increase / (Decrease)
Net Sales	$ 727,120	100.0%	$ 708,699	100.0%	$ 18,421
Costs and Expenses:					
Cost of goods sold	559,397	76.9	549,793	77.6	9,604
Selling, general and administrative	133,708	18.4	124,538	17.6	9,170
Gain on sale of property, plant and equipment, net	(1,710)	(0.2)	(1,303)	(0.2)	(407)
Restructuring charges	926	0.1	608	0.1	318
Operating Income	34,799	4.8	35,063	4.9	(264)
Interest expense, net	21,759	3.0	21,744	3.1	15
Equity in earnings of investees	(10,893)	(1.5)	(7,125)	(1.0)	(3,768)
Other expense, net	709	0.1	805	0.1	(96)
Income Before Income Taxes	23,224	3.2	19,639	2.7	3,585
Provision for income taxes	6,553	0.9	5,126	0.7	1,427
Net Income	$ 16,671	2.3%	$ 14,513	2.0%	$ 2,158

Cost of Goods Sold. The decrease in cost of goods sold as a percentage of sales was due to increased sales volume from new business awards, ongoing procurement initiatives and favorable product mix. The decrease was partially offset by unfavorable material costs, operational inefficiencies related to new product launches and higher depreciation expense.

Selling, General and Administrative Expenses. Product development expenses included in SG&A were $44.2 million and $40.8 million for the years ended December 31, 2007 and 2006, respectively. The increase related to development spending in the areas of tachographs and instrumentation.

The increase in SG&A expenses, excluding product development expenses, in 2007 compared with 2006 was primarily attributable to the increase in our selling and marketing activity to support new products in Europe, the increase in systems implementation expenses related to a new information system in Europe, and a $1.2 million one-time gain in the third quarter of 2006 related to the settlement of the life insurance benefits portion of a postretirement plan.

Restructuring Charges. The increase in restructuring charges was primarily the result of one-time termination benefits related to the restructuring initiatives announced in 2007 to improve manufacturing efficiency and cost position by ceasing manufacturing operations at our Sarasota, Florida and Mitcheldean, United Kingdom locations. No fixed-asset impairment charges were incurred because assets are primarily being transferred to our other locations for continued production.

Restructuring charges recorded by reportable segment during the year ended December 31, 2007 were as follows (in thousands):

	Electronics		Control Devices		Total Consolidated Restructuring Charges	
Severance costs	$	542	$	357	$	899
Other costs		-		27		27
Total restructuring charges	$	542	$	384	$	926

Also included in severance costs for the Electronics reporting segment in 2007 was $0.1 million of expense related to the rationalization of certain manufacturing facilities in Europe and North America announced in 2005. These restructuring initiatives were completed in 2007.

Restructuring charges recorded by reportable segment during the year ended December 31, 2006 were as follows (in thousands):

	Electronics	Control Devices	Total Consolidated Restructuring Charges
Severance costs	$ 369	$ 156	$ 525
Other costs	-	83	83
Total restructuring charges	$ 369	$ 239	$ 608

Severance costs related to a reduction in workforce. Other associated costs include miscellaneous expenditures associated with exiting business activities.

Gain on Sale of Property, Plant and Equipment, net. The increase was primarily attributable to a gain on the sale of two closed facilities during 2007 exceeding the gain on the sale of land during the first quarter of 2006.

Equity in Earnings of Investees. The increase in equity earnings from investees was predominately attributable to the increase in equity earnings recognized from our PST joint venture in Brazil. The increase primarily reflects higher volume for PST's security product lines.

Income Before Income Taxes. Income before income taxes is summarized in the following table by reportable segment (in thousands):

	For the Years Ended December 31, 2007	2006	$ Increase / (Decrease)
Electronics	$ 20,692	$ 20,882	$ (190)
Control Devices	15,825	13,987	1,838
Other corporate activities	8,676	6,392	2,284
Corporate interest expense	(21,969)	(21,622)	(347)
Income before income taxes	$ 23,224	$ 19,639	$ 3,585

The decrease in income before income taxes in the Electronics segment was related to reduced volume and increased SG&A expenses. The increased SG&A expenses were predominantly due to increased development spending in the areas of tachographs and instrumentation and higher selling and marketing costs associated with new product introductions.

The increase in income before income taxes in the Control Devices reportable segment was primarily due to increased sales volume and new product launches. These factors were offset by operating inefficiencies related to a new product launch.

The increase in income before income taxes from other corporate activities was primarily due to a reduction in foreign exchange losses recorded in the previous year and an increase in equity earnings from our PST joint venture of $3.6 million.

Income before income taxes by geographic location for the years ended December 31, 2007 and 2006 is summarized in the following table (in thousands):

	For the Years Ended December 31, 2007			For the Years Ended December 31, 2006			$ Increase		% Increase
North America	$	12,405	53.4%	$	10,847	55.2%	$	1,558	14.4%
Europe and other		10,819	46.6		8,792	44.8		2,027	23.1%
Income before income taxes	$	23,224	100.0%	$	19,639	100.0%	$	3,585	18.3%

The increase in our profitability in North America was primarily attributable to increased revenue from new sensor product launches and new electronic products supplied for the production of military vehicles. The increase was primarily offset by unfavorable variances related to a new product launch, lower North American automotive and commercial vehicle production and contractual price reductions with our customers. The increase in our profitability outside North America was primarily due to increased European commercial vehicle production and revenue from new program launches. The increase was offset by higher SG&A related to increased development spending in the areas of tachographs and instrumentation and higher selling and marketing costs associated with new product introductions.

Provision for Income Taxes. We recognized a provision for income taxes of $6.6 million, or 28.2% of pre-tax income, and $5.1 million, or 26.1% of pre-tax income, for federal, state and foreign income taxes for the years ended December 31, 2007 and 2006, respectively. The increase in the effective tax rate was primarily attributable to the increase in higher taxed domestic earnings and the increase over the prior year of the valuation allowance recorded against deferred tax assets in the United Kingdom. These increases were partially offset by a deferred tax benefit related to a change in state tax law.

Liquidity and Capital Resources

Summary of Cash Flows (in thousands):

	For the Years Ended December 31, 2008		2007		$ Increase / (Decrease)
Cash provided by (used for):					
Operating activities	$	42,456	$	33,525	$ 8,931
Investing activities		(23,901)		(5,826)	(18,075)
Financing activities		(16,231)		900	(17,131)
Effect of exchange rate changes on cash and cash equivalents		(5,556)		1,443	(6,999)
Net change in cash and cash equivalents	$	(3,232)	$	30,042	$ (33,274)

The increase in net cash provided by operating activities was primarily due to lower accounts receivable balances in the current year.

The increase in net cash used for investing activities reflects an increase in cash used for capital projects. The increase was due in part to the expansion of our Lexington facility during 2008. In addition, 2007 net cash used for investing activities includes the proceeds from the sale of non-strategic assets, including two idle facilities and the Company airplane.

The increase in net cash used by financing activities was primarily due to cash used to purchase and retire $17.0 million in par value of the Company's senior notes during 2008.

As discussed in Note 9 to our consolidated financial statements, we have entered into foreign currency forward contracts with a notional value of $8.8 million and $8.6 million at December 31, 2008 and 2007, respectively. The purpose of these investments is to reduce exposure related to our British pound-denominated receivables and Mexican peso-denominated payables. At December 31, 2007, the Company also used forward currency contracts to reduce the exposure related to the Company's Mexican peso- and Swedish krona-denominated receivables. The estimated fair value of the British pound contract at December 31, 2008 and 2007, per quoted market sources, was approximately $2.1 million and $(0.03) million, respectively. The estimated fair market value of the Mexican peso-denominated contracts at December 31, 2008, per quoted market sources, was approximately $(2.9) million. For the year ended December 31, 2008, we recognized a $2.2 million gain related to foreign currency contracts in the consolidated statement of operations as a component of other expense (income), net. As discussed in Note 9, we entered into a fixed price swap contract in December 2007 for 1.0 million pounds of copper, which lasted through December 2008. In September 2008, we entered into a fixed price swap contract for 1.4 million pounds of copper, which will last from January 2009 to December 2009. The purpose of these contracts is to reduce our price risk as it relates to copper prices. As of December 31, 2008 and 2007, the fair value of the fixed price commodity swap contract, per quoted market sources, was approximately $(2.1) million and $0.1 million, respectively.

The following table summarizes our future cash outflows resulting from financial contracts and commitments, as of December 31, 2008 (in thousands):

Contractual Obligations:	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-term debt	$ 183,000	$ -	$ -	$ 183,000	$ -
Operating leases	20,703	5,122	6,521	4,144	4,916
Employee benefit plans	8,695	731	1,549	1,666	4,749
Total contractual obligations	$ 212,398	$ 5,853	$ 8,070	$ 188,810	$ 9,665

Our 2009 capital expenditures are expected to be slightly lower than our 2008 expenditures, due to lower expected demand in the markets that we serve. Management will continue to focus on reducing its weighted average cost of capital and believes that cash flows from operations and the availability of funds from our asset-based credit facility will provide sufficient liquidity to meet our future growth and operating needs.

We will continue to monitor business conditions and will take the necessary steps to ensure our position in the current economic environment.

As outlined in Note 4 to our consolidated financial statements, our asset-based credit facility, permits borrowing up to a maximum level of $100.0 million. This facility provides us with lower borrowing rates and allows us the flexibility to refinance our outstanding debt. At December 31, 2008, there were no borrowings on this asset-based credit facility. The available borrowing capacity on this credit facility is based on eligible current assets, as defined. At December 31, 2008 and 2007, the Company had borrowing capacity of $57.7 million and $73.5 million, respectively, based on eligible current assets. The decrease in borrowing capacity was due primarily to lower accounts receivable balances. The Company was in compliance with all covenants at December 31, 2008.

As of December 31, 2008, the Company's $183.0 million senior notes were redeemable at 103.833%. Given the Company's senior notes are redeemable, we may seek to retire the senior notes through a redemption, cash purchases, open market purchases, privately negotiated transactions or otherwise. Such redemptions, purchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. During 2008, we have purchased and retired $17.0 million in face value of our senior notes.

Inflation and International Presence

Given the current economic climate and recent fluctuations in certain commodity prices, we believe that an increase in such items could significantly affect our profitability. Furthermore, by operating internationally, we are affected by foreign currency exchange rates and the economic conditions of certain countries. Based on the current economic conditions in these countries, we believe we are not significantly exposed to adverse exchange rate risk or economic conditions.

Critical Accounting Policies and Estimates

Estimates. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

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On an ongoing basis, we evaluate estimates and assumptions used in our financial statements. We base our estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

We believe the following are "critical accounting policies" – those most important to the financial presentation and those that require the most difficult, subjective or complex judgments.

Revenue Recognition and Sales Commitments. We recognize revenues from the sale of products, net of actual and estimated returns of products sold based on authorized returns, at the point of passage of title, which is generally at the time of shipment. We often enter into agreements with our customers at the beginning of a given vehicle's expected production life. Once such agreements are entered into, it is our obligation to fulfill the customers' purchasing requirements for the entire production life of the vehicle. These agreements are subject to renegotiation, which may affect product pricing. In certain limited instances, we may be committed under existing agreements to supply products to our customers at selling prices which are not sufficient to cover the direct cost to produce such products. In such situations, we recognize losses immediately. There were no such instances in 2008. These agreements generally may also be terminated by our customers at any time.

On an ongoing basis, we receive blanket purchase orders from our customers, which include pricing terms. Purchase orders do not always specify quantities. We recognize revenue based on the pricing terms included in our purchase orders as our products are shipped to our customers. We are asked to provide our customers with annual cost reductions as part of certain agreements. In addition, we have ongoing adjustments to our pricing arrangements with our customers based on the related content, the cost of our products and other commercial factors. Such pricing adjustments are recognized as they are negotiated with our customers.

Warranties. Our warranty reserve is established based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet dates. This estimate is based on historical trends of units sold and payment amounts, combined with our current understanding of the status of existing claims. To estimate the warranty reserve, we are required to forecast the resolution of existing claims as well as expected future claims on products previously sold. Although we believe that our warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable could differ materially from what will actually transpire in the future. Our customers are increasingly seeking to hold suppliers responsible for product warranties, which could negatively impact our exposure to these costs.

Allowance for Doubtful Accounts. We have concentrations of sales and trade receivable balances with a few key customers. Therefore, it is critical that we evaluate the collectibility of accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet their financial obligations, a specific allowance for doubtful accounts is recorded against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. Additionally, we review historical trends for collectibility in determining an estimate for our allowance for doubtful accounts. If economic circumstances change substantially, estimates of the recoverability of amounts due to the Company could be reduced by a material amount. We do not have collateral requirements with our customers.

Contingencies. We are subject to legal proceedings and claims, including product liability claims, commercial or contractual disputes, environmental enforcement actions and other claims that arise in the normal course of business. We routinely assess the likelihood of any adverse judgments or outcomes to these matters, as well as ranges of probable losses, by consulting with internal personnel principally involved with such matters and with our outside legal counsel handling such matters.

We have accrued for estimated losses in accordance with Statement of Financial Accounting Standard ("SFAS") No. 5, Accounting for Contingencies, when it is probable that a liability or loss has been incurred and the amount can be reasonably estimated. Contingencies by their nature relate to uncertainties that require the exercise of judgment both in assessing whether or not a liability or loss has been incurred and estimating that amount of probable loss. The reserves may change in the future due to new developments or changes in circumstances. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with respect to their resolution.

Inventory Valuation. Inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out ("LIFO") method for U.S. inventories and by the first-in, first-out ("FIFO") method for non-U.S. inventories. Where appropriate, standard cost systems are utilized for purposes of determining cost and the standards are adjusted as necessary to ensure they approximate actual costs. Estimates of the lower of cost or market value of inventory are determined based upon current economic conditions, historical sales quantities and patterns and, in some cases, the specific risk of loss on specifically identified inventories.

Goodwill. Goodwill is tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The valuation methodologies employed by the Company use subjective measures including forward looking financial information and discount rates that directly impact the resulting fair values used to test the Company's business units for impairment. See Note 2 to our consolidated financial statements for more information on our application of this accounting standard, including the valuation techniques used to determine the fair value of goodwill.

Share-Based Compensation. The estimate for our share-based compensation expense involves a number of assumptions. We believe each assumption used in the valuation is reasonable because it takes into account the experience of the plan and reasonable expectations. We estimate volatility and forfeitures based on historical data, future expectations and the expected term of the share-based compensation awards. The assumptions, however, involve inherent uncertainties. As a result, if other assumptions had been used, share-based compensation expense could have varied.

Pension Benefits. The amounts recognized in the consolidated financial statements related to pension benefits are determined from actuarial valuations. Inherent in these valuations are assumptions including expected return on plan assets, discount rates at which the liabilities could be settled at December 31, 2008, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 8 to the consolidated financial statements.

The expected long-term return on assets is determined as a weighted average of the expected returns for each asset class held by the defined-benefit pension plan at the date. The expected return on bonds has been based on the yield available on similar bonds (by currency, issuer and duration) at that date. The expected return on equities is based on an equity risk premium of return above that available on long-term government bonds of a similar duration and the same currency as the liabilities.

Discount rates for our defined benefit pension plan in the United Kingdom are determined using the weighted average long-term sterling AA corporate bond. On December 31, 2008, the yield was approximately 6.7%.

Deferred Income Taxes. Deferred income taxes are provided for temporary differences between amounts of assets and liabilities for financial reporting purposes and the basis of such assets and liabilities as measured by tax laws and regulations. Our deferred tax assets include, among other items, net operating loss carry forwards and tax credits that can be used to offset taxable income in future periods and reduce income taxes payable in those future periods. These deferred tax assets will begin to expire, if unused, no later than 2026 and 2021, respectively.

SFAS No. 109, Accounting for Income Taxes, requires that deferred tax assets be reduced by a valuation allowance if, based on all available evidence, it is considered more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This assessment requires significant judgment, and in making this evaluation, the Company considers available positive and negative evidence, including past results, the existence of cumulative losses in recent periods, our forecast of taxable income for the current year and future years and tax planning strategies. Risk factors include the continuing deterioration in economic conditions in the U.S. automotive and commercial vehicle markets of which the Company has significant U.S. operations and higher than planned volume or price reductions from key customers.

During the fourth quarter of this year, we concluded that it was no longer more-likely-than-not that we would realize our U.S. deferred tax assets. As a result we provided a full valuation allowance, net of certain future reversing taxable temporary differences, in the amount of $63.8 million with respect to our U.S. deferred tax assets. To the extent that realization of a portion or all of the tax assets becomes more-likely-than-not to be realized based on changes in circumstances a reversal of that portion of the deferred tax asset valuation allowance will be recorded.

The Company does not provide deferred income taxes on unremitted earnings of certain non-U.S. subsidiaries, which are deemed permanently reinvested.

Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Board ("FASB") interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

Derivative Instruments and Hedging Activities. We follow SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended, in accounting for financial instruments. Under SFAS 133, the gain or loss on derivative instruments that have been designated and qualify as hedges of the exposure to changes in the fair value of an asset or a liability, as well as the offsetting gain or loss on the hedged item, are recognized in net earnings during the period of the change in fair values. For derivative instruments that have been designated and qualify as hedges of the exposure to variability in expected future cash flows, the gain or loss on the derivative is initially reported as a component of other comprehensive earnings and reclassified to the consolidated statement of operations when the hedged transaction affects net earnings. Any gain or loss on the derivative in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized on the consolidated statement of operations during the period of change.

Restructuring. We have recorded restructuring charges in the recent period in connection with improving manufacturing efficiency and cost position by transferring production to other locations. These charges are recorded when management has committed to a plan and incurred a liability related to the plan. Also in connection with this initiative, we recorded liabilities for severance costs. No fixed-asset impairment charges were incurred because assets are primarily being transferred to our other locations for continued production. Estimates for work force reductions and other costs savings are recorded based upon estimates of the number of positions to be terminated, termination benefits to be provided and other information as necessary. Management evaluates the estimates on a quarterly basis and will adjust the reserve when information indicates that the estimate is above or below the initial estimate. For further discussion of our restructuring activities, see Note 12 to our consolidated financial statements included in this report.

Recently Issued Accounting Standards

New accounting standards to be implemented:

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"), which provides a definition of fair value, establishes a framework for measuring fair value and requires expanded disclosures about fair value measurements. SFAS 157 was effective for financial assets and financial liabilities in years beginning after November 15, 2007 and for nonfinancial assets and liabilities in years beginning after November 15, 2008. The provisions of SFAS 157 were applied prospectively. The Company adopted SFAS 157 for financial assets and liabilities in 2008 with no material impact to the consolidated financial statements. The Company does not anticipate the adoption of SFAS 157 to nonfinancial assets and liabilities will have a material impact on the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ("SFAS 141(R)"). This standard improves reporting by creating greater consistency in the accounting and financial reporting of business combinations. Additionally, SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is effective for financial statements issued for years beginning after December 15, 2008. Early adoption of this standard is prohibited. In the absence of any planned future business combinations, Management does not currently expect SFAS 141(R) to have a material impact on the Company’s financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (“SFAS 160”). This standard improves the relevance, comparability and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way. Additionally, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 is effective for financial statements issued for years beginning after December 15, 2008. Early adoption of this standard is prohibited. In the absence of any noncontrolling (minority) interests, management does not currently expect SFAS 160 to have a material impact on the Company’s financial condition or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133, ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This standard becomes effective on January 1, 2009. Earlier adoption of SFAS 161 and, separately, comparative disclosures for earlier periods at initial adoption are encouraged. As SFAS 161 only requires enhanced disclosures, this standard will have no impact on the Company's financial position, results of operations or cash flows.

New accounting standards implemented:

In June 2006, the FASB issued interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 as of January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company's financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"), which expresses the SEC's views regarding the process of quantifying financial statement misstatements. Registrants are required to quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The financial statements would require adjustment when either approach results in quantifying a misstatement that is material, after considering all relevant quantitative and qualitative factors. SAB 108 was effective for the first quarter of 2007. The adoption of SAB 108 did not have an impact on the Company's consolidated financial statements.

In May 2007, the FASB issued FASB Staff Position ("FSP"), Definition of Settlement in FASB Interpretation No. 48 ("FSP FIN 48-1"). FSP FIN 48-1 provides guidance on determining whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 was effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

Forward-Looking Statements

Portions of this report contain “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company, our directors or officers with respect to, among other things, our (i) future product and facility expansion, (ii) acquisition strategy, (iii) investments and new product development, and (iv) growth opportunities related to awarded business. Forward-looking statements may be identified by the words “will,” “may,” “designed to,” “believes,” “plans,” “expects,” “continue,” and similar words and expressions. The forward-looking statements in this report are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, among other factors:

- the loss or bankruptcy of a major customer;
- the costs and timing of facility closures, business realignment, or similar actions;
- a significant change in medium- and heavy-duty, agricultural, automotive or off-highway vehicle production;
- our ability to achieve cost reductions that offset or exceed customer-mandated selling price reductions;
- a significant change in general economic conditions in any of the various countries in which we operate;
- labor disruptions at our facilities or at any of our significant customers or suppliers;
- the ability of our suppliers to supply us with parts and components at competitive prices on a timely basis;
- the amount of debt and the restrictive covenants contained in our credit facility;
- customer acceptance of new products;
- capital availability or costs, including changes in interest rates or market perceptions;
- the successful integration of any acquired businesses;
- the occurrence or non-occurrence of circumstances beyond our control; and
- those items described in Part I, Item IA (“Risk Factors”).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

From time to time, we are exposed to certain market risks, primarily resulting from the effects of changes in interest rates. At December 31, 2008, however, all of our debt was fixed rate debt. At this time, we do not use financial instruments to manage this risk.

Commodity Price Risk

Given the current economic climate and fluctuations in certain commodity costs throughout most of 2008, we currently are experiencing an increased risk, particularly with respect to the purchase of copper, zinc, resins and certain other commodities. We manage this risk through a combination of fixed price agreements, staggered short-term contract maturities and commercial negotiations with our suppliers. We may also consider pursuing alternative commodities or alternative suppliers to mitigate this risk over a period of time. The recent decline in certain commodity costs has positively affected our operating results; however an increase in certain commodity costs could adversely impact our profitability.

In December 2007, we entered into a fixed price swap contract for 1.0 million pounds of copper, which lasted through December 2008. In September 2008, we entered into a fixed price swap contract for 1.4 million pounds of copper, which will last from January 2009 to December 2009. The purpose of these contracts is to reduce our price risk as it relates to copper prices.

Going forward, we believe that our mitigation efforts will offset a substantial portion of any financial impact caused by these costs increasing. However, no assurances can be given that the magnitude or duration of any increased costs will not have a material impact on our future operating results. A hypothetical pre-tax gain or loss in fair value from a 10.0% favorable or adverse change in commodity prices would not significantly affect our results of operations, financial position or cash flows.

Foreign Currency Exchange Risk

Our risks related to foreign currency exchange rates have historically not been material; however, given the current economic climate, we are more closely monitoring this risk. We use derivative financial instruments, including foreign currency forward contracts, to mitigate our exposure to fluctuations in foreign currency exchange rates by reducing the effect of such fluctuations on foreign currency denominated intercompany transactions and other foreign currency exposures. As discussed in Note 9 to our consolidated financial statements, we have entered into foreign currency forward contracts that had a notional value of $8.8 million and $8.6 million at December 31, 2008 and 2007, respectively. The purpose of these foreign currency contracts is to reduce exposure related to the Company's British pound-denominated receivables. At December 31, 2008, the Company used forward currency contracts to reduce exposure to future Mexico peso-denominated purchases. At December 31, 2007, the Company also used forward currency contracts to reduce the exposure related to Swedish krona-denominated receivables. The estimated fair value of these contracts at December 31, 2008 and 2007, per quoted market sources, was approximately $(0.8) million and $(0.03) million, respectively. The Company's foreign currency option contracts expire throughout 2009. We do not expect the effects of this risk to be material in the future based on the current operating and economic conditions in the countries in which we operate.

A hypothetical pre-tax gain (loss) in fair value from a 10.0% favorable or adverse change in quoted currency exchange rates would be approximately $0.6 million or $(0.7) million and $3.7 million or $(3.0) million for the Company's British pound-denominated receivables and for the Company's Mexican peso-denominated receivables, respectively, as of December 31, 2008. For foreign currency contracts outstanding at December 31, 2007, a hypothetical pre-tax gain (loss) in fair value from a 10.0% favorable or adverse change in quoted currency exchange rates would be approximately $0.8 million or $(0.9) million as of December 31, 2007. It is important to note that gains and losses indicated in the sensitivity analysis would generally be offset by gains and losses on the underlying exposures being hedged. Therefore, a hypothetical pre-tax gain or loss in fair value from a 10.0% favorable or adverse change in quoted foreign currencies would not significantly affect our results of operations, financial position or cash flows.

Item 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Stoneridge, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Stoneridge, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audit also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stoneridge, Inc. and Subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statements schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 5 to the consolidated financial statements, effective January 1, 2007, the Company adopted FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stoneridge, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
March 11, 2009

STONERIDGE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 92,692	$ 95,924
Accounts receivable, less reserves of $4,204 and $4,736, respectively	96,535	122,288
Inventories, net	54,800	57,392
Prepaid expenses and other	9,069	15,926
Deferred income taxes, net of valuation allowance	1,495	9,829
Total current assets	254,591	301,359
Long-Term Assets:		
Property, plant and equipment, net	87,701	92,752
Other Assets:		
Goodwill	-	65,176
Investments and other, net	40,145	39,454
Deferred income taxes, net of valuation allowance	-	29,028
Total long-term assets	127,846	226,410
Total Assets	$ 382,437	$ 527,769
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current Liabilities:		
Accounts payable	$ 50,719	$ 69,373
Accrued expenses and other	43,485	47,198
Total current liabilities	94,204	116,571
Long-Term Liabilities:		
Long-term debt	183,000	200,000
Deferred income taxes	7,002	2,665
Other liabilities	6,473	2,344
Total long-term liabilities	196,475	205,009
Shareholders' Equity:		
Preferred Shares, without par value, authorized 5,000 shares, none issued	-	-
Common Shares, without par value, authorized 60,000 shares, issued 24,772 and 24,601 shares and outstanding 24,665 and 24,209 shares, respectively, with no stated value	-	-
Additional paid-in capital	158,039	154,173
Common Shares held in treasury, 107 and 392 shares, respectively, at cost	(129)	(383)
Retained earnings (deficit)	(59,155)	38,372
Accumulated other comprehensive income (loss)	(6,997)	14,027
Total shareholders’ equity	91,758	206,189
Total Liabilities and Shareholders' Equity	$ 382,437	$ 527,769

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

STONERIDGE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	For the Years Ended December 31,		
	2008	2007	2006
Net Sales	$ 752,698	$ 727,120	$ 708,699
Costs and Expenses:			
Cost of goods sold	586,411	559,397	549,793
Selling, general and administrative	136,563	133,708	124,538
Gain on sale of property, plant and equipment, net	(571)	(1,710)	(1,303)
Goodwill impairment charge	65,175	-	-
Restructuring charges	8,391	926	608
Operating Income (Loss)	(43,271)	34,799	35,063
Interest expense, net	20,575	21,759	21,744
Equity in earnings of investees	(13,490)	(10,893)	(7,125)
Loss on early extinguishment of debt	770	-	-
Other expense (income), net	(351)	709	805
Income (Loss) Before Income Taxes	(50,775)	23,224	19,639
Provision for income taxes	46,752	6,553	5,126
Net Income (Loss)	$ (97,527)	$ 16,671	$ 14,513
Basic net income (loss) per share	$ (4.17)	$ 0.72	$ 0.63
Basic weighted average shares outstanding	23,367	23,133	22,866
Diluted net income (loss) per share	$ (4.17)	$ 0.71	$ 0.63
Diluted weighted average shares outstanding	23,367	23,548	23,062

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

STONERIDGE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31, 2008	2007	2006
OPERATING ACTIVITIES:			
Net income (loss)	$ (97,527)	$ 16,671	$ 14,513
Adjustments to reconcile net income to net cash provided (used) by operating activities -			
Depreciation	26,196	28,299	25,904
Amortization	1,320	1,522	1,657
Deferred income taxes	46,239	3,823	3,466
Earnings of equity method investees, less dividends received	(9,277)	(5,299)	(3,455)
Gain on sale of fixed assets	(571)	(1,710)	(1,303)
Gain on sale of partnership interest	-	-	(1,627)
Share-based compensation expense	3,425	2,431	