

SAN JUAN BASIN ROYALTY TRUST

Form 10-Q

November 09, 2009

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

Form 10-Q

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2009**
- or**
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to**

Commission File No. 1-8032

SAN JUAN BASIN ROYALTY TRUST

(Exact name of registrant as specified in the Amended and Restated San Juan Basin Royalty Trust Indenture)

Texas
*(State or other jurisdiction
of incorporation or organization)*

75-6279898
*(I.R.S. Employer
Identification No.)*

Compass Bank
2525 Ridgmar Boulevard, Suite 100
Fort Worth, Texas 76116
(Address of principal executive offices)
(Zip Code)

(866) 809-4553
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act).

Large accelerated filer

Accelerated filer

Smaller reporting company

Non-accelerated filer 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). Yes o No

Number of Units of beneficial interest outstanding at November 9, 2009: 46,608,796

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SAN JUAN BASIN ROYALTY TRUST

PART I

FINANCIAL INFORMATION

Item 1. *Financial Statements.*

The condensed financial statements included herein have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements of the San Juan Basin Royalty Trust (the Trust) continue to be prepared in a manner that differs from generally accepted accounting principles in the United States of America (GAAP); this form of presentation is customary to other royalty trusts. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Nonetheless, Compass Bank, the Trustee of the Trust, believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Trust s Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of the Trustee, all adjustments, consisting only of normal recurring adjustments, have been included that are necessary to fairly present the assets, liabilities and trust corpus of the Trust at September 30, 2009 and the distributable income and changes in trust corpus for the three-month periods and nine-month periods ended September 30, 2009 and 2008. The distributable income for such interim periods is not necessarily indicative of the distributable income for the full year.

Table of Contents**SAN JUAN BASIN ROYALTY TRUST****CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS**

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and short-term investments	\$ 2,632,743	\$ 7,449,767
Net overriding royalty interest in producing oil and gas properties (net of accumulated amortization of \$115,997,319 and \$115,348,030 at September 30, 2009 and December 31, 2008, respectively)	17,278,209	17,927,498
	\$ 19,910,952	\$ 25,377,265
LIABILITIES AND TRUST CORPUS		
Distribution payable to Unit Holders	\$ 2,476,954	\$ 7,293,978
Cash reserves	155,789	155,789
Trust corpus 46,608,796 Units of beneficial interest authorized and outstanding	17,278,209	17,927,498
	\$ 19,910,952	\$ 25,377,265

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Royalty income	\$ 7,232,890	\$ 52,541,763	\$ 19,257,575	\$ 113,730,327
Interest income	194,481	32,508	197,892	216,621
Total Revenue	7,427,371	52,574,271	19,455,467	113,946,948
General and administrative expenditures	435,690	351,221	1,706,123	1,554,074
Distributable income	\$ 6,991,681	\$ 52,223,050	\$ 17,749,344	\$ 112,392,874
Distributable income per Unit (46,608,796 Units)	\$ 0.150007	\$ 1.120455	\$ 0.380814	\$ 2.411409

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

Table of Contents**SAN JUAN BASIN ROYALTY TRUST****CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Trust corpus, beginning of period	\$ 17,572,134	\$ 18,975,921	\$ 17,927,498	\$ 19,880,888
Amortization of net overriding royalty interest	(293,925)	(543,459)	(649,289)	(1,448,426)
Distributable income	6,991,681	52,223,050	17,749,344	112,392,874
Distributions declared	(6,991,681)	(52,223,050)	(17,749,344)	(112,392,874)
Trust corpus, end of period	\$ 17,278,209	\$ 18,432,462	\$ 17,278,209	\$ 18,432,462

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

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SAN JUAN BASIN ROYALTY TRUST

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF ACCOUNTING

The San Juan Basin Royalty Trust (the Trust) was established as of November 1, 1980. The financial statements of the Trust are prepared on the following basis:

Royalty income recorded for a month is the amount computed and paid with respect to the Trust's 75% net overriding royalty interest (the Royalty) in certain oil and gas leasehold and royalty interests (the Underlying Properties) by Burlington Resources Oil & Gas Company LP (BROG), the present owner of the Underlying Properties, to the Trustee for the Trust. Royalty income consists of the proceeds received by BROG from the sale of production from the Underlying Properties less accrued production costs, development and drilling costs, applicable taxes, operating charges, and other costs and deductions, multiplied by 75%. The calculation of net proceeds by BROG for any month includes adjustments to proceeds and costs for prior months and impacts the Royalty income paid to the Trust and the distribution to Unit Holders for that month.

Trust expenses recorded are based on liabilities paid and cash reserves established from Royalty income for liabilities and contingencies.

Distributions to Unit Holders are recorded when declared by the Trustee.

The conveyance which transferred the Royalty to the Trust provides that any excess of development and production costs applicable to the Underlying Properties over gross proceeds from such properties must be recovered from future net proceeds before Royalty income is again paid to the Trust.

The financial statements of the Trust differ from financial statements prepared in accordance with GAAP because revenues are not accrued in the month of production; certain cash reserves may be established for contingencies which would not be accrued in financial statements prepared in accordance with GAAP; expenses are recorded when paid instead of when incurred; and amortization of the Royalty calculated on a unit-of-production basis is charged directly to the Trust corpus instead of as an expense. The basis of accounting used by the Trust is widely used by royalty trusts for financial reporting purposes.

In preparing the condensed interim financial statements, the Trust has evaluated, for potential recognition or disclosure, events or transactions subsequent to the end of the most recent quarterly period through November 9, 2009, the issuance date of these condensed interim financial statements. No such transactions or events resulted in additional recognition or disclosure.

2. FEDERAL INCOME TAXES

For federal income tax purposes, the Trust constitutes a fixed investment trust which is taxed as a grantor trust. A grantor trust is not subject to tax at the trust level. The Unit Holders are considered to own the Trust's income and principal as though no trust were in existence. The income of the Trust is deemed to have been received or accrued by each Unit Holder at the time such income is received or accrued by the Trust rather than when distributed by the Trust.

Additionally, the Trust is a widely held fixed investment trust (WHFIT) classified as a non-mortgage widely held fixed investment trust (NMWHFIT) for federal income tax purposes. The Trustee is the representative of the Trust that will provide tax information in accordance with the applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT and a NMWHFIT.

The Royalty constitutes an economic interest in oil and gas properties for federal income tax purposes. Unit Holders must report their share of the production revenues of the Trust as ordinary income from oil and gas royalties and are entitled to claim depletion with respect to such income. The Royalty is treated as a single property for depletion purposes. The Trust has on file technical advice memoranda confirming such tax treatment.

Sales of gas production from certain coal seam wells drilled prior to January 1, 1993, qualified for federal income tax credits under Section 29 (now Section 45K) of the Internal Revenue Code of 1986 (as amended, the

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SAN JUAN BASIN ROYALTY TRUST

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Code) through 2002 but not thereafter. Accordingly, under present law, the Trust's production and sale of gas from coal seam wells does not qualify for tax credit under Section 45K of the Code (the Section 45 Tax Credit). Congress has at various times since 2002 considered energy legislation, including provisions to reinstate the Section 45 Tax Credit in various ways and to various extents, but no legislation that would qualify the Trust's current production for such credit has been enacted. For example, in February 2009, new energy tax legislation was enacted which, among other things, modified the Section 45 Tax Credit in several respects, but did not extend the credit for production from coal seam wells. No prediction can be made as to what future tax legislation affecting Section 45K of the Code may be proposed or enacted or, if enacted, its impact, if any, on the Trust and the Unit Holders.

The classification of the Trust's income for purposes of the passive loss rules may be important to a Unit Holder. As a result of the Tax Reform Act of 1986, royalty income such as that derived through the Trust will generally be treated as portfolio income that may not be offset or reduced by passive losses.

3. CONTINGENCIES

See Part II, Item 1 Legal Proceedings, concerning the status of litigation matters.

4. SETTLEMENTS AND LITIGATION

On March 14, 2008, BROG notified the Trust that the distribution for March would be reduced by \$4,921,578. BROG described this amount as the Trust's portion of what BROG had paid to settle claims for the underpayment of royalties in the case styled United States of America ex rel. Harrold E. (Gene) Wright v. AGIP Petroleum Co. et al., Civil Action No. 5:03CV264 (formerly 9:98-CV-30) (E.D. Tex.). The Trust's consultants continue to analyze this settlement as it may apply to the Trust.

On April 28, 2008, the Trust filed a suit against BROG relating to the Arbitration Award in its favor issued in November 2005, in the amount of \$7,683,699. The litigation is styled San Juan Basin Royalty Trust vs. Burlington Resources Oil & Gas Company, L.P., No. D1329-CV-08-751, in the District Court of Sandoval County, New Mexico, 13th Judicial District. The Trust alleges breach of contract and breach of the covenant of good faith and fair dealing and seeks a judgment for damages in the amount of \$5,025,000, plus interest and punitive damages. The purpose of the arbitration was to resolve certain compliance audit issues. The arbitrator ruled in favor of the Trust on all five of the issues submitted to arbitration. BROG filed suit in Harris County, Texas alleging that the award should be modified or vacated, and seeking to recover its attorneys' fees. The trial court denied BROG's motion to vacate, granted the Trust's application to confirm and rendered a final judgment in favor of the Trust. BROG paid the award as it related to four of the five issues and appealed the award as to the fifth. In August 2007, the appellate court reversed the judgment of the trial court and vacated the award as it related to the fifth issue and the unpaid balance of the award.

With respect to that fifth issue which was the subject of the appeal, the Trust had asked for damages based on either of two alternative claims. The appellate court ruled that the alternative claim selected by the arbitrator in awarding the Trust approximately \$5,000,000 was not technically included within the scope of what the parties intended to submit to arbitration. The appellate court did not rule on whether or not the arbitrator properly decided the fifth issue in favor of the Trust. The litigation filed in New Mexico seeks recovery on the claim which had been resolved in favor of the Trust by the arbitrator.

The appellate court also remanded the case to the District Court, where BROG pursued its claim for attorneys' fees and costs in the amount of approximately \$200,000. Following a trial on the merits of BROG's claims conducted on June 3, 2009, the District Court ruled in favor of the Trust and ordered that BROG should take nothing in its claims against the Trust. BROG has filed a Notice of Appeal as regards that ruling.

Certain motions for summary judgment filed by BROG and the Trust are to be heard on January 5, 2010. The trial on the merits has been set for the week of May 24, 2011.

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Item 2. *Trustee's Discussion and Analysis of Financial Condition and Results of Operations.*

Forward-Looking Information

Certain information included in this Quarterly Report on Form 10-Q contains, and other materials filed or to be filed by the Trust with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Trust) may contain or include, forward-looking statements. Such forward-looking statements may be or may concern, among other things, capital expenditures, drilling activity, development activities, production efforts and volumes, hydrocarbon prices, estimated future net revenues, estimates of reserves, the results of the Trust's activities, and regulatory matters. Such forward-looking statements generally are accompanied by words such as may, will, estimate, expect, predict, project, anticipate, goal, should, plan, intend, or other words that convey the uncertainty of future events or outcomes. Such statements reflect the current view of BROG, the working interest owner, with respect to future events; are based on an assessment of, and are subject to, a variety of factors deemed relevant by the Trustee and BROG; and involve risks and uncertainties. These risks and uncertainties include volatility of oil and gas prices, product supply and demand, competition, regulation or government action, litigation and uncertainties about estimates of reserves. Should one or more of these risks or uncertainties occur, actual results may vary materially and adversely from those anticipated.

Business Overview

The Trust is an express trust created under the laws of the state of Texas by the San Juan Basin Royalty Trust Indenture (the Original Indenture) entered into on November 3, 1980 between Southland Royalty Company (Southland Royalty) and The Fort Worth National Bank. Effective as of September 30, 2002, the Original Indenture was amended and restated (the Original Indenture, as amended and restated, the First Restated Indenture) and, effective as of December 12, 2007 the First Restated Indenture was amended and restated (the First Restated Indenture, as amended and restated, the Indenture). The Trustee of the Trust is Compass Bank (as a result of the merger discussed below).

On October 23, 1980, the stockholders of Southland Royalty approved and authorized that company's conveyance of a 75% net overriding royalty interest (equivalent to a net profits interest) to the Trust for the benefit of the stockholders of Southland Royalty of record at the close of business on the date of the conveyance (the Royalty) carved out of that company's oil and gas leasehold and royalty interests (the Underlying Properties) in properties located in the San Juan Basin of northwestern New Mexico. Pursuant to the Net Overriding Royalty Conveyance (the Conveyance) the Royalty was transferred to the Trust on November 3, 1980 effective as to production from and after November 1, 1980 at 7:00 a.m.

As a result of a merger on March 24, 2006, Compass Bank succeeded TexasBank as Trustee of the Trust. On September 7, 2007, Compass Bank's parent company, Compass Bancshares, Inc., was acquired by and is now a wholly-owned subsidiary of Banco Bilbao Vizcaya Argentaria, S.A.

The Royalty constitutes the principal asset of the Trust. The beneficial interests in the Royalty are divided into that number of Units of Beneficial Interest (the Units) of the Trust equal to the number of shares of the common stock of Southland Royalty outstanding as of the close of business on November 3, 1980. Each stockholder of Southland Royalty of record at the close of business on November 3, 1980 received one freely tradable Unit for each share of the common stock of Southland Royalty then held. Holders of Units are referred to herein as Unit Holders. Subsequent to the Conveyance of the Royalty, through a series of assignments and mergers, Southland Royalty's successor became BROG. On March 31, 2006, a subsidiary of ConocoPhillips completed its acquisition of Burlington Resources, Inc., BROG's parent. As a result, ConocoPhillips became the parent of Burlington Resources, Inc., which in turn, is the

parent of BROG.

The function of the Trustee is to collect the net proceeds attributable to the Royalty (Royalty Income), to pay all expenses and charges of the Trust and distribute the remaining available income to the Unit Holders. The Trust does not operate the Underlying Properties and, in fact, is not empowered to carry on any business activity. The Trust has no employees, officers or directors. All administrative functions of the Trust are performed by the Trustee.

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BROG is the principal operator of the Underlying Properties. A very high percentage of the Royalty Income is attributable to the production and sale by BROG of natural gas from the Underlying Properties. Accordingly, the market price for natural gas produced and sold from the San Juan Basin heavily influences the amount of Royalty Income distributed by the Trust and, by extension, the price of the Units.

Three Months Ended September 30, 2009 and 2008

The Trust received Royalty income of \$7,232,890 and interest income of \$194,481 during the third quarter of 2009. There was no change in cash reserves. After deducting administrative expenses of \$435,690, distributable income for the quarter was \$6,991,681 (\$0.150007 per Unit). In the third quarter of 2008, Royalty income was \$52,541,763, interest income was \$32,508, administrative expenses were \$351,221 and distributable income was \$52,223,050 (\$1.120455 per Unit). In August 2008, the Trust recovered \$40,930 previously escheated to the State of Texas in the name of the Trust, and those funds were temporarily added to cash reserves pending further research as to the origin of the funds. Based on 46,608,796 Units outstanding, the per-Unit distributions during the third quarter of 2009 were as follows:

July	\$.035394
August	.061470
September	.053143
 Quarter Total	 \$.150007

The Royalty income distributed in the third quarter of 2009 was lower than that distributed in the third quarter of 2008, primarily due to a decrease in the average gas price from \$10.62 per Mcf for the third quarter of 2008 to \$2.98 per Mcf for the third quarter of 2009. Gas volumes, however, increased in the quarter ended September 30, 2009 as compared to the quarter ended September 30, 2008. Interest income was higher for the quarter ended September 30, 2009 as compared to the quarter ended September 30, 2008, due to interest BROG paid to the Trust in August 2009 as a result of the granting of certain audit exceptions. Administrative expenses were higher in 2009 primarily as a result of differences in timing in the receipt and payment of these expenses and also due to increased costs associated with the litigation described below.

The capital costs attributable to the Underlying Properties for the third quarter of 2009 and deducted by BROG in calculating Royalty income were approximately \$7.4 million. BROG has informed the Trust that the 2009 budget for capital expenditures for the Underlying Properties is \$25.2 million. In addition, BROG estimates that during 2009 it will incur capital expenses in the amount of approximately \$12.1 million attributable to the capital budgets for 2008 and prior years. Approximately 12% of the planned expenditures attributable to the 2009 budget will be on Fruitland Coal formation projects with the remainder to be spent on conventional projects. BROG reports that based on its actual capital requirements, the pace of regulatory approvals, the mix of projects and swings in the price of natural gas, the actual capital expenditures for 2009 could range from \$10 million to \$45 million.

BROG anticipates 431 projects in 2009 at an estimated cost of \$25.2 million. Approximately \$6 million of that budget is allocable to 49 new wells, including 39 wells scheduled to be dually completed in the Mesaverde and Dakota formations and four wells projected to be drilled to formations producing coal seam gas. Approximately \$7.1 million will be spent on workovers and facilities projects. Of the \$12.1 million attributable to the budgets for prior years, approximately \$6.9 million is allocable to new wells, and the \$5.2 million balance will be applied to miscellaneous capital projects such as workovers and operated facility projects. BROG also anticipates that the possible implementation of new rules minimizing surface disturbances, requiring the implementation of closed-loop systems

for the disposal of drilling fluids and cuttings, and restricting the use of open reserve pits could reduce the number of projects due to increased compliance costs.

BROG has informed the Trust that lease operating expenses and property taxes were \$7,756,942 and \$213,289, respectively, for the third quarter of 2009, as compared to \$7,947,438 and \$276,732, respectively, for the third quarter of 2008. BROG reports that lease operating expenses were lower in the third quarter of 2009 compared to the third quarter of 2008 primarily because of lower contract services and maintenance costs. Furthermore, BROG reports that the decrease in costs related to the property taxes are due to the fact that property tax amounts are accrued based on the prior year's actual costs. In 2009, \$71,096 per month in property taxes is accrued, based on the

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amount of the actual property tax bill paid in early 2009, as compared with \$92,244 per month accrued in 2008, based on the amount of the actual property tax bill paid in early 2008.

BROG has reported to the Trustee that during the third quarter of 2009, 22 gross (4.58 net) conventional wells, two gross (0.84 net) recompletions, 16 gross (8.23 net) coal seam wells and one gross (.85 net) coal seam recompletion were completed on the Underlying Properties. Seven gross (2.20 net) conventional wells were in progress at September 30, 2009.

There were, based on revised information from BROG, seven gross (2.22 net) coal seam wells and 33 gross (4.24 net) conventional wells completed on the Underlying Properties as of September 30, 2008. Five gross (0.92 net) coal seam wells and seven gross (1.42 net) conventional wells were in progress at September 30, 2008.

There were 3,903 gross (1,137 net) producing wells being operated subject to the Royalty as of December 31, 2008, calculated on a well bore basis and not including multiple completions as separate wells.

Gross acres or wells, for purposes of this discussion, means the entire ownership interest of all parties in such properties, and BROG's interest therein is referred to as the net acres or wells. A payadd is the completion of an additional productive interval in an existing completed zone in a well.

Royalty income for the quarter ended September 30, 2009 is associated with actual gas and oil production during May 2009 through July 2009 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended September 30, 2009 and 2008 were as follows:

	Three Months Ended September 30,	
	2009	2008
<u>Gas:</u>		
Total sales (Mcf)	8,916,522	8,737,027
Mcf per day	96,919	94,968
Average price (per Mcf)	\$ 2.98	\$ 10.62
<u>Oil:</u>		
Total sales (Bbls)	17,414	12,793
Bbls per day	189	139
Average price (per Bbl)	\$ 56.08	\$ 120.99

Gas and oil sales attributable to the Royalty for the quarters ended September 30, 2009 and 2008 were as follows:

	Three Months Ended September 30,	
	2009	2008
Gas sales (Mcf)	2,563,130	5,326,507
Oil sales (Bbls)	5,004	7,724

Sales volumes attributable to the Royalty are determined by dividing the net profits received by the Trust and attributable to oil and gas, respectively, by the prices received for sales volumes from the Underlying Properties,

taking into consideration production taxes attributable to the Underlying Properties. Since the oil and gas sales attributable to the Royalty are based on an allocation formula that is dependent on such factors as price and cost, including capital expenditures, the aggregate production volumes from the Underlying Properties may not provide a meaningful comparison to volumes attributable to the Royalty.

During the third quarter of 2009, average gas prices were \$7.64 per Mcf lower than the average prices reported during the third quarter of 2008 due in part to the global economic contraction which has depressed energy demand and contributed to lower natural gas wellhead prices, including the posted index prices applicable to gas sold from the San Juan Basin. In addition, many experts attribute the decline in gas prices to record or near record inventories in storage and increased domestic production from the various shale formations. The average price per barrel of oil during the third quarter of 2009 was \$64.91 per barrel lower than that received for the third quarter of 2008.

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BROG previously entered into three contracts for the sale of all volumes of gas produced from the Underlying Properties to ChevronTexaco Natural Gas, a division of Chevron U.S.A. Inc. (ChevronTexaco), Coral Energy Resources, L.P. (Coral), and PNM Gas Services (PNM), respectively. In March 2008, both ChevronTexaco and Coral notified BROG of their election to terminate their respective contracts effective March 31, 2009. Requests for proposal were circulated to potential purchasers of the packages of gas covered by the expiring contracts. Neither BROG nor PNM gave notice of termination with respect to the PNM contract and, by agreement of the parties, the term of that contract has been extended through at least March 31, 2011. On December 11, 2008, the New Mexico Public Regulatory Commission approved the sale of the gas utility assets of PNM to New Mexico Gas Company, Inc. (NMGC) and, effective as of January 30, 2009, the PNM contract was assigned to and assumed by NMGC.

BROG entered into four new contracts effective April 1, 2009, for the sale of all gas produced from the Underlying Properties other than the gas covered by the NMGC contract. The new purchasers are Chevron Natural Gas, a division of Chevron USA, Inc., Pacific Gas and Electric Company, BP Energy Company and Macquarie Cook Energy LLC. All four of the new contracts and the pre-existing NMGC contract provide for (i) the delivery of such gas at various delivery points through March 31, 2011 and from year-to-year thereafter, until terminated by either party on 12 months notice; and (ii) the sale of such gas at prices which fluctuate in accordance with the published indices for gas sold in the San Juan Basin of northwestern New Mexico. Although the primary term of the Chevron contract continues until March 31, 2011, a portion of that contract will be remarketed for sale after March 2010.

Confidentiality agreements with purchasers of gas produced from the Underlying Properties prohibit public disclosure of certain terms and conditions of gas sales contracts with those entities, including specific pricing terms and gas receipt points. Such disclosure could compromise the ability to compete effectively in the marketplace for the sale of gas produced from the Underlying Properties.

Nine Months Ended September 30, 2009 and 2008

For the nine months ended September 30, 2009, the Trust received Royalty income of \$19,257,575 and interest income of \$197,892. After deducting administrative expenses of \$1,706,123, distributable income was \$17,749,344 (\$0.380814 per Unit) for the nine months ended September 30, 2009. There was no change in cash reserves. For the nine months ended September 30, 2008, the Trust received Royalty income of \$113,730,327 and interest income of \$216,621. Cash reserves increased in August 2008 by \$40,930, the amount recovered from the State of Texas. After deducting administrative expenses of \$1,554,074, distributable income was \$112,392,874 (\$2.411409 per Unit) for the nine months ended September 30, 2008.

The decrease in distributable income from 2008 to 2009 resulted primarily from lower gas prices during the first nine months of 2009. However, gas volumes were higher in the nine months ended September 30, 2009, in part, due to unplanned down-time at a facility operated by a third party in the second quarter of 2008. Interest earnings were lower for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008, primarily due to a decrease in funds available for investment and to lower interest rates. General and administrative expenses were higher for the nine months ended September 30, 2009, as compared to the same period in 2008, primarily as a result of differences in timing in the receipt and payment of the expenses, but also due to an increase in legal expenses incurred in the litigation between BROG and the Trust described in Part II, Item I, below.

Capital expenditures incurred by BROG, attributable to the Underlying Properties, for the first nine months of 2009 amounted to approximately \$28.3 million. Capital expenditures were approximately \$19.9 million for the first nine months of 2008. Lease operating expenses and property taxes first nine months of 2009 totaled \$24,563,067 and \$703,310, respectively, as compared to \$23,767,528 and \$798,760, respectively, for 2008.

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BROG has reported to the Trustee that during the nine months ended September 30, 2009, 68 gross (13.28 net) conventional wells, two gross (0.84 net) recompletions, 36 gross (19.55 net) coal seam wells and one gross (0.85 net) coal seam recompletion were completed on the Underlying Properties. There were 33 gross (13.25 net) coal seam wells and 108 gross (11.69 net) conventional wells completed on the Underlying Properties during the nine months ended September 30, 2008.

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Royalty income for the nine months ended September 30, 2009 is associated with actual gas and oil production during November 2008 through July 2009 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the nine months ended September 30, 2009 and 2008 were as follows:

	Nine Months Ended September 30,	
	2009	2008
Gas:		
Total sales (Mcf)	25,986,144	25,133,676
Mcf per day	95,187	91,729
Average price (per Mcf)	\$ 3.28	\$ 8.72
Oil:		
Total Sales (Bbls)	43,689	36,168
Bbls per day	160	132
Average price (per Bbl)	\$ 45.34	\$ 101.88

Gas and oil sales attributable to the Royalty for the nine months ended September 30, 2009 and 2008 were as follows:

	Nine Months Ended September 30,	
	2009	2008
Gas sales (Mcf)	6,034,462	14,579,826
Oil sales (Bbls)	9,820	20,787

During the first nine months of 2009 gas and oil prices were lower than during the first nine months of 2008. Since the oil and gas sales attributable to the Royalty are based on an allocation formula that is dependant on such factors as price and cost, including capital expenditures, the aggregate sales amounts from the Underlying Properties may not provide a meaningful comparison to sales attributable to the Royalty.

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Calculation of Royalty Income

Royalty Income received by the Trust for the three months and nine months ended September 30, 2009 and 2008, respectively, was computed as shown in the following table:

CALCULATION OF ROYALTY INCOME

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Gross proceeds of sales from the Underlying Properties:				
462,110				
425,972				
Accumulated other comprehensive loss				
(231,555				
)				
(242,563				
)				
Total Cooper-Standard Holdings Inc. equity				
743,988				
697,360				
Noncontrolling interests				
25,412				
24,431				
Total equity				
769,400				
721,791				
Total liabilities and equity				
\$				
2,507,070				
\$				

2,491,702

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

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COOPER-STANDARD HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 (Unaudited)

(Dollar amounts in thousands except share amounts)

	Total Equity							
	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Cooper-Standard Holdings Inc. Equity	Noncontrolling Interests	Total Equity
Balance as of December 31, 2016	17,690,611	\$ 17	\$ 513,934	\$ 425,972	\$ (242,563)	\$ 697,360	\$ 24,431	\$ 721,791
Warrant exercises	21,304	—	580	—	—	580	—	580
Share-based compensation, net	144,265	1	(1,099)	(5,568)	—	(6,666)	—	(6,666)
Net income	—	—	—	41,706	—	41,706	798	42,504
Other comprehensive income	—	—	—	—	11,008	11,008	183	11,191
Balance as of March 31, 2017	17,856,180	\$ 18	\$ 513,415	\$ 462,110	\$ (231,555)	\$ 743,988	\$ 25,412	\$ 769,400

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

COOPER-STANDARD HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (Dollar amounts in thousands)

	Three Months Ended March 31, 2017	2016
Operating Activities:		
Net income	\$ 42,504	\$ 31,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	28,262	26,927
Amortization of intangibles	3,595	3,278
Impairment charges	4,270	—
Share-based compensation expense	6,804	4,434
Equity in earnings of affiliates, net of dividends related to earnings	965	1,252
Other	7,661	(362)
Changes in operating assets and liabilities	(90,510)	(39,152)
Net cash provided by operating activities	3,551	27,914
Investing activities:		
Capital expenditures	(58,270)	(55,090)
Acquisition of businesses, net of cash acquired	—	(3,020)
Proceeds from sale of fixed assets and other	33	(127)
Net cash used in investing activities	(58,237)	(58,237)
Financing activities:		
Increase in short-term debt, net	142	2,295
Principal payments on long-term debt	(1,836)	(2,436)
Repurchase of common stock	—	(23,800)
Proceeds from exercise of warrants	580	248
Taxes withheld and paid on employees' share based payment	(10,740)	(1,714)

awards			
Other	(117)	28
Net cash used in financing activities	(11,971)	(25,379
Effects of exchange rate changes on cash and cash equivalents	(6,510)	(9,464
Changes in cash and cash equivalents	(73,167)	(65,166
Cash and cash equivalents at beginning of period	480,092		378,243
Cash and cash equivalents at end of period	\$ 406,925		\$ 313,077

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

1. Overview

Basis of Presentation

Cooper-Standard Holdings Inc. (together with its consolidated subsidiaries, the “Company” or “Cooper Standard”), through its wholly-owned subsidiary, Cooper-Standard Automotive Inc. (“CSA U.S.”), is a leading manufacturer of sealing, fuel and brake delivery, fluid transfer, and anti-vibration systems. The Company’s products are primarily for use in passenger vehicles and light trucks that are manufactured by global automotive original equipment manufacturers (“OEMs”) and replacement markets. The Company conducts substantially all of its activities through its subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) for interim financial information and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Annual Report”), as filed with the SEC. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“U.S. GAAP”) for complete financial statements. These financial statements include all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of the Company. The operating results for the interim period ended March 31, 2017 are not necessarily indicative of results for the full year. In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

The Company’s financial statements for the three months ended March 31, 2016 have been recast to reflect the effects of the Company’s adoption of Accounting Standards Update (“ASU”) 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which was adopted in the second quarter of 2016. The financial statement line items affected were selling, administration & engineering expenses, income tax expense, net income and basic and diluted earnings per share.

Recently Adopted Accounting Pronouncements

In the first quarter of 2017, the Company adopted ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU amended the guidelines for the measurement of inventory from lower of cost or market to the lower of cost and net realizable value. This new guidance has been adopted prospectively and had an immaterial impact on the Company’s consolidated financial statements.

Recently Issued Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board (“FASB”) issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This guidance requires the service cost component of net periodic benefit cost to be recorded in the same income statement line item as other employee compensation costs arising from services rendered during the period. Other components of the net periodic benefit cost must be presented separately outside of operating income. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This guidance eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. This guidance is effective for annual and interim reporting periods beginning after December 15, 2019. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash

equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should now be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This guidance will require companies to recognize the income tax effects of intercompany sales and transfers

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

of assets other than inventory in the period in which the transfer occurs. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017, and should be applied on a modified retrospective approach with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. Early adoption is permitted at the beginning of an annual period. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments provide guidance on eight specific cash flow issues, thereby reducing diversity in practice. The amendments are effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The guidance requires companies to use a retrospective transition method upon adoption. The Company has evaluated the issues specified in this guidance, which is consistent with its current treatment, therefore the guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance revises existing U.S. GAAP by requiring lessees to recognize assets and liabilities for all leases (with an exception of short-term leases). This guidance is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. The new guidance does not change how leases impact the income statement, but does require that substantially all leases be recognized on the balance sheet. Although the Company is in the preliminary phases of assessing the effect of this guidance, it does not believe that this standard will materially impact its consolidated income statement. The Company plans on adopting this ASU effective January 1, 2019 and has yet to determine the effect on its consolidated balance sheet.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance prescribes a single, common revenue standard that replaces most existing revenue recognition guidance in U.S. GAAP. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The standard also requires new, expanded disclosures regarding revenue recognition. Several ASUs have been issued since the issuance of ASU 2014-09. These ASUs, which modify certain sections of ASU 2014-09, are intended to promote a more consistent interpretation and application of the principles outlined in the standard. The guidance is effective January 1, 2018 and permits the use of either the full retrospective or modified retrospective method.

Since the new standard will impact the Company's business processes, systems and controls, the Company has developed a comprehensive project plan to guide the implementation. This project plan includes analyzing the standard's impact on the Company's customer contracts, comparing its historical accounting policies and practices to the requirements of the new standard, and identifying potential differences from applying the requirements of the new standard to its contracts. The Company will adopt the guidance effective January 1, 2018 using the modified retrospective method, under which the cumulative effect is recognized in equity at the date of initial application. The Company has yet to determine the effect on its consolidated financial statements, but expects this determination will near completion by the third quarter of 2017. Once the Company adopts the new standard, it does not anticipate that its internal control framework will materially change, but rather that existing internal controls will be modified and augmented, as necessary.

The new standard could impact how the Company accounts for pre-production costs related to long-term supply arrangements, such as reimbursable tooling. Under current guidance, such reimbursements from customers are recorded as cost offsets. Under the new guidance, revenue could potentially be recognized for pre-production activities that are transferred to the customer. During the first quarter of 2017, the FASB performed additional outreach with preparers and other stakeholders related to the accounting for pre-production activities. Since final clarification on the accounting treatment is still outstanding, the Company's evaluation of pre-production costs is ongoing.

The Company anticipates that under the new guidance it will continue recognizing revenue at a point in time, generally when products are either shipped or delivered. While implementing the new standard, the Company will

continue to monitor FASB activities and interpretations of various non-authoritative industry groups.

2. Acquisitions

AMI Acquisition

In 2016, the Company acquired the North American fuel and brake business of AMI Industries (the “AMI Business”) for cash consideration of \$32,000 (the “AMI Acquisition”). This acquisition directly aligns with the Company’s growth strategy by expanding the Company’s fuel and brake business. The results of operations of the AMI Business are included in the Company’s condensed consolidated financial statements from the date of acquisition, August 15, 2016, and reported within the North America segment. This acquisition was accounted for as a business combination, resulting in the recognition of intangible assets of \$19,410 and goodwill of \$7,175 in 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

Other Acquisitions

In 2016, the Company acquired a business in furtherance of the Company's China operations. The total purchase price of the acquisition was \$5,478, of which \$3,020 was paid during the first quarter of 2016 and \$2,458 was paid in the third quarter of 2016. The Company recognized \$2,972 of goodwill in 2016 as a result of this acquisition.

Also in 2016, the Company obtained control of its 51%-owned joint venture, Shenya Sealing (Guangzhou) Company Limited ("Guangzhou") through an amendment of the joint venture governing document. This joint venture was previously accounted for as an investment under the equity method. The results of operations of Guangzhou are included in the Company's consolidated financial statements from the date of consolidation, August 4, 2016, and reported within the Asia Pacific segment. Business combination accounting was completed, resulting in the recognition of intangible assets of \$6,605 and goodwill of \$9,741 in 2016. There was no gain or loss recognized on the remeasurement of the Company's equity method investment in Guangzhou.

3. Restructuring

On an ongoing basis, the Company evaluates its business and objectives to ensure that it is properly configured and sized based on changing market conditions. Accordingly, the Company has implemented several restructuring initiatives, including closure or consolidation of facilities throughout the world and the reorganization of its operating structure.

In January 2015, the Company announced its intention to further restructure its European manufacturing footprint based on the then current and anticipated market demands. The total estimated cost of this initiative, which is expected to be substantially completed by the end of 2017, is approximately \$120,000 to \$125,000, of which approximately \$99,000 has been incurred to date. We expect to incur total employee separation costs of approximately \$70,000 to \$75,000, other related exit costs of approximately \$49,000 to \$54,000 and non-cash asset impairments related to restructuring activities of approximately \$500.

The Company's restructuring charges consist of severance, retention and outplacement services, and severance-related postemployment benefits (collectively, "employee separation costs"), other related exit costs and asset impairments related to restructuring activities.

The following table summarizes the restructuring expense by segment for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
North America	\$—	\$960
Europe	9,289	8,835
Asia Pacific	699	1,037
Total	\$9,988	\$10,832

The following table summarizes the activity for restructuring initiatives for the three months ended March 31, 2017:

	Employee Separation Costs	Other Exit Costs	Total
Balance as of December 31, 2016	\$ 21,927	\$2,311	\$24,238
Expense	6,754	3,234	9,988
Cash payments	(14,253)	(3,295)	(17,548)
Foreign exchange translation and other	509	(133)	376
Balance as of March 31, 2017	\$ 14,937	\$2,117	\$17,054

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

4. Inventories

Inventories were comprised of the following as of March 31, 2017 and December 31, 2016:

	March 31, December 31,	
	2017	2016
Finished goods	\$45,925	\$ 43,511
Work in process	37,015	32,839
Raw materials and supplies	77,647	70,099
	\$160,587	\$ 146,449

5. Property, Plant and Equipment

Property, plant and equipment was comprised of the following as of March 31, 2017 and December 31, 2016:

	March 31, December 31,	
	2017	2016
Land and improvements	\$67,868	\$ 71,002
Buildings and improvements	272,123	265,824
Machinery and equipment	900,612	864,337
Construction in progress	154,139	153,924
	1,394,742	1,355,087
Accumulated depreciation	(553,371)	(522,818)
Property, plant and equipment, net	\$841,371	\$ 832,269

Impairment of Long-Lived Assets

Due to the Company's decision to divest two of its inactive European sites, the Company recorded impairment charges of \$4,270 in the three months ended March 31, 2017. Fair value was determined based on current real estate market conditions.

6. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill by reportable operating segment for the three months ended March 31, 2017 are summarized as follows:

	North America	Europe	Asia Pacific	Total
Balance as of December 31, 2016	\$ 121,996	\$10,753	\$ 34,692	\$167,441
Foreign exchange translation	30	128	289	447
Balance as of March 31, 2017	\$ 122,026	\$10,881	\$ 34,981	\$167,888

Goodwill is tested for impairment by reporting unit annually or more frequently if events or circumstances indicate that an impairment may exist. There were no indicators of potential impairment during the three months ended March 31, 2017.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

Intangible Assets

The following table presents intangible assets and accumulated amortization balances of the Company as of March 31, 2017 and December 31, 2016, respectively:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 135,029	\$ (76,374)	\$ 58,655
Developed technology	8,801	(8,568)	233
Other	21,367	(2,057)	19,310
Balance as of March 31, 2017	\$ 165,197	\$ (86,999)	\$ 78,198

Customer relationships	\$ 134,918	\$ (73,088)	\$ 61,830
Developed technology	8,762	(8,386)	376
Other	20,965	(1,808)	19,157
Balance as of December 31, 2016	\$ 164,645	\$ (83,282)	\$ 81,363

Amortization expense is estimated to be approximately \$14,000 for the year ending December 31, 2017.

7. Debt

Outstanding debt consisted of the following as of March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
Senior Notes	\$ 393,147	\$ 393,060
Term Loan	332,240	332,827
Other borrowings	36,553	37,032
Total debt	761,940	762,919
Less current portion	(33,470)	(33,439)
Total long-term debt	\$ 728,470	\$ 729,480

5.625% Senior Notes due 2026

In November 2016, the Company issued \$400,000 aggregate principal amount of its 5.625% Senior Notes due 2026 (the "Senior Notes"). The Senior Notes mature on November 15, 2026. Interest on the Senior Notes is payable semi-annually in arrears in cash on May 15 and November 15 of each year, commencing on May 15, 2017.

Debt issuance costs related to the Senior Notes are amortized into interest expense over the term of the Senior Notes.

As of March 31, 2017 and December 31, 2016, the Company has \$6,853 and \$6,940 of unamortized debt issuance costs, respectively, related to the Senior Notes, which are presented as direct deductions from the principal balance in the condensed consolidated balance sheets.

Term Loan Facility

Also in November 2016, the Company entered into Amendment No. 1 to its senior term loan facility ("Term Loan Facility"), which provides for loans in an aggregate principal amount of \$340,000. Subject to certain conditions, the Term Loan Facility, without the consent of the then existing lenders (but subject to the receipt of commitments), may be expanded (or a new term loan or revolving facility added) by an amount that will not cause the consolidated secured net debt ratio to exceed 2.25 to 1.00 plus \$400,000 plus any voluntary prepayments, including the senior asset-based revolving credit facility ("ABL Facility") to the extent commitments are reduced, not funded from proceeds of long-term indebtedness. The Term Loan Facility matures on November 2, 2023, unless earlier terminated.

Borrowings under the Term Loan Facility bear interest, at the borrower's option, at either (1) with respect to Eurodollar rate loans, the greater of the applicable Eurodollar rate and 0.75%, plus 2.75% per annum, or (2) with respect to base rate loans, the base rate (which is the highest of the then current federal funds rate plus 0.5%, the prime rate most recently announced by the administrative agent under the term loan, and the one-month Eurodollar rate plus 1.0%), plus 1.75% per annum.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

As of March 31, 2017 and December 31, 2016, the Company had \$4,192 and \$4,352 of unamortized debt issuance costs, respectively, and \$2,718 and \$2,821 of unamortized original issue discount, respectively, related to the Term Loan Facility, which are presented as direct deductions from the principal balance in the condensed consolidated balance sheets. Both the debt issuance costs and the original issue discount are amortized into interest expense over the term of the Term Loan Facility.

Subsequent Event

On May 2, 2017, the Company entered into Amendment No. 2 to its Term Loan Facility to modify the interest rate, which provides for (1) with respect to Eurodollar rate loans, the greater of the Eurodollar rate and 0.75%, plus 2.25% from 2.75% per annum, or (2) with respect to base rate loans, the base rate plus 1.25% from 1.75% per annum.

ABL Facility

In November 2016, the Company entered into a \$210,000 Third Amended and Restated Loan Agreement of its ABL Facility.

The ABL Facility provides for an aggregate revolving loan availability of up to \$210,000, subject to borrowing base availability, including a \$100,000 letter of credit sub-facility and a \$25,000 swing line sub-facility. The ABL Facility also provides for an uncommitted \$100,000 incremental loan facility, for a potential total ABL Facility of \$310,000 (if requested by the Borrowers and the lenders agree to fund such increase). No consent of any lender (other than those participating in the increase) is required to effect any such increase. As of March 31, 2017, there were no borrowings under the ABL Facility, and subject to borrowing base availability, the Company had \$199,409 in availability, less outstanding letters of credit of \$19,308.

Any borrowings under our ABL Facility will mature, and the commitments of the lenders under our ABL Facility will terminate, on November 2, 2021.

As of March 31, 2017 and December 31, 2016, the Company had \$1,617 and \$1,706, respectively, of unamortized debt issuance costs related to the ABL Facility, which are presented in other assets in the condensed consolidated balance sheets.

Debt Covenants

The Company was in compliance with all covenants of the Senior Notes, Term Loan Facility and ABL Facility, as of March 31, 2017.

Other

Other borrowings reflect borrowings under capital leases, local bank lines and accounts receivable factoring sold with recourse classified in debt payable within one year on the condensed consolidated balance sheets.

8. Fair Value Measurements and Financial Instruments

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy is utilized, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

Items Measured at Fair Value on a Recurring Basis

Estimates of the fair value of foreign currency and interest rate derivative instruments are determined using exchange traded prices and rates. The Company also considers the risk of non-performance in the estimation of fair value and includes an adjustment for non-performance risk in the measure of fair value of derivative instruments. In certain instances where market data is not available, the Company uses management judgment to develop assumptions that are used to determine fair value. Fair value measurements and the fair value hierarchy level for the Company's assets and liabilities measured or disclosed at fair value on a recurring basis as of March 31, 2017 and December 31, 2016, are shown below:

	March 31, December 31,		Input
	2017	2016	
Forward foreign exchange contracts - other current assets	\$ 1,482	\$ 764	Level 2
Forward foreign exchange contracts - accrued liabilities	(419)	(535)	Level 2
Interest rate swaps - other current assets	5	6	Level 2
Interest rate swaps - other assets	2	2	Level 2
Interest rate swaps - accrued liabilities	(1,805)	(2,458)	Level 2
Interest rate swaps - other liabilities	(392)	(661)	Level 2

Items Measured at Fair Value on a Nonrecurring Basis

In addition to items that are measured at fair value on a recurring basis, the Company measures certain assets and liabilities at fair value on a nonrecurring basis, which are not included in the table above. As these nonrecurring fair value measurements are generally determined using unobservable inputs, these fair value measurements are classified within Level 3 of the fair value hierarchy. For further information on assets and liabilities measured at fair value on a nonrecurring basis see Note 2. "Acquisitions," Note 3. "Restructuring," Note 5. "Property, Plant and Equipment" and Note 6. "Goodwill and Intangible Assets."

Items Not Carried At Fair Value

Fair values of the Company's debt instruments are shown below:

	March 31, December 31,	
	2017	2016
Aggregate fair value	\$ 738,998	\$ 735,850
Aggregate carrying value ⁽¹⁾	\$ 739,150	\$ 740,000

⁽¹⁾ Excludes the impact of unamortized debt issuance costs and unamortized original issue discount.

Fair values were based on quoted market prices and are classified within Level 1 of the fair value hierarchy.

Derivative Instruments and Hedging Activities

The Company is exposed to fluctuations in foreign currency exchange rates, interest rates and commodity prices. The Company enters into derivative instruments primarily to hedge portions of its forecasted foreign currency denominated cash flows and designates these derivative instruments as cash flow hedges in order to qualify for hedge accounting. Certain foreign exchange contracts that do not qualify for hedge accounting are entered into hedge recognized foreign currency transactions. All gains or losses on derivative instruments which are not designated for hedge accounting treatment or do not qualify for hedge accounting, or result from hedge ineffectiveness, are reported in earnings.

The Company formally documents its hedge relationships, including the identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the cash flow hedges. The

Company also formally assesses whether a cash flow hedge is highly effective in offsetting changes in the cash flows of the hedged item. Derivatives are recorded at fair value in other current assets, other assets, accrued liabilities and other long-term liabilities. The Company is exposed to credit risk in the event of nonperformance by its counterparties on its derivative financial instruments. The Company mitigates this credit risk exposure by entering into agreements directly with major financial institutions with high credit standards that are expected to fully satisfy their obligations under the contracts.

Cash Flow Hedges

Forward Foreign Exchange Contracts—The Company uses forward contracts to mitigate the potential volatility to earnings and cash flow arising from changes in currency exchange rates that impact the Company’s foreign currency transactions. The principal currencies hedged by the Company include various European currencies, the Canadian Dollar, the

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

Mexican Peso, and the Brazilian Real. As of March 31, 2017, the notional amount of these contracts was \$173,771 and consisted of hedges of transactions up to March 2018.

Interest rate swaps - The Company uses interest rate swap transactions to manage cash flow variability associated with its variable rate Term Loan Facility. The interest rate swap contracts, which fix the interest payments of variable rate debt instruments, are used to manage exposure to fluctuations in interest rates. As of March 31, 2017, the notional amount of these contracts was \$300,000 with maturities through September 2018. The fair market value of all outstanding interest rate swap contracts is subject to changes in value due to changes in interest rates.

Pretax amounts related to the Company's cash flow hedges that were recognized in accumulated other comprehensive income (loss) ("AOCI") are shown below:

	Gain (loss) recognized in AOCI Three Months Ended March 31, 2017 2016	
Foreign currency derivatives	\$941	\$(2,232)
Interest rate swaps	126	(1,658)
Total	\$1,067	\$(3,890)

Pretax amounts related to the Company's cash flow hedges that were reclassified from AOCI are shown below:

	Gain (loss) reclassified from AOCI to income (effective portion)		Gain (loss) reclassified from AOCI to income (ineffective portion)		
	Three Months Ended March 31, 2017 2016		Three Months Ended March 31, 2017 2016		
Foreign currency derivatives	Location	2017	2016	2017	2016
	Cost of products sold	\$121	\$(209)	\$ —	\$ —
Interest rate swaps	Interest expense, net of interest income	(794)	(795)	85	—
Total		\$(673)	\$(1,004)	\$ 85	\$ —

The amount of losses to be reclassified from AOCI into income in the next twelve months related to the interest rate swap is expected to be approximately \$1,800.

9. Accounts Receivable Factoring

As a part of its working capital management, the Company sells certain receivables through third party financial institutions with and without recourse. The amount sold varies each month based on the amount of underlying receivables and cash flow needs of the Company. The Company continues to service the receivables. These are permitted transactions under the Company's credit agreement governing the ABL Facility, the Term Loan Facility and the Senior Notes.

As of March 31, 2017 and December 31, 2016, the Company had \$80,617 and \$57,497, respectively, outstanding under receivable transfer agreements without recourse entered into by various locations. The total amount of accounts receivable factored without recourse was \$148,924 and \$133,297 for the three months ended March 31, 2017 and 2016, respectively. Costs incurred on the sale of receivables were \$455 and \$487 for the three months ended March 31, 2017 and 2016, respectively. These amounts are recorded in other expense, net and interest expense, net of interest income in the condensed consolidated statements of net income.

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As of March 31, 2017 and December 31, 2016, the Company had \$5,217 and \$5,014, respectively, outstanding under receivable transfer agreements with recourse. The secured borrowings are recorded in debt payable within one year, and receivables are pledged equal to the balance of the borrowings. The total amount of accounts receivable factored with recourse was \$7,651 and \$6,894 for the three months ended March 31, 2017 and 2016, respectively. Costs incurred on the sale of receivables were \$26 and \$12 for the three months ended March 31, 2017 and 2016, respectively. These amounts are recorded in other expense, net and interest expense, net of interest income in the condensed consolidated statements of net income.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

10. Pension and Postretirement Benefits Other Than Pensions

The following tables disclose the components of net periodic benefit (income) cost for the three months ended March 31, 2017 and 2016 for the Company's defined benefit plans and other postretirement benefit plans:

	Pension Benefits			
	Three Months Ended March 31,			
	2017		2016	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	\$204	\$ 939	\$202	\$ 847
Interest cost	2,925	1,056	3,145	1,247
Expected return on plan assets	(4,003)	(657)	(3,959)	(769)
Amortization of prior service cost and actuarial loss	468	696	429	547
Net periodic benefit (income) cost	\$(406)	\$ 2,034	\$(183)	\$ 1,872

	Other Postretirement Benefits			
	Three Months Ended March 31,			
	2017		2016	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	\$79	\$ 104	\$90	\$ 90
Interest cost	324	170	346	164
Amortization of prior service credit and actuarial gain	(479)	(4)	(507)	(15)
Other	1	—	1	—
Net periodic benefit (income) cost	\$(75)	\$ 270	\$(70)	\$ 239

11. Other Expense, Net

The components of other expense, net are as follows:

	Three Months	
	Ended March 31,	
	2017	2016
Foreign currency losses	\$(672)	\$(1,689)
Secondary offering underwriting fees	—	(5,900)
Losses on sales of receivables	(218)	(227)
Miscellaneous income	250	—
Other expense, net	\$(640)	\$(7,816)

12. Income Taxes

The Company is required to determine its effective tax rate each quarter based upon its estimated annual effective tax rate. The Company is also required to record the tax impact of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur. In addition, jurisdictions with a projected loss for the year where no tax benefit can be recognized are excluded from the estimated annual effective tax rate.

The effective tax rate for the three months ended March 31, 2017 and 2016 was 22% and 32%, respectively. The effective tax rate for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was lower primarily due to increased discrete tax adjustments for excess tax benefits on share-based compensation. The income tax rate for the three months ended March 31, 2017 varies from statutory rates primarily due to the impact of income taxes on foreign earnings taxed at rates lower than the U.S. statutory rate, the inability to record a tax benefit for pre-tax losses in certain foreign jurisdictions to the extent not offset by other categories of income, tax credits, income tax incentives, excess tax benefits related to share-based compensation and other permanent items. Further, the Company's current and future provision for income taxes may be impacted by the recognition of valuation allowances in certain countries. The Company intends to maintain these allowances until it is more likely than not that

the deferred tax assets will be realized.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

13. Net Income Per Share Attributable to Cooper-Standard Holdings Inc.

Basic net income per share attributable to Cooper-Standard Holdings Inc. was computed by dividing net income attributable to Cooper-Standard Holdings Inc. by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share attributable to Cooper-Standard Holdings Inc. was computed using the treasury stock method by dividing diluted net income available to Cooper-Standard Holdings Inc. by the weighted average number of shares of common stock outstanding, including the dilutive effect of common stock equivalents, using the average share price during the period.

A summary of information used to compute basic and diluted net income per share attributable to Cooper-Standard Holdings Inc. is shown below:

	Three Months Ended March 31,		
	2017	2016	
Net income attributable to Cooper-Standard Holdings Inc.	\$41,706	\$ 31,323	(1)
Increase in fair value of share-based awards	18	—	
Diluted net income available to Cooper-Standard Holdings Inc. common stockholders	\$41,724	\$ 31,323	(1)
Basic weighted average shares of common stock outstanding	17,742,994	17,442,364	
Dilutive effect of common stock equivalents	1,229,556	1,304,236	(1)
Diluted weighted average shares of common stock outstanding	18,972,550	18,746,600	
Basic net income per share attributable to Cooper-Standard Holdings Inc.	\$2.35	\$ 1.80	(1)
Diluted net income per share attributable to Cooper-Standard Holdings Inc.	\$2.20	\$ 1.67	(1)

(1) Amounts were recast to reflect the adoption of ASU 2016-09 in the second quarter of 2016. See Note 16.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

14. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2017 and 2016, net of related tax, are as follows:

	Three Months Ended March 31, 2017			
	Cumulative currency translation adjustment	Benefit plan liabilities	Fair value change of derivatives	Total
Balance as of December 31, 2016	\$(143,481)	\$(97,612)	\$ (1,470)	\$(242,563)
Other comprehensive income (loss) before reclassifications	10,108	(1) (657)	(2) 726	(3) 10,177
Amounts reclassified from accumulated other comprehensive income (loss)	—	464	(4) 367	(5) 831
Balance as of March 31, 2017	\$(133,373)	\$(97,805)	\$ (377)	\$(231,555)

(1) Includes \$4,242 of other comprehensive income related to intra-entity foreign currency balances that are of a long-term investment nature.

(2) Net of tax benefit of \$29.

(3) Net of tax expense of \$341. See Note 8.

(4) Includes actuarial losses of \$732, offset by prior service credits of \$84, net of tax of \$184. See Note 10.

(5) Net of tax benefit of \$221. See Note 8.

	Three Months Ended March 31, 2016			
	Cumulative currency translation adjustment	Benefit plan liabilities	Fair value change of derivatives	Total
Balance as of December 31, 2015	\$(130,661)	\$(84,124)	\$ (2,280)	\$(217,065)
Other comprehensive income (loss) before reclassifications	18,266	(1) (2,069)	(2) (2,748)	(3) 13,449
Amounts reclassified from accumulated other comprehensive income (loss)	—	345	(4) 673	(5) 1,018
Balance as of March 31, 2016	\$(112,395)	\$(85,848)	\$ (4,355)	\$(202,598)

(1) Includes \$9,019 of other comprehensive loss related to intra-entity foreign currency balances that are of a long-term investment nature.

(2) Net of tax benefit of \$121.

(3) Net of tax benefit of \$1,142. See Note 8.

(4) Includes actuarial losses of \$553, offset by prior service credits of \$82, net of tax of \$126. See Note 10.

(5) Net of tax benefit of \$331. See Note 8.

15. Common Stock

Secondary Offering and Stock Repurchase

In March 2016, certain selling stockholders affiliated with Silver Point Capital, L.P., Oak Hill Advisors, L.P. and Capital World Investors (the "Selling Stockholders") sold 2,278,031 shares, including overallotments, of the Company's common stock at a public offering price of \$68.00 per share, in a secondary public offering. Of the 2,278,031 shares sold in the offering, 350,000 shares were purchased by the Company for \$23,800. The Company paid the underwriting discounts and commissions payable on the shares sold by the Selling Stockholders, excluding the shares the Company repurchased, resulting in \$5,900 of fees incurred for the three months ended March 31, 2016, which is included in other expense, net in the condensed consolidated statement of net income. The Company also incurred approximately \$600 of other expenses related to legal and audit services for the three months ended March 31, 2016, which is included in selling, administration & engineering expenses in the condensed consolidated statement of net income. The Company did not sell or receive any proceeds from the sales of shares by the Selling Stockholders.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

16. Share-Based Compensation

The 2011 Cooper-Standard Holdings Inc. Omnibus Incentive Plan (the “Omnibus Plan”) allows for the grant of various types of share-based awards to key employees and directors of the Company and its affiliates. The Company generally awards grants on an annual basis.

In February 2017, the Company granted Restricted Stock Units (“RSUs”), Performance Units (“PUs”) and stock options. The RSUs cliff vest after three years, the PUs cliff vest at the end of their three-year performance period, and the stock options vest ratably over three years. The number of PUs that will vest depends on the Company’s achievement of target performance goals related to the Company’s return on invested capital (“ROIC”), which may range from 0% to 200% of the target award amount. The grant-date fair value of the RSUs and PUs was determined using the closing price of the Company’s common stock on the date of grant. The grant-date fair value of the stock options was determined using the Black-Scholes option pricing model.

During the three months ended March 31, 2017, the Company paid \$4,296 of cash to settle PUs that vested in February 2017. Total compensation expense recognized was \$6,804 and \$4,434 for the three months ended March 31, 2017 and 2016, respectively.

In the second quarter of 2016, the Company early adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The provisions related to forfeitures were adopted on the modified retrospective basis to record actual forfeitures as they occur in the consolidated financial statements, and the impact from adoption resulted in a cumulative effect adjustment of \$473 to retained earnings as of January 1, 2016. Provisions related to income taxes and forfeitures were adopted prospectively from January 1, 2016, and resulted in a tax benefit of \$787 and additional share-based compensation expense of \$63 for the three months ended March 31, 2016. Provisions related to the statement of cash flows have been adopted prospectively and resulted in the recognition of excess tax benefits in cash provided by operating activities instead of financing activities.

17. Related Party Transactions

Sales to Nishikawa Cooper LLC (“NISCO”), a 40%-owned joint venture accounted for as an investment under the equity method, totaled \$9,312 and \$8,564 for the three months ended March 31, 2017 and 2016, respectively.

Purchases from NISCO were \$190 and \$76 for the three months ended March 31, 2017 and 2016, respectively.

The Company received dividends from unconsolidated affiliates of \$2,640 and \$3,022 for the three months ended March 31, 2017 and 2016, respectively, all of which was related to earnings.

In March 2016, as part of the secondary offering, the Company paid \$5,900 of fees incurred on behalf of the Selling Stockholders as defined in Note 15. “Common Stock.”

18. Commitments and Contingencies

The Company is periodically involved in claims, litigation and various legal matters that arise in the ordinary course of business. The Company accrues for litigation exposure when it is probable that future costs will be incurred and such costs can be reasonably estimated. Any resulting adjustments, which could be material, are recorded in the period the adjustments are identified. As of March 31, 2017, the Company does not believe that there is a reasonable possibility that any material loss exceeding the amounts already recognized for claims, litigation and various legal matters, if any, has been incurred. However, the ultimate resolutions of these proceedings and matters are inherently unpredictable. As such, the Company’s financial condition, results of operations or cash flows could be adversely affected in any particular period by the unfavorable resolution of one or more of these proceedings or matters.

In addition, the Company conducts and monitors environmental investigations and remedial actions at certain locations. As of March 31, 2017 and December 31, 2016, the undiscounted reserve for environmental investigation and remediation was approximately \$5,390 and \$5,490, respectively. The Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse impact on its financial condition, results of operations or cash flows; however, no assurances can be given in this regard.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

(Dollar amounts in thousands except per share and share amounts)

19. Segment Reporting

The Company has determined that it operates in four reportable segments, North America, Europe, Asia Pacific and South America. The Company's principal products within each of these segments are sealing, fuel and brake delivery, fluid transfer and anti-vibration systems. The Company evaluates segment performance based on segment profit before tax. The results of each segment include certain allocations for general, administrative, interest and other shared costs.

The following tables detail information on the Company's reportable segments:

	Three Months Ended	
	March 31,	
	2017	2016
Sales to external customers		
North America	\$484,238	\$449,701
Europe	261,506	269,326
Asia Pacific	132,591	127,079
South America	23,716	16,391
Consolidated	\$902,051	\$862,497
Intersegment sales		
North America	\$3,598	\$3,649
Europe	3,581	3,351
Asia Pacific	831	1,319
South America	2	2
Eliminations	(8,012)	(8,321)
Consolidated	\$—	\$—
Segment profit (loss)		
North America	\$62,281	\$54,233
Europe	(8,559)	(2,608)
Asia Pacific	3,477	2,500
South America	(2,805)	(7,822)
Consolidated income before income taxes	\$54,394	\$46,303
	March 31,	December 31,
	2017	2016
Segment assets		
North America	\$1,005,052	\$985,809
Europe	536,960	582,385
Asia Pacific	589,393	611,849
South America	49,372	46,125
Eliminations and other	326,293	265,534
Consolidated	\$2,507,070	\$2,491,702

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

This management's discussion and analysis of financial condition and results of operations is intended to assist in understanding and assessing the trends and significant changes in our results of operations and financial condition. Our historical results may not indicate, and should not be relied upon as an indication of, our future performance. Our forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. See "Forward-Looking Statements" below for a discussion of risks associated with reliance on forward-looking statements. Factors that may cause differences between actual results and those contemplated by forward-looking statements include, but are not limited to, those discussed below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the U.S. Securities and Exchange Commission ("2016 Annual Report") see Item 1A. "Risk Factors." The following should be read in conjunction with our 2016 Annual Report and the other information included herein. Our discussion of trends and conditions supplements and updates such discussion included in our 2016 Annual Report. References in this quarterly report on Form 10-Q (the "Report") to "we," "our," or the "Company" refer to Cooper-Standard Holdings Inc., together with its subsidiaries.

Executive Overview

Our Business

We design, manufacture and sell sealing, fuel and brake delivery, fluid transfer, and anti-vibration systems for use in passenger vehicles and light trucks manufactured by global automotive original equipment manufacturers ("OEMs") and replacement markets. We operate our business along four segments: North America, Europe, Asia Pacific and South America. We are primarily a "Tier 1" supplier, with approximately 84% of our sales in 2016 made directly to major OEMs.

Recent Trends and Conditions

General Economic Conditions and Outlook

The global automotive industry is susceptible to uncertain economic conditions that could adversely impact new vehicle demand.

The U.S. economy is going through a period of relative stability and modest growth, which has sustained vehicle demand and high production levels. The improving business outlook combined with relatively low fuel prices is driving demand for light trucks, sport utility vehicles ("SUVs") and crossover utility vehicles. We anticipate slow to modest growth in North America going forward with the mix of vehicles produced continuing to shift toward light trucks and SUVs.

The economic recovery in Europe has lagged that of the U.S. economy but is now gaining momentum. We expect this will result in modest growth in vehicle demand and production in 2017.

We expect that modest growth in light vehicle production will continue in the Asia Pacific region, driven mainly by China. Overall economic growth and an expanding middle class in China continue to drive SUV and crossover utility vehicle demand higher, while demand for passenger cars is expected to decline slightly year over year.

Finally, with a change in the Brazilian government occurring in 2016, consumer confidence and economic outlook now appear to be improving. Economic stabilization may begin to stimulate vehicle demand and production in this region.

Production Levels

Our business is directly affected by the automotive vehicle production rates in North America, Europe, the Asia Pacific Region and South America. New vehicle demand is driven by macroeconomic and other factors, such as interest rates, manufacturer and dealer sales incentives, fuel prices, consumer confidence, employment levels, income growth trends and government and tax incentives.

Details on light vehicle production in certain regions for the three months ended March 31, 2017 and 2016 are provided in the following table:

(In millions of units)	Three Months Ended		
	March 31,		
	2017	2016 ⁽¹⁾	% Change
North America	4.6	4.5	2.5%
Europe	5.9	5.5	6.3%
Asia Pacific ⁽²⁾	12.5	11.9	5.3%
South America	0.7	0.6	19.0%

(1) Production data based on IHS Automotive, April 2017.

(2) Includes Greater China units of 6.9 and 6.5 for the three months ended March 31, 2017 and 2016, respectively.

Industry Overview

Competition in the automotive supplier industry is intense and has increased in recent years as OEMs have demonstrated a preference for stronger relationships with fewer suppliers. Because of a growing emphasis on global vehicle platforms, automotive suppliers with a global manufacturing footprint capable of fully servicing customers around the world will typically have a competitive advantage over smaller, regional competitors. This dynamic is likely to result in further consolidation of competing suppliers within our industry over time.

OEMs have shifted some research and development, design and testing responsibility to suppliers, while at the same time shortening new product cycle times. To remain competitive, suppliers must have state-of-the-art engineering and design capabilities and must be able to continuously improve their engineering, design and manufacturing processes to effectively service the customer. Suppliers are increasingly expected to collaborate on, or assume the product design and development of, key automotive components and to provide innovative solutions to meet evolving technologies aimed at improved emissions and fuel economy.

Pricing pressure has continued as competition for market share has reduced the overall profitability of the industry and resulted in continued pressure on suppliers for price reductions. Consolidations and market share shifts among vehicle manufacturers continue to put additional pressures on the supply chain. These pricing and market pressures will continue to drive our focus on reducing our overall cost structure through continuous improvement initiatives, capital redeployment, restructuring and other cost management processes.

In addition to the above, other factors will present significant opportunities for automotive suppliers who are positioned for the changing environment, including autonomous and connected vehicles, increased government regulation, and consumer preference for environmentally friendly products and technology.

Results of Operations

	Three Months Ended March 31,		
	2017	2016	Change
	(dollar amounts in thousands)		
Sales	\$902,051	\$862,497	\$39,554
Cost of products sold	731,966	702,673	29,293
Gross profit	170,085	159,824	10,261
Selling, administration & engineering expenses	87,634	83,458	4,176
Amortization of intangibles	3,595	3,278	317
Impairment charges	4,270	—	4,270
Restructuring charges	9,988	10,832	(844)
Other operating loss	—	155	(155)
Operating profit	64,598	62,101	2,497
Interest expense, net of interest income	(11,239)	(9,752)	(1,487)
Equity in earnings of affiliates	1,675	1,770	(95)
Other expense, net	(640)	(7,816)	7,176
Income before income taxes	54,394	46,303	8,091
Income tax expense	11,890	14,766	(2,876)
Net income	42,504	31,537	10,967
Net income attributable to noncontrolling interests	(798)	(214)	(584)
Net income attributable to Cooper-Standard Holdings Inc.	\$41,706	\$31,323	\$10,383

Three Months Ended March 31, 2017 Compared with Three Months Ended March 31, 2016

Sales. Sales for the three months ended March 31, 2017 increased \$39.6 million, or 4.6%, compared to the three months ended March 31, 2016, primarily due to improved volume and product mix in all regions, the acquisition of AMI Industries' fuel and brake business and consolidation of a previously unconsolidated joint venture, partially offset by customer price reductions and unfavorable foreign exchange.

Cost of Products Sold. Cost of products sold is primarily comprised of material, labor, manufacturing overhead, depreciation and amortization and other direct operating expenses. Cost of products sold for the three months ended March 31, 2017 increased \$29.3 million, or 4.2%, compared to the three months ended March 31, 2016. Materials comprise the largest component of our cost of products sold and represented approximately 51% of the total cost of products sold for both the three months ended March 31, 2017 and 2016. Cost of sales was impacted by higher production volumes primarily in North America and Europe. These items were partially offset by continuous improvement and material cost savings.

Gross Profit. Gross profit for the three months ended March 31, 2017 increased \$10.3 million, or 6.4%, compared to the three months ended March 31, 2016. The increase in gross profit was driven primarily by continuous improvement and material cost savings and improved volume and mix in North America and Europe. These items were partially offset by customer price reductions and commodity pricing pressure. As a percentage of sales, gross profit was 18.9% and 18.5% for the three months ended March 31, 2017 and 2016, respectively.

Selling, Administration and Engineering. Selling, administration and engineering expense for the three months ended March 31, 2017 was \$87.6 million, or 9.7% of sales, compared to \$83.5 million, or 9.7% of sales, for the three months ended March 31, 2016. Selling, administration and engineering expense for the three months ended March 31, 2017 was impacted primarily by wage inflation, continued investments to support growth in Asia and innovation.

Impairment charges. Impairment charges of \$4.3 million for the three months ended March 31, 2017 resulted from our decision to divest two of our inactive European sites based on current real estate market conditions.

Restructuring. Restructuring charges for the three months ended March 31, 2017 decreased \$0.8 million compared to the three months ended March 31, 2016.

Interest Expense, Net. Net interest expense for the three months ended March 31, 2017 increased \$1.5 million compared to the three months ended March 31, 2016, which resulted primarily from higher interest rates related to the new Senior Notes.

Other Expense, Net. Other expense for the three months ended March 31, 2017 decreased \$7.2 million compared to the three months ended March 31, 2016. The decrease was primarily due to the nonrecurrence of underwriting fees related to the secondary offering of \$5.9 million recorded in the three months ended March 31, 2016, and lower foreign currency losses for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

Income Tax Expense. Income tax expense for the three months ended March 31, 2017 was \$11.9 million on earnings before income taxes of \$54.4 million. This compares to income tax expense of \$14.8 million on earnings before income taxes of \$46.3 million for the same period of 2016. The effective tax rate for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was lower primarily due to increased discrete tax adjustments for excess tax benefits on share-based compensation. The income tax rate for the three months ended March 31, 2017 varied from statutory rates due primarily to the impact of income taxes on foreign earnings taxed at rates lower than the U.S. statutory rate, the inability to record a tax benefit for pre-tax losses in certain foreign jurisdictions to the extent not offset by other categories of income, tax credits, income tax incentives, excess tax benefits related to share-based compensation and other permanent items. Further, the Company's current and future provision for income taxes may be impacted by the recognition of valuation allowances in certain countries. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized.

Segment Results of Operations

The following table presents sales and segment profit (loss) for each of the reportable segments for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		
	2017	2016	Change
	(dollar amounts in thousands)		
Sales to external customers			
North America	\$484,238	\$449,701	\$34,537
Europe	261,506	269,326	(7,820)
Asia Pacific	132,591	127,079	5,512
South America	23,716	16,391	7,325
Consolidated	\$902,051	\$862,497	\$39,554
Segment profit (loss)			
North America	\$62,281	\$54,233	\$8,048
Europe	(8,559)	(2,608)	(5,951)
Asia Pacific	3,477	2,500	977
South America	(2,805)	(7,822)	5,017
Consolidated income before income taxes	\$54,394	\$46,303	\$8,091

Three Months Ended March 31, 2017 Compared with Three Months Ended March 31, 2016

North America. Sales for the three months ended March 31, 2017 increased \$34.5 million, or 7.7%, compared to the three months ended March 31, 2016, primarily due to improved volume and product mix and the acquisition of AMI Industries' fuel and brake business, partially offset by customer price reductions. Segment profit for the three months ended March 31, 2017 increased by \$8.0 million, primarily due to continuous improvement and material cost savings, improved volume and product mix, and favorable foreign exchange of \$3.0 million, partially offset by customer price reductions, commodity pricing pressure and inflation.

Europe. Sales for the three months ended March 31, 2017 decreased \$7.8 million, or 2.9%, compared to the three months ended March 31, 2016, primarily due unfavorable foreign exchange of \$9.7 million and customer price reductions, partially offset by improved volume and product mix. Segment loss for the three months ended March 31, 2017 increased by \$6.0 million, primarily due to customer price reductions, impairment charges recorded in the first quarter of 2017, commodity pricing pressure and unfavorable foreign exchange of \$2.2 million, partially offset by improved volume and product mix, the favorable impact of continuous improvement and restructuring savings.

Asia Pacific. Sales for the three months ended March 31, 2017 increased \$5.5 million, or 4.3%, compared to the three months ended March 31, 2016, primarily due to the consolidation of a previously unconsolidated joint venture, partially offset by unfavorable foreign exchange of \$4.9 million and customer price reductions. Segment profit for the three months ended March 31, 2017 increased by \$1.0 million primarily driven by the favorable impact of continuous improvement and material cost savings, and the consolidation of a previously unconsolidated joint venture, partially offset by customer price reductions, commodity pricing pressure, higher engineering costs to support growth in the region and wage inflation.

South America. Sales for the three months ended March 31, 2017 increased \$7.3 million, or 44.7%, compared to the three months ended March 31, 2016, primarily due to favorable foreign exchange of \$4.5 million and improved volume and mix. Segment loss for the three months ended March 31, 2017 improved by \$5.0 million primarily due to continuous improvement and material cost savings, partially offset by commodity pricing pressure.

Liquidity and Capital Resources

Short and Long-Term Liquidity Considerations and Risks

We intend to fund our ongoing working capital, capital expenditures, debt service and other funding requirements through a combination of cash flows from operations, cash on hand, borrowings under our ABL Facility and receivables factoring. The Company utilizes intercompany loans and equity contributions to fund its worldwide operations. There may be country specific regulations which may restrict or result in increased costs in the repatriation of these funds. See Note 7. "Debt" to the unaudited condensed consolidated financial statements included in Part 1, Item 1 of this Report for additional information.

Based on our current and anticipated levels of operations and the condition in our markets and industry, we believe that our cash flows from operations, cash on hand, borrowings under our ABL Facility and receivables factoring will enable us to meet our ongoing working capital, capital expenditures, debt service and other funding requirements for the next twelve months. However, our ability to fund our working capital needs, debt payments and other obligations, and to comply with the financial covenants, including borrowing base limitations, under our ABL Facility, depend on our future operating performance and cash flow and many factors outside of our control, including the costs of raw materials, the state of the overall automotive industry and financial and economic conditions and other factors.

Cash Flows

Operating Activities. Net cash provided by operations was \$3.6 million for the three months ended March 31, 2017, as compared to \$27.9 million for the three months ended March 31, 2016. The change was primarily driven by an increased use of cash of \$24.4 million related to higher outflows associated with the timing of accounts payable, increased inventory, and higher payments related to incentive compensation and restructuring, partially offset by increased earnings, higher inflows for prepaid expenses and reduced cash paid for taxes.

Investing Activities. Net cash used in investing activities was \$58.2 million for both the three months ended March 31, 2017 and 2016. Cash used in financing activities consisted primarily of capital spending of \$58.3 million and \$55.1 million for the three months ended March 31, 2017 and 2016, respectively. We anticipate that we will spend approximately \$165 million to \$175 million on capital expenditures in 2017.

Financing Activities. Net cash used in financing activities totaled \$12.0 million for the three months ended March 31, 2017, compared to \$25.4 million for the three months ended March 31, 2016. The decrease was primarily due to the nonrecurrence of the repurchase of common stock in conjunction with the secondary offering in the three months ended March 31, 2016, and higher taxes withheld and paid on employees' share-based awards in the three months ended March 31, 2017.

Share Repurchase Program

In March 2016, the Company announced that its Board of Directors approved a securities repurchase program (the "Program") authorizing the Company to repurchase, in the aggregate, up to \$125 million of its outstanding common stock or warrants to purchase common stock. Under the Program, repurchases may be made on the open market or through private transactions, as determined by the Company's management and in accordance with prevailing market conditions and federal securities laws and regulations. The Company expects to fund any future repurchases from cash on hand and future

cash flows from operations. The Company is not obligated to acquire a particular amount of securities, and the Program may be discontinued at any time at the Company's discretion. No repurchases were made in the current reporting period under the Program. As of March 31, 2017, we have approximately \$101.2 million of repurchase authorization remaining under the Program.

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Non-GAAP Financial Measures

In evaluating our business, management considers EBITDA and Adjusted EBITDA to be key indicators of our operating performance. Our management also uses EBITDA and Adjusted EBITDA:

because similar measures are utilized in the calculation of the financial covenants and ratios contained in our financing arrangements;

in developing our internal budgets and forecasts;

as a significant factor in evaluating our management for compensation purposes;

in evaluating potential acquisitions;

in comparing our current operating results with corresponding historical periods and with the operational performance of other companies in our industry; and

in presentations to the members of our board of directors to enable our board of directors to have the same

measurement basis of operating performance as is used by management in their assessments of performance and in forecasting and budgeting for our company.

In addition, we believe EBITDA and Adjusted EBITDA and similar measures are widely used by investors, securities analysts and other interested parties in evaluating our performance. We define Adjusted EBITDA as net income (loss) plus income tax expense (benefit), interest expense, net of interest income, depreciation and amortization or EBITDA, as adjusted for items that management does not consider to be reflective of our core operating performance. These adjustments include, but are not limited to, restructuring costs, impairment charges, non-cash fair value adjustments and acquisition-related costs.

We calculate EBITDA and Adjusted EBITDA by adjusting net income (loss) to eliminate the impact of items we do not consider indicative of our ongoing operating performance. EBITDA and Adjusted EBITDA are not financial measurements recognized under U.S. GAAP, and when analyzing our operating performance, investors should use EBITDA and Adjusted EBITDA as a supplement to, and not as alternatives for, net income (loss), operating income, or any other performance measure derived in accordance with U.S. GAAP, nor as an alternative to cash flow from operating activities as a measure of our liquidity. EBITDA and Adjusted EBITDA have limitations as analytical tools, and they should not be considered in isolation or as substitutes for analysis of our results of operations as reported under U.S. GAAP. These limitations include:

they do not reflect our cash expenditures or future requirements for capital expenditure or contractual commitments;

they do not reflect changes in, or cash requirements for, our working capital needs;

they do not reflect interest expense or cash requirements necessary to service interest or principal payments under our ABL Facility, Term Loan Facility and Senior Notes;

they do not reflect certain tax payments that may represent a reduction in cash available to us;

although depreciation and amortization are non-cash charges, the assets being depreciated or amortized may have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements; and

other companies, including companies in our industry, may calculate these measures differently and, as the number of differences in the way companies calculate these measures increases, the degree of their usefulness as a comparative measure correspondingly decreases.

In addition, in evaluating Adjusted EBITDA, it should be noted that in the future, we may incur expenses similar to the adjustments in the below presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by special items.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA from net income, which is the most comparable financial measure in accordance with U.S. GAAP:

	Three Months Ended March 31,	
	2017	2016
	(dollar amounts in thousands)	
Net income attributable to Cooper-Standard Holdings Inc.	\$41,706	\$31,323
Income tax expense	11,890	14,766
Interest expense, net of interest income	11,239	9,752
Depreciation and amortization	31,857	30,205
EBITDA	\$96,692	\$86,046
Restructuring charges	9,988	10,832
Impairment charges ⁽¹⁾	4,270	—
Secondary offering underwriting fees and other expenses ⁽²⁾	—	6,500
Other	—	155
Adjusted EBITDA	\$110,950	\$103,533

(1) Impairment charges related to fixed assets.

(2) Fees and other expenses associated with the March 2016 secondary offering.

Contingencies and Environmental Matters

The information concerning contingencies, including environmental contingencies and the amount currently held in reserve for environmental matters, contained in Note 18. “Commitments and Contingencies” to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Report, is incorporated herein by references.

Recently Issued Accounting Pronouncements

See Note 1. “Overview” to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Report.

Critical Accounting Estimates

There have been no significant changes in our critical accounting estimates during the three months ended March 31, 2017.

Forward Looking Statements

This quarterly report on Form 10-Q includes “forward-looking statements” within the meaning of U.S. federal securities laws, and we intend that such forward-looking statements be subject to the safe harbor created thereby. Our use of words “estimate,” “expect,” “anticipate,” “project,” “plan,” “intend,” “believe,” “forecast,” or future or conditional verbs, such as “should,” “could,” “would,” or “may,” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements are based upon our current expectations and various assumptions. Our expectations, beliefs, and projections are expressed in good faith and we believe there is a reasonable basis for them. However, we cannot assure you that these expectations, beliefs, and projections will be achieved. Forward-looking statements are not guarantees of future performance and are subject to significant risks and uncertainties and other factors that may cause actual results or achievements to be materially different from the future results or achievements expressed or implied by the forward-looking statements. Among other items, such factors may include: prolonged or material contractions in automotive sales and production volumes; our inability to realize sales represented by awarded business; escalating pricing pressures; loss of large customers or significant platforms; our ability to successfully compete in the automotive parts industry; availability and increasing volatility in costs of manufactured components and raw materials; disruption in our supply base; possible variability of our working capital requirements; risks associated with our international operations; foreign currency exchange rate fluctuations; our ability to control the operations of our joint ventures for our sole benefit; our substantial amount of indebtedness; our ability to obtain adequate financing sources in the future; operating and financial restrictions imposed on us under our debt instruments; the underfunding of our pension plans; significant changes in discount rates and the actual return on pension assets; effectiveness of continuous improvement programs and other cost savings plans; manufacturing

facility closings

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or consolidation; our ability to execute new program launches; our ability to meet customers' needs for new and improved products; the possibility that our acquisitions and divestitures may not be successful; product liability, warranty and recall claims brought against us; laws and regulations, including environmental, health and safety laws and regulations; legal proceedings, claims or investigations against us; work stoppages or other labor disruptions; the ability of our intellectual property to withstand legal challenges; cyber-attacks or other disruptions in our information technology systems; the possible volatility of our annual effective tax rate; the possibility of future impairment charges to our goodwill and long-lived assets; and our dependence on our subsidiaries for cash to satisfy our obligations.

You should not place undue reliance on these forward-looking statements. We undertake no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events or otherwise, except where we are expressly required to do so by law.

This quarterly report on Form 10-Q also contains estimates and other information that is based on industry publications, surveys, and forecasts. This information involves a number of assumptions and limitations, and we have not independently verified the accuracy or completeness of the information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the quantitative and qualitative information about the Company's market risk from those previously disclosed in the Company's 2016 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has evaluated, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Based on that evaluation, the Company's Chief Executive Officer along with the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Report.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

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

(c) Purchases of Equity Securities By the Issuer and Affiliated Purchasers

On March 14, 2016, the Company announced that its Board of Directors approved a securities repurchase program (the “Program”) authorizing the Company to repurchase, in the aggregate, up to \$125 million of its outstanding common stock or warrants to purchase common stock. No repurchases were made in the current reporting period under the Program. Approximately \$101.2 million dollar value of shares may yet be purchased under the Program.

During the three months ended March 31, 2017, the Company repurchased shares to satisfy employee tax withholding requirements due upon the vesting of restricted stock awards. The Company repurchased 22 shares at an average price paid per share of \$103.88 from January 1, 2017 through January 31, 2017, 18 shares at an average price paid per share of \$106.40 from February 1, 2017 through February 28, 2017, and 23 shares at an average price paid per share of \$111.07 from March 1, 2017 through March 31, 2017.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
10.1*	Form of Cooper-Standard Holdings Inc. 2011 Omnibus Incentive Plan 2017 Performance Award Agreement (stock-settled award).
10.2*	Form of Cooper-Standard Holdings Inc. 2011 Omnibus Incentive Plan 2017 Performance Award Agreement (cash-settled award).
31.1*	Certification of Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
31.2*	Certification of Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
32*	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
	* Filed herewith.
	** Submitted electronically with the Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COOPER-STANDARD HOLDINGS INC.

May 3, 2017 /S/ MATTHEW W. HARDT
Matthew W. Hardt
Date Chief Financial Officer
(Principal Financial Officer)

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INDEX TO EXHIBITS

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