RadNet, Inc.
Form DEF 14A
April 29, 2011

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

RADNET, INC.
(Name of Registrant as Specified in its Charter)

____

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

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(1)	Title of each class of securities to which transaction applies:	Not applicable
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(3) Filing Party:

(4) Date Filed:

RADNET, INC.

1510 Cotner Ave.
Los Angeles, CA 90025

May 4, 2011

Dear Stockholder:

On behalf of the Board of Directors and management, we cordially invite you to attend the Annual Meeting of Stockholders of RadNet, Inc. to be held at our principal executive office at 1510 Cotner Avenue, Los Angeles, CA 90025, on Thursday, June 16, 2011, at 10:00 a.m. (Pacific time). At this meeting, stockholders will vote on matters set forth in the accompanying Notice of Annual Meeting and Proxy Statement.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, we hope you will vote as soon as possible. You may vote by mailing your proxy or voting instruction card using the postage-paid return envelope included for your convenience. If your shares are registered in the name of a broker or other nominee, your nominee may be participating in a program provided through Broadridge Financial Solutions, Inc. that allows you to vote by telephone or the Internet. If so, the voting form that your nominee sends you will provide telephone and Internet instructions.

Thank you for your continued interest in RadNet, Inc. We look forward to seeing you at the Annual Meeting.

Sincerely,

Norman R. Hames
Corporate Secretary

Important Notice Regarding Availability of Proxy Materials for the 2011 Annual Meeting of Stockholders:
The Proxy Statement for the 2011 Annual Meeting of Stockholders and the Annual Report for the year ended December 31, 2010, are available at http://www.radnet-inc.com.

RADNET, INC.

1510 Cotner Ave.
Los Angeles, CA 90025

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
June 16, 2011

RadNet, Inc. will holds its Annual Meeting of Stockholders on Thursday, June 16, 2011, at 10:00 a.m. (Pacific time) at our principal executive office at 1510 Cotner Avenue, Los Angeles, CA 90025.

Stockholders of record at the close of business on April 27, 2011, the record date fixed by the Board of Directors, are entitled to notice of, and to vote at, the Annual Meeting of Stockholders. The following items are on the agenda:

1. The election of seven nominees named in the attached Proxy Statement as directors to hold office until the 2012 Annual Meeting of Stockholders;

2. The amendment to the 2006 Equity Incentive Plan to increase the number of shares available for issuance by 4,500,000, from 6,500,000 to 11,000,000;

3. The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2011;

4. An advisory vote on the compensation of our named executive officers;

5. An advisory vote on the frequency of the advisory vote on the compensation of our named executive officers; and

6. Other business that may properly come before the Annual Meeting (including adjournments and postponements).

The foregoing items of business are more fully described in the accompanying Proxy Statement.

By Order of the Board of Directors,

Norman R. Hames
Corporate Secretary

May 4, 2011
Los Angeles, California

Whether or not you expect to attend the Annual Meeting, please complete, sign, date and return the enclosed proxy card as soon as possible to ensure your representation at the meeting. A postage-paid return envelope is enclosed for your convenience. Stockholders holding shares with a broker, bank or other nominee may also be eligible to vote via the Internet or to vote telephonically. If a stockholder's broker, bank or other nominee participates in a program that allows voting via telephone or the Internet, such stockholder may do so by following the instructions on the form they

receive from their broker, bank or other nominee. Even if you have given your proxy, you may still vote in person if you attend the meeting. Please note, however, that if a broker, bank or other nominee holds your shares of record and you wish to vote at the meeting, then you must obtain from the record holder a proxy issued in your name.

RADNET, INC.

1510 Cotner Ave.
Los Angeles, CA 90025

PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JUNE 16, 2011

General Information

The Board of Directors of RadNet, Inc., a Delaware corporation, is providing these proxy materials to you in connection with the solicitation of the enclosed proxy for use at our 2011 Annual Meeting of Stockholders. The meeting will be held at our principal office at 1510 Cotner Avenue, Los Angeles, CA 90025, on Thursday, June 16, 2011, at 10:00 a.m. (Pacific time) or at any adjournment or postponement thereof, for the purposes stated herein. This Proxy Statement summarizes the information that you will need to know to vote in an informed manner.

Voting Rights and Outstanding Shares

We intend to mail this Proxy Statement and the accompanying proxy card on or about May 4, 2011 to all stockholders of record that are entitled to vote. Holders of record at the close of business on April 27, 2011, the record date, are entitled to notice of, and to vote at, the Annual Meeting. Each share is entitled to one vote. On the record date, approximately 37,307,225 shares of our common stock were outstanding.

We will have a quorum to conduct the business of the Annual Meeting if holders of a majority of the shares of our common stock are present in person or represented by proxy. Consequently, we will need to have 18,653,613 shares present in person or represented by proxy at the Annual Meeting in order to establish a quorum. Abstentions and broker non-votes (i.e., shares of common stock held by a broker, bank or other nominee that are represented at the meeting, but that the broker, bank or other nominee is not empowered to vote on a particular proposal) will be counted in determining whether a quorum is present at the meeting.

With respect to the election of directors, stockholders may vote for, against or withhold the vote for each nominee for director. With respect to the frequency of the advisory vote on executive compensation, stockholders may vote for such advisory vote to occur every 1, 2 or 3 years or abstain from voting. With respect to each other proposal, stockholders may vote for the proposal, against the proposal or abstain from voting.

Broker-dealers who hold their customers' shares in street name may, under the applicable rules of the exchanges and other self-regulatory organizations of which the broker-dealers are members, vote the shares of their customers on routine proposals, which under such rules typically include the ratification of auditors, when they have not received instructions from their customers. Under these rules, brokers may not vote shares of their customers on non-routine matters without instructions from their customers. A broker non-vote occurs with respect to any proposal when a broker holds shares of a customer in its name and is not permitted to vote on that proposal without instruction from the beneficial owner of the shares and no instruction is given.

The election of directors requires a plurality of votes cast by shares present or represented at the meeting. Accordingly, the directorships to be filled at the Annual Meeting will be filled by the nominees receiving the

highest number of votes in favor of their election. Shares not present at the meeting and broker non-votes will have no impact on the election of directors. Please note that a bank, broker or nominee is not permitted to vote on behalf of beneficial owners with respect to uncontested elections of directors. You must instruct your bank, broker or nominee on how to vote your shares for the election of directors.

The amendment to the 2006 Equity Incentive Plan (the "2006 Plan") to increase the number of shares available to 11,000,000 must be approved by a majority of the shares present in person or represented by proxy and entitled to vote on such matters at the Annual Meeting. With respect to such proposal, abstentions will be included in the number of shares present and entitled to vote with respect to such proposals and, accordingly, will have the effect of a vote "AGAINST" the proposal. However, broker non-votes with respect to such proposal will not be counted as shares present and entitled to vote and, accordingly, will not have any effect with respect to the approval of such proposal (other than to reduce the number of affirmative votes required to approve the proposal).

The ratification of the appointment of our independent registered public accounting firm must be approved by a majority of the shares present in person or represented by proxy and entitled to vote on such matters at the Annual Meeting. With respect to such proposal, abstentions will be included in the number of shares present and entitled to vote with respect to such proposals and, accordingly, will have the effect of a vote "AGAINST" the proposal. However, broker non-votes with respect to such proposal will not be counted as shares present and entitled to vote and, accordingly, will not have any effect with respect to the approval of such proposal (other than to reduce the number of affirmative votes required to approve the proposal).

The advisory vote on the compensation of our named executive officers will be approved if a majority of the shares present in person or represented by proxy and entitled to vote on such matters at the Annual Meeting vote in favor of such proposal. With respect to such proposal, abstentions will be included in the number of shares present and entitled to vote with respect to such proposals and, accordingly, will have the effect of a vote "AGAINST" the proposal. However, broker non-votes with respect to such proposal will not be counted as shares present and entitled to vote and, accordingly, will not have any effect with respect to the approval of such proposal (other than to reduce the number of affirmative votes required to approve the proposal).

The advisory vote on the frequency of future non-binding votes on executive compensation asks stockholders to vote on whether future non-binding votes on named executive officer compensation should occur every year, every two years or every three years. If none of the frequency options receives a majority of the votes cast, the option receiving the greatest number of votes will be considered the frequency recommended by the stockholders.

Although the vote on the compensation of our named executive officers and the frequency of such vote, Proposals 4 and 5, respectively, is advisory only, meaning that it is not binding on the Company, our Board of Directors will consider the results of the votes in its future consideration of the compensation of our named executive officers and the frequency of the advisory votes on such compensation.

Voting Shares Registered in Your Name

If you are a stockholder of record, you may vote in one of two ways:

Attend the 2011 Annual Meeting of Stockholders and vote in person; or

Complete, sign, date and return the enclosed proxy card.

Voting Shares Registered in the Name of a Broker, Bank or Other Nominee

Most beneficial owners whose stock is held in street name will receive instructions for voting their shares from their broker, bank or other nominee, rather than our proxy card.

A number of brokers and banks participate in a program that allows stockholders to grant their proxy to vote shares by means of the telephone or Internet. If your shares are held in an account with a broker or bank participating in such a program, then you may vote your shares via the Internet or telephonically by following the instructions on the form received from your broker or bank.

If you wish to vote in person at the Annual Meeting, then you must obtain a legal proxy issued in your name from the broker, bank or other nominee that holds your shares of record.

Tabulation of Votes

A representative from our transfer agent, American Stock Transfer & Trust Company, will tabulate the votes. The shares of our common stock represented by proxy will be voted in accordance with the instructions given on the proxy so long as the proxy is properly executed and received by us prior to the close of voting at the Annual Meeting or any adjournment or postponement of the meeting (or in the case of proxies submitted by telephone or via the Internet, by the deadline specified in the instructions you receive from your broker or bank). If no instruction is given, then the proxyholders named on the card will vote FOR each of the seven director nominees, FOR the amendment to the 2006 Equity Incentive Plan to increase the number of shares available to 11,000,000, FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm, FOR approving the compensation of our named executive officers, on an advisory basis, and FOR one year as to the preferred frequency of the advisory vote on the compensation of our named executive officers. In addition, the individuals that we have designated as proxies for the meeting will have discretionary authority to vote for or against any other stockholder matter presented at the meeting.

Revocability of Proxies

As a stockholder of record, once you have submitted your proxy you may revoke it at any time before it is voted at the Annual Meeting. You may revoke your proxy in any one of three ways:

You may grant another proxy marked with a later date (which automatically revokes the earlier proxy) using any of the methods described above (and until the applicable deadline for each method);

You may notify our Corporate Secretary in writing that you wish to revoke your proxy before it is voted at the Annual Meeting; or

You may vote in person at the Annual Meeting.

Solicitation

This solicitation is made by our Board of Directors, and we will bear the entire cost of soliciting proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders. We will provide copies of solicitation materials to banks, brokerage houses, fiduciaries and custodians holding in their names shares of our common stock that are beneficially owned by others for forwarding to the beneficial owners. We may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to the beneficial owners. Solicitations will be made primarily through the mail, but may be supplemented by telephone, telegram, facsimile, Internet or personal solicitation by our directors, executive officers, employees or other agents. No additional compensation will be paid to these individuals for these services.

Proposals of Stockholders for the 2012 Annual Meeting

Requirements for Stockholder Proposals to be Considered for Inclusion in RadNet, Inc.'s Proxy Materials. Stockholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act and intended to be presented at the 2012 Annual Meeting must be received by us not later than January 5, 2012, in order to be considered for inclusion in our proxy materials for that meeting.

Requirements for Stockholder Proposals to be Brought Before an Annual Meeting. Our bylaws provide that, for stockholder nominations to the Board of Directors or other proposals to be considered at an annual meeting, the stockholder must have given timely notice of the proposal or nomination in writing to our Corporate Secretary. To be timely for the 2012 Annual Meeting, a stockholder's notice must be delivered to or mailed and received by our Corporate Secretary at our principal executive offices between February 18, 2012 and March 19, 2012. A stockholder's notice to the Corporate Secretary must set forth, as to each matter the stockholder proposes to bring before the annual meeting, the information required by our bylaws.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information concerning the beneficial ownership of the shares of our common stock as of March 31, 2011, by:

each person we know to be the beneficial owner of 5% or more of our outstanding shares of common stock,

our principal executive officer, principal financial officer and each of our three other most highly compensated executive officers as of December 31, 2010 (collectively, the "Named Executive Officers"), and

all of our current executive officers and directors as a group.

Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o RadNet, Inc., 1510 Cotner Ave., Los Angeles, CA 90025.

Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 37,307,225 shares of common stock outstanding on March 31, 2011. We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission, or SEC. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed as outstanding shares of common stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of March 31, 2011. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Name of Beneficial Owner	Shares Beneficially Owned		Percent of Shares Beneficially Owned
5% or Greater Stockholders			
James E. Flynn(1)	3,143,726		8.4%
Red Mountain Capital Partners II, L.P. (2)	2,151,749		5.8%
Directors and Named Executive Officers			
Howard G. Berger, M.D.(3)	5,405,140		14.5%
Marvin S. Cadwell	166,250	(4)	*
John V. Crues, III, M.D.	645,375	(5)	1.7%
Norman R. Hames	1,456,231	(6)	3.7%
Lawrence L. Levitt	216,250	(7)	*
Michael L. Sherman, M.D.	225,065	(8)	*
David L. Swartz	251,250	(9)	*
Jeffrey L. Linden	1,118,333	(10)	3.0%
Mark D. Stolper	527,205	(11)	1.4%
Stephen M. Forthuber	666,667		1.8%

	(12)	
Michael N. Murdock	203,333 (13)	*
All directors and executive officers as a group (11 persons)	10,881,099 (14)	26.3%

* Represents less than 1%.

(1) According to the Schedule 13G/A filed with the SEC on February 2, 2011, Mr. Flynn is the beneficial owner of shares of common stock owned by various entities, including Deerfield Capital, L.P., and Deerfield Management Company, L.P. and he maintains shared voting and investment power over the shares of our common stock held by these entities. The address for Mr. Flynn as set forth in the Schedule 13G/A filing is 780 Third Avenue, 37th Floor, New York, NY 10017.

(2) According to the Schedule 13D filed with the SEC on February 22, 2011, Red Mountain Capital Partners II, L.P., or RMCP II, holds an aggregate of 2,151,749 shares of our common stock. RMCP GP LLC, or RMCP GP, is the general partner of RMCP II. Red Mountain Capital Partners LLC, or RMCP LLC, is the managing member of RMCP GP. Red Mountain Capital Management, Inc., or RMCM, is the management member of RMCP LLC and Willem Mesdag, an individual, is the president, sole executive officer, sole director and sole stockholder of RMCM. Mr. Mesdag and RMCM disclaim beneficial ownership of all shares of our common stock held by RMCP II. The address as set forth in the Schedule 13D filing is 10100 Santa Monica Boulevard, Suite 925, Los Angeles, CA 90067.

(3) As a result of his stock ownership and positions as president and director, Dr. Berger may be deemed to be a controlling person of our Company. Represents shares held by the Howard and Fran Berger Family Trust, to which Dr. Berger and Mrs. Berger are trustees.

(4) Beneficial ownership includes 166,250 shares subject to options exercisable within 60 days of March 31, 2011.

(5) Beneficial ownership includes 66,667 shares subject to options and warrant exercisable within 60 days of March 31, 2011.

(6) Beneficial ownership includes 1,456,231 shares subject to options and warrants exercisable within 60 days of March 31, 2011.

(7) Beneficial ownership includes 166,250 shares subject to options and warrants exercisable within 60 days of March 31, 2011.

(8) Beneficial ownership includes 166,250 shares subject to options exercisable within 60 days of March 31, 2011.

(9) Beneficial ownership includes 166,250 shares subject to options and warrants exercisable within 60 days of March 31, 2011.

(10) Beneficial ownership includes 533,333 shares subject to options and warrants exercisable within 60 days of March 31, 2011.

(11) Beneficial ownership includes 450,000 shares subject to options and warrants exercisable within 60 days of March 31, 2011.

(12) Beneficial ownership includes 666,667 shares subject to options exercisable within 60 days of March 31, 2011.

(13) Beneficial ownership includes 203,333 shares subject to options exercisable within 60 days of March 31, 2011.

(14) Beneficial ownership includes 4,041,231 shares subject to options and warrants exercisable within 60 days of March 31, 2011.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

At the 2011 Annual Meeting of Stockholders, all directors will be elected for a term expiring at the next annual meeting of stockholders to be held after their election. Our Board of Directors, in accordance with our bylaws, has determined that the authorized number of directors shall be seven.

Unless instructed otherwise, the persons named in the accompanying proxy will vote the shares represented by such proxy for the election of the seven director nominees listed in the table below. Each of the nominees is currently a director of the Company and has consented to serve if elected, and we have no reason to believe that any nominee will be unable to serve. If any nominee becomes unavailable or unable to serve before the Annual Meeting, the Board of Directors may determine to leave the position vacant, reduce the number of authorized directors or designate a substitute nominee. If a substitute nominee is named, then the persons named as proxies will have full discretion and authority to vote or refrain from voting for such substitute nominee in their discretion.

The following paragraphs include information that each of the seven nominees has provided to us about the positions he currently holds, his principal occupation and experience for the past five years, and the other companies in which he currently serves as a director or has served as a director during the past five years. In addition, the information below includes each nominee's specific experience, qualifications, attributes and skills that led our Board of Directors to conclude that each nominee should serve as a director.

Nominees for Director

The names of the director nominees, their ages as of March 31, 2011 and other information about them are set forth below.

Name of Director Nominee	Age	Position	Director Since
Howard G. Berger, M.D.	65	President, Chief Executive Officer and Chairman of the Board	1992
Marvin S. Cadwell	67	Director	2007
John V. Crues, III, M.D.	61	Director	2000
Norman R. Hames	55	Director	1996
Lawrence L. Levitt	68	Director	2005
Michael L. Sherman, M.D.	68	Director	2007
David L. Swartz	67	Director	2004

Howard G. Berger, M.D. has served as President and Chief Executive Officer of our Company and its predecessor entities since 1987. Dr. Berger is also the president or co-president of the entities that own Beverly Radiology Medical Group, or BRMG. He began his career in medicine at the University of Illinois Medical School, is Board Certified in Nuclear Medicine and trained in an Internal Medicine residency, as well as in a masters program in medical physics in the University of California system. Dr. Berger brings business leadership skills to our Board of Directors derived from his more than 25 years of experience in the development and management of the Company.

Marvin S. Cadwell served as a director of Radiologix, Inc. between June 2002 and November 2006. He was appointed Chairman of the Board of Radiologix in December 2002 and served as Chairman of the Nominations and Governance Committee of the Board of Radiologix. He was the Radiologix interim Chief Executive Officer from

September 2004 until November 2004. From December 2001 until November 2002, Mr. Cadwell served as Chief Executive Officer of SoftWatch, Ltd., an Israeli based company that provides Internet software. Since 2003, he has served as a director of ChartOne, Inc., a private company that provides patient chart management services to the healthcare industry. Mr. Cadwell has experience as an executive officer of several companies in the healthcare industry and brings to our Board of Directors a strong background in operating management of various organizations.

John V. Crues, III, M.D. is a world-renowned radiologist. Dr. Crues has served as our Vice President and Medical Director since 2000. Dr. Crues received his M.D. at Harvard University, completed his internship at the University of Southern California in Internal Medicine, and completed a residency at Cedars-Sinai in Internal Medicine and Radiology. Dr. Crues has authored numerous publications while continuing to actively participate in radiological societies such as the Radiological Society of North America, American College of Radiology, California Radiological Society, International Society for Magnetic Resonance Medicine and the International Skeletal Society. Dr. Crues is also currently Co-President of Pronet Imaging Medical Group and a director of BRMG. Dr. Crues plays a significant role as a musculoskeletal specialist for many of our patients as well as a resource for physicians providing services at our facilities and his active participation in radiological societies gives our Board of Directors access to thought leadership in the field of radiology.

Norman R. Hames has served as our Chief Operating Officer since 1996 and currently as our Executive Vice President, Chief Operating Officer - Western Operations and Corporate Secretary. Applying his 20 years of experience in the industry, Mr. Hames oversees all aspects of our California facility operations. His management team, comprised of regional directors, managers and sales managers, is responsible for responding to all of the day-to-day concerns of our California facilities, patients, payors and referring physicians. Prior to joining our Company, Mr. Hames was President and Chief Executive Officer of his own Company, Diagnostic Imaging Services, Inc. (which we acquired), which owned and operated 14 multi-modality imaging facilities throughout Southern California. Mr. Hames gained his initial experience in operating imaging centers for American Medical International, or AMI, and was responsible for the development of AMI's single and multi-modality imaging centers. Mr. Hames brings business leadership skills from his experience as President and Chief Executive Officer of his own company and has a 20-year background in the day-to-day operations of imaging centers.

Lawrence L. Levitt is a certified public accountant and received his MBA in Accounting from the University of California Los Angeles. Since 1987 Mr. Levitt has been the President and Chief Financial Officer of Canyon Management Company, a company which manages a privately held investment fund. Mr. Levitt is also a director of River Downs Management Company, operator of a thoroughbred racetrack in Ohio. Mr. Levitt brings to our Board of Directors extensive financial accounting experience and is an audit committee financial expert under the SEC rules.

Michael L. Sherman, M.D., F.A.C.R., served as a Radiologix director from 1997 until November 2006. He served as President of Advanced Radiology, P.A., a 90-person radiology practice located in Baltimore, Maryland, from 1995 to 2001, and subsequently as its board chairman and a consultant until his retirement from active practice in 2005. In addition, Dr. Sherman was a director of HX Technologies, a healthcare IT company from 2006 to 2009 and was a director of MedStar Health, a seven-hospital system in the Baltimore-Washington, D.C. market from 1998 until 2006. He continues to serve on the board of MedStar Health's private captive insurance company, Greenspring Financial Insurance Limited, Inc. Dr. Sherman is also a Senior Advisor for healthcare at FOCUS Enterprises, a Washington, D.C.-based investment banking firm. Dr. Sherman has broad experience in the medical and business aspects of radiology and brings extensive experience as a board member and chairman of various companies in the healthcare industry. Effective January 2011, Dr. Sherman was elected to serve as the Chairman of the Nominating and Governance Committee.

David L. Swartz is a certified public accountant with over thirty-five years of experience providing accounting and advisory services to clients. Mr. Swartz currently serves as a member of the board of directors of the California State Board of Accountancy and previously served as president. Between 1993 and 2008, Mr. Swartz served as the managing partner of Good, Swartz, Brown & Berns LLP, a division of JH Cohn, and currently provides consulting services. Prior to that, Mr. Swartz served as managing partner and was on the national board of directors of a 50 office international accounting firm. Mr. Swartz is also a former chief financial officer of a publicly held shopping center and development company. Mr. Swartz brings to our Board of Directors extensive public financial accounting experience, is an audit committee financial expert under the SEC rules and serves as the Chairman of the Audit

Committee. Effective January 2011, Mr. Swartz was appointed as Lead Independent Director.

There are no family relationships between any nominees or executive officers of our Company, and there are no arrangements or understandings between any nominee and any other person pursuant to which such nominee was or is selected as a director or nominee.

Vote Required

The nominees who receive the highest number of votes represented by shares of common stock present or represented by proxy and entitled to vote at the Annual Meeting will be elected.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION TO THE BOARD OF EACH OF THESE NOMINEES

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Our business is managed under the direction of our Board of Directors. Our Board of Directors selects our officers, delegates responsibilities for the conduct of our operations to those officers, and monitors their performance.

Meetings of the Board of Directors and Board Committees

Our Board of Directors meets at least on a quarterly basis and during fiscal year 2010, held ten meetings and took action by written consent once. Each of the current directors serving in 2010 attended at least 75% of the total number of meetings of the Board of Directors and applicable committees that each director was eligible to attend. We, as a matter of policy, encourage our directors to attend meetings of stockholders but we do not require attendance. Four of the seven directors attended the 2010 Annual Meeting of Stockholders.

Board Leadership Structure

The Chairman of the Board also serves as our Chief Executive Officer. Our Board of Directors has determined that its leadership structure is appropriate and effective. Our Board of Directors believes that having a single individual serve as both chair and chief executive officer fosters an important unity of leadership between our Board of Directors and our management team, provides clear accountability and promotes strategic development and execution. Our Board of Directors further believes that the combination of the offices facilitates the organization and efficiency of board meetings over the calendar year by permitting the Chief Executive Officer to develop a thoughtful and comprehensive agenda for review by our Board of Directors of the issues and matters most critical to the Company and to guide the review process in a manner that will assure efficient use of the time available to our Board of Directors. This structure effectively utilizes the Chief Executive Officer’s knowledge of our Company and the industry as well as fostering greater communication between management and our directors which produces a greater degree of transparency among management and our directors. Effective January 2011, our Board of Directors appointed Mr. Swartz as Lead Independent Director. In his capacity, Mr. Swartz will chair meetings of the Board of Directors in the absence of the Chairman of the Board, set the agenda and chair the executive sessions of the independent directors, and work together with the chairman of the Compensation and Management Development Committee to oversee the evaluation of our Chief Executive Officer. Four of the seven members of our Board of Directors are independent directors and all of those individuals serve on the committees of our Board of Directors. Our Chairman and Chief Executive Officer does not serve on any committee. As of January 2011, our Board of Directors holds regular executive sessions outside the presence of the Chief Executive Officer and other management, which our Board of Directors believes promotes appropriate independent leadership.

Board Role in Risk Oversight

While risk management is primarily the responsibility of our management, the Board of Directors does have an oversight role in managing the Company’s risk. A fundamental part of risk management is not only understanding the risks we face and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for our Company. In reviewing our strategy, business plan, budgets and major transactions, the Board of Directors considers, among other factors, the risks the Company faces, and how such risks can be managed. Our senior management regularly reports to the Board of Directors on areas of material risk, including operational, financial, legal and strategic risks which enable the Board of Directors to understand management’s views on risk identification, risk management and risk mitigation strategies. While the full Board of Directors has an oversight role in managing our risk, various committees of the Board of Directors also have responsibility for risk management. The Director of Internal Audit reports directly to our Audit Committee on areas of material financial risk, including internal controls, and the Audit Committee reports to the full Board of Directors on risks identified by the Director of Internal Audit that the Audit Committee believes are material. In addition, the Compensation Committee oversees the

risks associated with our compensation policies and practices.

Director Independence

Our Board of Directors annually determines the independence of our directors in accordance with the independence requirements under the NASDAQ and the SEC rules. As a result of this review, our Board of Directors has determined that Marvin S. Cadwell, Lawrence L. Levitt, Michael L. Sherman, M.D. and David Swartz each qualify as independent directors in accordance with the NASDAQ and the SEC rules. Howard G. Berger, M.D., John V. Crues, III, M.D., and Norman R. Hames are each currently an executive officer of our Company and therefore do not qualify as independent directors.

Director Nomination Process

The Board of Directors established a Nominating and Governance Committee in February 2011. The Nominating and Governance Committee is responsible for identifying and evaluating director candidates and has the authority to employ a third party search firm to assist in this process, if needed. The Nominating and Governance Committee will consider stockholder nominees if such nominations have been made in accordance with our Bylaws and will evaluate candidates recommended by stockholders in the same manner as all other candidates brought to the attention of the Nominating and Governance Committee. Stockholder recommendations may be submitted to the Nominating and Governance Committee in care of the Corporate Secretary at the address set forth below under "Communication with Our Board of Directors." No director candidates have been put forward by a stockholder or group of stockholders who beneficially owned more than five percent of our stock.

The Nominating and Governance Committee recommends nominees to the Board of Directors for election after carefully considering all candidates, taking into account all factors the committee considers appropriate, which may include career specialization, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge and the minimum qualifications as specified in the Nominating and Governance Committee Charter.

Our Board of Directors does not have a formal policy with regard to the consideration of diversity in the identification of director nominees. However, as part of the evaluation of board composition, the Nominating and Governance Committee will consider the diversity of candidates to ensure that our Board of Directors is comprised of individuals with a broad range of experiences and backgrounds (including, among other things, career specialization, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge) who can contribute to the board's overall effectiveness in carrying out its responsibilities and who can represent diverse viewpoints on our Board of Directors. The Nominating and Governance Committee will assess the effectiveness of our efforts when annually evaluating the composition of the Board of Directors as part of the annual nomination process.

Code of Ethics

We have adopted a written code of financial ethics applicable to our directors, officers and employees which is designed to deter wrongdoing and to promote:

- honest and ethical conduct;
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the SEC and in our other public communications;
- compliance with applicable laws, rules and regulations, including insider trading compliance; and
- accountability for adherence to the code and prompt internal reporting of violations of the code, including illegal or unethical behavior regarding accounting or auditing practices.

You may obtain a copy of our Code of Financial Ethics on our website at www.radnet.com under Investors — Corporate Governance. The Audit Committee is responsible for reviewing the Code of Financial Ethics and amending as necessary. Any amendments will be disclosed on our website.

Committees of the Board of Directors

As of February 2011, we have three standing committees: the Audit Committee, the Compensation and Management Development Committee and the Nominating and Governance Committee. The committees are comprised entirely of

independent directors. The membership of each committee is as follows, with the chairperson listed first:

Audit Committee	Compensation and Management Development Committee	Nominating and Governance Committee
David L. Swartz	Lawrence L. Levitt	Michael Sherman, M.D.
Marvin S. Cadwell	Michael Sherman, M.D.	Marvin S. Cadwell
Lawrence L. Levitt	David L. Swartz	Lawrence L. Levitt
		David L. Swartz

Audit Committee

The Audit Committee meets periodically, but at least once a quarter to review the Company's financial statements and the adequacy of and compliance with the Company's internal and external financial reporting processes. The Audit Committee held four meetings in 2010.

The Audit Committee's responsibilities include, among other things:

- selecting and overseeing the engagement of a firm to serve as an independent registered public accounting firm to audit our financial statements;
- helping to ensure the independence of our independent registered public accounting firm;
- discussing the scope and results of the audit with our independent registered public accounting firm;
- developing procedures for employees to anonymously submit concerns about questionable accounting or audit matters;
- meeting with our independent registered public accounting firm and our management to consider the adequacy of our internal accounting controls and audit procedures; and
- approving all audit and non-audit services to be performed by our independent registered public accounting firm.

The responsibilities of the Audit Committee are more fully described in the Audit Committee Charter. The Audit Committee reviews the charter at least annually and modifies it as needed. The Audit Committee Charter can be found on our website at www.radnet.com under Investors — Corporate Governance.

The Board of Directors has determined that all members of the Audit Committee are independent and financially literate. Further, the Board of Directors has determined that Mr. Swartz and Mr. Levitt possess the requisite accounting and financial management expertise required under the NASDAQ Marketplace Rules and each qualifies as an "audit committee financial expert" as defined under the applicable SEC rules.

Compensation and Management Development Committee

The Compensation and Management Development Committee meets at least annually and is responsible for approving the compensation of executive officers and certain senior management and oversees the Company's management development programs, performance assessment of senior executives and succession planning. The Compensation and Management Development Committee held five meetings in 2010.

The Compensation and Management Development Committee's responsibilities include, among other things:

- reviewing and, as it deems appropriate, recommending to our Board of Directors the compensation of executive officers and certain other senior management;
- reviewing and administering our stock and equity incentive plans;
- reviewing and, as it deems appropriate, recommending to our Board of Directors, policies, practices, and procedures relating to the compensation of our directors, officers, and other managerial employees and the

establishment and administration of our employee benefit plans; and

reviewing and approving the corporate goals and objectives relevant to CEO compensation and evaluating the CEO’s performance in light of those goals.

As noted in the Compensation Discussion and Analysis Section below, certain executive officers receive compensation from BRMG. Our relationship with BRMG is described in further detail under the “Certain Relationships and Related Party Transactions – Related Party Transactions” below. The process employed by the Compensation and Management Development Committee in determining the appropriate compensation of executive officers is the same regardless of whether payments are made by the Company or BRMG.

The responsibilities of the Compensation and Management Development Committee are more fully described in the Compensation and Management Development Committee Charter. The Compensation and Management Development Committee reviews the charter at least annually and modifies it as needed. The Compensation and Management Development Committee Charter can be found on our website at www.radnet.com under Investors — Corporate Governance.

Nominating and Governance Committee

In February 2011, the Board of Directors established the Nominating and Governance Committee. The Nominating and Governance Committee shall meet as frequently as circumstances dictate, but not less than once a year, and is responsible for identifying, evaluating and recommending qualified potential candidates to serve on the Board of Directors and its committees, coordinating the process for the Board of Directors to evaluate its performance and overseeing matters of corporate governance.

The Nominating and Governance Committee's responsibilities include, among other things:

- developing and recommending the criteria to be used in screening and evaluating potential candidates or nominees for election or appointment as directors;
- establishing and overseeing a policy for considering stockholder nominees for directors, and developing the procedures that must be followed by stockholders in submitting recommendations;
- monitoring and reviewing any issues regarding the independence of directors or involving potential conflicts of interest and evaluating any change of status or circumstances with respect to a director;
- evaluating all nominees for election of directors;
- developing and recommending to the Board of Directors, as necessary, corporate governance policies to be adopted and maintained;
- identifying committee member qualifications and recommending appropriate committee member appointments to the Board of Directors; and
- establishing and reviewing annually with the Board of Directors the procedures for stockholders to send communications to the Board of Directors.

The responsibilities of the Nominating and Governance Committee are more fully described in the Nominating and Governance Committee Charter. The Nominating and Governance Committee is required to review the charter at least annually and modify it as needed. The Nominating and Governance Committee Charter can be found on our website at www.radnet.com under Investors — Corporate Governance.

COMMUNICATION WITH OUR BOARD OF DIRECTORS

Stockholders may communicate with our Board of Directors through the Corporate Secretary by writing to the following address: Board of Directors, c/o Corporate Secretary, RadNet, Inc., 1510 Cotner Avenue, Los Angeles, CA 90025. The envelope containing such communication should contain a clear notation that the letter is "Stockholder-Board Communication" or "Stockholder-Director Communication" or a similar statement to indicate it is intended for the Board of Directors. All such communications must clearly indicate the author as a stockholder and

state whether the intended recipients are all members of the Board of Directors or just certain specified directors.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation and Management Development Committee are listed previously in “Board of Directors and Corporate Governance — Committees of the Board of Directors.” No member of the Compensation and Management Development Committee has had a relationship with our Company or any of our subsidiaries other than as directors and stockholders and no member has been an officer or employee of our Company or any of our subsidiaries, a participant in a “related person” transaction or an executive officer of another entity, where one of our executive officers serves on the board of directors.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, executive officers and beneficial owners of more than 10% of our common stock to file reports of ownership and changes in ownership with the SEC. Based solely on copies of these reports provided to us and written representations that no other reports were required, we believe that these persons met all of the applicable Section 16(a) filing requirements during fiscal 2010.

EXECUTIVE OFFICERS

The names of our current executive officers, their ages as of March 31, 2011, and their positions are shown below. Biographical summaries of each of our executive officers who are not also members of our Board of Directors are included below.

Name of Executive Officer	Age	Position	Officer Since
Howard G. Berger, M.D.	65	President, Chief Executive Officer and Chairman of the Board	1992
John V. Crues, III, M.D.	61	Vice President and Medical Director	2000
Norman R. Hames	55	Executive Vice President, Secretary, Chief Operating Officer – Western Operations	1996
Stephen M. Forthuber	50	Executive Vice President and Chief Operating Officer – Eastern Operations	2006
Jeffrey L. Linden	68	Executive Vice President and General Counsel	2001
Mark D. Stolper	39	Executive Vice President and Chief Financial Officer	2004
Michael M. Murdock	56	Executive Vice President and Chief Development Officer	2007

Stephen M. Forthuber became our Executive Vice President and Chief Operating Officer for Eastern Operations subsequent to the Radiologix acquisition. He joined Radiologix in January 2000 as Regional Director of Operations, Northeast. From July 2002 until January 2005 he served as Regional Vice President of Operations, Northeast and from February until December 2005 he was Senior Vice President and Chief Development Officer for Radiologix. Prior to working at Radiologix, Mr. Forthuber was employed from 1982 until 1999 by Per-Se Technologies, Inc. and its predecessor companies, where he had significant physician practice management and radiology operations responsibilities.

Jeffrey L. Linden joined us in 2001 and currently serves as our Executive Vice President and General Counsel. Prior to joining us, Mr. Linden had been engaged in the private practice of law. He has lectured before numerous organizations on various topics, including the California State Bar, the American Society of Therapeutic Radiation Oncologists, the California Radiological Association, and the National Radiology Business Managers Association.

Mark D. Stolper has served as our Chief Financial Officer since 2004 and prior to that was an independent member of our Board of Directors. Prior to joining us, he had diverse experiences in investment banking, private equity, venture capital investing and operations. Mr. Stolper began his career as a member of the corporate finance group at Dillon, Read and Co., Inc., executing mergers and acquisitions, public and private financings and private equity investments with Saratoga Partners LLP, an affiliated principal investment group of Dillon Read. After Dillon Read, Mr. Stolper joined Archon Capital Partners, which made private equity investments in media and entertainment companies. Mr. Stolper also worked for Eastman Kodak, where he was responsible for business development for Kodak's Entertainment Imaging subsidiary ($1.5 billion in sales). Mr. Stolper was also co-founder of Broadstream Capital Partners, a Los Angeles-based investment banking firm focused on advising middle market companies engaged in financing and merger and acquisition transactions. Mr. Stolper is currently a member of the board of directors and audit committee for Metropolitan Health Networks, Inc. and is Chairman of the Board of CompuMed, Inc.

Michael Murdock has served as our Executive Vice President and Chief Development Officer since 2007. Mr. Murdock has spent the majority of his career in senior financial positions with healthcare companies, ranging in size from venture-backed startups to multi-billion dollar corporations, including positions with American Medical International and its successor American Medical Holding, Inc., a publicly traded owner and operator of acute care facilities, that was acquired by National Medical Enterprises, now Tenet Healthcare. From 1999 through 2004, Mr. Murdock served as Chief Financial Officer of Dental One, a venture capital-backed owner and operator of 48 dental practices in Texas, Arizona, Colorado and Utah. From 2005 to 2006, Mr. Murdock served as Chief Financial Officer of Radiologix and joined us following the Radiologix acquisition. Mr. Murdock began his career in 1978 as an auditor with Arthur Andersen after receiving a B.S. degree from California State University, Northridge.

Our officers are elected annually and serve at the discretion of the Board of Directors. There are no family relationships among any of our officers and directors.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Review and Approval of Related Party Transactions

As a matter of policy, the Board of Directors reviews any transaction in which we are proposed to be a party, directly or indirectly, and any of the following persons or entities is or is entitled to be a party, directly or indirectly, to the transaction or any director has a material financial interest in the transaction: (i) any of our executive officers or any related person of any such officer or a director, (ii) any person or entity of which the executive officer or director or any related person is the owner of more than 5% of the securities, (iii) any person or entity that controls one or more of the persons specified in subparagraph (ii) or a person that is controlled by, or is under common control with one or more of the persons specified in subparagraph (ii), or (iv) an individual who is a general partner, principal or employer of a director. Additionally, any transaction which would be required to be disclosed pursuant to Item 404 of Regulation S-K is reviewed by the Board of Directors.

Related Party Transactions

Howard G. Berger, M.D. is our President and Chief Executive Officer, Chairman of the Board, and owns approximately 14.5% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at most of our California facilities under a management agreement and contracts with various other independent physicians and physician groups to provide all of the professional medical services at most of our other California facilities. We obtain professional medical services from BRMG in California, rather than providing such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of this close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that professional medical services are provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated practice groups.

Under our management agreement with BRMG, which expires on January 1, 2014, BRMG pays us, as compensation for the use of our facilities and equipment and for our services, a percentage of the gross amounts collected for the professional services it renders. The percentage, which was 79%, at December 31, 2010, is adjusted annually, if necessary, to ensure that the parties receive fair value for the services they render. In operation and historically, the annual revenue of BRMG from all sources closely approximates its expenses, including Dr. Berger's compensation, fees payable to us and amounts payable to third parties. For administrative convenience and in order to avoid inconveniencing and confusing our payors, a single bill is prepared for both the professional medical services provided by the radiologists and our non-medical, or technical, services, generating a receivable for BRMG. BRMG is a guarantor under the term loan facility and revolving credit facility we entered into in April 2010.

Dr. Crues receives all of his salary from Beverly Radiology Medical Group III, an affiliate of BRMG. In 2010, Dr. Berger received $500,000 of his salary from Beverly Radiology Medical Group III.

Cohen & Lord, a professional corporation, a law firm with which Mr. Linden is associated, received $598,262 in fees during 2010. Mr. Linden has specifically waived any interest in our fees since becoming an officer of RadNet, Inc.

On June 1, 2009 we entered into a 10-year operating lease for a building at one of our imaging centers located in Wilmington, Delaware in which our Senior Vice President of Materials Management is a 50% owner. The monthly rent under this operating lease is approximately $25,000. We believe that the monthly lease amount is in line with similar 10-year lease contracts available for comparable buildings in the area.

Indemnification Agreements

We have indemnification agreements with each of our directors and certain officers in addition to provisions which are reflected in our certificate of incorporation and bylaws which require us to indemnify our directors and officers to the fullest extent permitted by Delaware law.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS*

The audit committee of the Board of Directors is comprised entirely of independent directors who meet the independence requirements of NASDAQ and the SEC. The audit committee operates pursuant to a charter that is available on our website at www.radnet.com under Investors — Corporate Governance.

The audit committee oversees our financial reporting process on behalf of the Board of Directors. Management is responsible for the preparation, presentation and integrity of the financial statements, including establishing accounting and financial reporting principles and designing systems of internal control over financial reporting. Our independent registered public accounting firm, Ernst & Young LLP ("Ernst & Young"), is responsible for expressing an opinion as to the conformity of our consolidated financial statements with generally accepted accounting principles.

In performing its responsibilities, the audit committee has reviewed and discussed, with management and Ernst & Young, the audited consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2010. The audit committee has also discussed with Ernst & Young matters required to be discussed by Statement on Auditing Standards 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The audit committee has received the written disclosures and the letter from Ernst & Young required by applicable requirements of the Public Company Accounting Oversight Board regarding Ernst & Young's communications with the audit committee concerning independence, and has discussed Ernst & Young's independence with Ernst & Young.

Based on the reviews and discussions referred to above, the audit committee recommended to the Board of Directors that the audited consolidated financial statements of RadNet, Inc. be included in the Company's annual report on Form 10-K for the year ended December 31, 2010 for filing with the Securities and Exchange Commission. The audit committee has also reappointed Ernst & Young to serve as independent auditors for 2011, and requested that this appointment be submitted to our stockholders for ratification at their annual meeting.

Submitted by the Audit Committee:

David L. Swartz, Chair
Marvin S. Cadwell
Lawrence L. Levitt

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* The material in this report is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act whether made before or after the date of this proxy statement and irrespective of any general incorporation language therein.

COMPENSATION DISCUSSION AND ANALYSIS

This discussion describes our compensation program for our Named Executive Officers and has been divided into the following five sections:

Executive Summary: summarizes our 2010 executive compensation program.

Compensation Philosophy: describes the principles forming the foundation of our compensation and benefits programs for executives.

Board Process: describes the processes, participants and tools that help us make compensation decisions for our Named Executive Officers.

Elements of Executive Compensation: describes the various components of the compensation that may be awarded to each of our Named Executive Officers.

2010 Compensation Determinations: describes the compensation decisions for each of our Named Executive Officers for the fiscal year ended December 31, 2010.

Executive Summary

We compensate our executive officers generally through a mix of base salary and equity compensation. Our executive compensation program is designed to attract, retain and motivate talented executive officers who are capable of providing leadership, vision and execution necessary to achieve our business objectives. We actively seek to foster an environment that aligns the interests of our executive officers with the creation of stockholder value through our equity compensation program. To this end, we do not have a cash bonus structure in place for our executive officers.

Compensation decisions are determined by our independent Compensation and Management Development Committee and are not based on benchmarking against specific peer companies. For the year ended December 31, 2010, the Compensation and Management Development Committee did not retain any outside compensation consultants. The Compensation and Management Development Committee actively engages in dialogue with the Chief Executive Officer concerning the selection of strategic objectives and targets for performance based compensation. Generally, equity grants are based upon the recommendation of our Chief Executive Officer, with the Compensation and Management Development Committee retaining ultimate authority to accept, reject or modify such recommendation.

In 2010, the Company completed a debt refinancing plan and has continued the expansion of its business through strategic acquisitions during the fiscal year ended December 31, 2010. The Compensation and Management Development Committee decided to grant an equity award of stock options to purchase 100,000 shares of common stock to some of our Named Executive Officers based, in part, on their efforts in connection with the debt refinancing and the continued expansion of the business.

Consistent with the last several years, the Compensation and Management Development Committee decided that the base salary of the Named Executive Officers for 2010 would remain unchanged from the prior years, with the exception of Dr. Berger. Dr. Berger’s base salary has historically been paid by Beverly Radiology Medical Group III, an affiliate of BRMG. In 2010, the Compensation and Management Development Committee increased Dr. Berger’s base salary from $500,000 to $625,000, with the additional $125,000 to be paid by the Company. Dr. Berger has served as our Chief Executive Officer and the Chairman of the Board since 1992 and continues to provide critical and thoughtful leadership and support.

In addition to the base salary and equity compensation, we pay the premiums for our executive officers' coverage under our health insurance plans and some of our executive officers are provided a monthly car allowance.

Compensation Philosophy

The following principles influence and guide the compensation decisions of the Compensation and Management Development Committee:

The Compensation and Management Development Committee Believes in a Pay for Performance Culture

At the core of our compensation philosophy is our guiding belief that pay should be directly linked to performance. A substantial portion of executive officer compensation is contingent on, and variable with, achievement of objective corporate and/or individual performance objectives.

Compensation Decisions Should Promote the Interests of Stockholders

Compensation should focus management on achieving strong short-term (annual) performance in a manner that supports and ensures our long-term success and profitability. The Compensation and Management Development Committee believes that stock options create long-term incentives that align the interest of management with the long-term interest of stockholders.

Compensation and Performance Pay Should Reflect Position and Responsibility

Total compensation and accountability should generally increase with position and responsibility. Consistent with this philosophy:

- Total compensation is higher for individuals with greater responsibility and greater ability to influence the Company's achievement of targeted results and strategic initiatives.

- As position and responsibility increases, a greater portion of the executive officer's total compensation may be comprised of performance-based pay contingent on the achievement of performance objectives.

- Equity-based compensation is higher for persons with higher levels of responsibility, making a significant portion of their total compensation dependent on long-term stock appreciation.

Internal Pay Equity

The Compensation and Management Development Committee believes that internal equity is an important factor to be considered in establishing compensation for our executive officers. A formal policy regarding the ratio of total compensation of the Chief Executive Officer to that of the other officers has not been established, but the Compensation and Management Development Committee does review compensation levels to ensure that appropriate equity exists. The Compensation and Management Development Committee intends to continue to review internal compensation equity and may adopt a formal policy in the future, if it is determined that such a policy would be appropriate.

Compensation Should be Reasonable and Responsible

It is essential that our overall compensation levels be sufficiently competitive to attract talented leaders and motivate those leaders to achieve superior results. At the same time, we believe that compensation should be set at responsible levels. Our executive compensation programs are intended to be consistent with our focus on controlling costs.

Compensation Disclosures Should be Clear and Complete

The Compensation and Management Development Committee and management believe that all aspects of executive compensation should be clear, comprehensible and promptly disclosed in plain English. The Compensation and Management Development Committee and management believe that compensation disclosures should provide all of the information necessary to permit stockholders to understand our compensation philosophy, our compensation-setting process and how and how much our executives are paid.

Board Process

Compensation and Management Development Committee

The Compensation and Management Development Committee has been delegated the authority by our Board of Directors to approve all compensation and awards to executive officers. With respect to equity compensation awarded to the executive officers and others, the Compensation and Management Development Committee acts as the administrator under our 2006 Plan and has the authority under that plan to grant restricted stock or stock options. Generally, equity grants are based upon the recommendation of our Chief Executive Officer, with the Compensation and Management Development Committee retaining ultimate authority to accept, reject or modify such recommendation.

Our Compensation and Management Development Committee meets as often as necessary to perform its duties and responsibilities. The Committee meets with executive management, including our Chief Executive Officer, and conducts meetings in executive session.

The Compensation and Management Development Committee's annual process begins by determining the individual and corporate performance objectives for senior executive officers in each fiscal year. The Committee engages in an active dialogue with the Chief Executive Officer concerning the selection of strategic objectives and targets for performance based compensation. Corporate performance objectives may be established on the basis of a targeted return on capital employed for the Company or a particular business unit, or on the basis of another operating metric.

The Compensation and Management Development Committee meets in executive session each year to: (i) evaluate the performance of the Named Executive Officers, (ii) set the annual compensation of the Named Executive Officers, (iii) establish annual performance objectives for the current fiscal year, and (iv) consider and approve any grants of equity incentive compensation to the Named Executive Officers.

Management's Role in the Compensation-Setting Process

Management plays a significant role in the compensation-setting process. The most significant aspects of management's role are:

- establishing the operating budget which forms the basis for performance objectives; and
- our Chief Executive Officer making recommendations to the Compensation and Management Development Committee on salary levels and option awards.

Our Chief Executive Officer works with the Compensation and Management Development Committee in establishing the agenda for committee meetings. Management also prepares meeting information for each Compensation and Management Development Committee meeting.

Our Chief Executive Officer also participates in committee meetings at the request of the Compensation and Management Development Committee to provide, among other things:

- background information regarding the Company's strategic objectives;
- his evaluation of the performance of the senior executive officers, including accomplishments, areas of strength and weakness; and

compensation recommendations as to senior executive officers (other than himself).

Committee Advisors

Under its charter, the Compensation and Management Development Committee is granted, where appropriate, the authority to hire and fire advisors and compensation consultants. The Company is obligated to pay for the advisors and consultants. These advisors will report directly to the Compensation and Management Development Committee. For the year ended December 31, 2010, the Compensation and Management Development Committee did not retain any outside compensation consultants.

Benchmarking

Our Compensation and Management Development Committee does not base its compensation decisions on benchmarking against a specific peer group of companies. However, the Committee recognizes that our compensation practices must be competitive in the marketplace. The Committee is generally aware of pay practices at other companies in our industry. This marketplace information is only one of the many factors that the Committee considers in assessing the reasonableness of compensation.

Elements of Executive Compensation

Base Salary

Base pay is a critical element of executive compensation. We seek to establish a compensation level that is appropriate recognizing the executive officer’s achievements and contributions. Base pay also provides executives with a secure level of monthly income that is not at risk, and our Compensation and Management Development Committee believes that this gives our executive officers the ability to focus on the longer term and avoid the urgency which could otherwise encourage an executive officer to take unnecessary risks. In determining base salaries our Compensation and Management Development Committee considers the executive officer’s qualifications and experience, scope of responsibilities and future potential, the goals and objectives established for the executive officer, the executive officer’s past performance, the general pay practices at other companies in our industry, internal pay equity and the tax deductibility of base salary.

Equity Based Compensation

We believe that equity compensation is the most effective means of creating a long-term link between the compensation provided to officers and other key management personnel with gains realized by the stockholders.

Our stock compensation plans have been established to provide certain of our employees, including our Named Executive Officers, with incentives to help align those employees’ interests with the interests of our stockholders. Our stock compensation plans have provided the principal method for our Named Executive Officers to acquire equity or equity linked interests in our Company.

The Compensation and Management Development Committee has elected to use stock options as our primary equity compensation vehicle. All stock options incorporate the following features:

- the term of the grant does not exceed 10 years;
- the grant price is not less than the market price on the date of grant;
- grants do not include “reload” provisions;

repricing of options is prohibited, unless approved by the stockholders; and

options generally vest over a term of years (3 to 5 years) beginning with the first anniversary of the date of grant.

The Compensation and Management Development Committee continues to use stock options as a long-term incentive vehicle because:

- Stock options align the interests of executives with those of the stockholders, support a pay-for-performance culture, foster employee stock ownership and focus the management team on increasing value for the stockholders; and

- The vesting period encourages executive retention and the preservation of stockholder value.

In determining the number of options to be granted to senior executive officers, the Compensation and Management Development Committee takes into account the individual's position, scope of responsibility, ability to affect profits and stockholder value and the individual's historic and recent performance and the value of stock options in relation to other elements of total compensation.

Additional Benefits

Our executive officers, including our Named Executive Officers, participate in other employee benefit plans generally available to all employees on the same terms as similarly situated employees.

Perquisites to our Named Executive Officers are not a material element of our compensation program. We pay the premiums for our Named Executive Officers' coverage under our health insurance plans and some of our Named Executive Officers are provided a monthly car allowance.

Change in Control and Severance Arrangements

The employment agreements of some of our Named Executive Officers provide them with benefits if their employment is terminated under certain circumstances, including termination following a change in control. The details and amount of these benefits are set forth below under "Compensation of Directors and Executive Officers —Potential Payments Upon Termination or Change in Control — Severance Arrangements"; "Compensation of Directors and Executive Officers — Potential Payments Upon Termination or Change in Control — Change-in-Control Arrangements" and "Compensation of Directors and Executive Officers — Pension Benefits, Nonqualified Defined Contribution and Other Deferred Compensation Plans." The employment agreements, including the change in control provisions and the right to receive severance, were initially used to attract qualified executive officers and have continued to be used as a way to retain such qualified executive officers.

Deductibility of Executive Compensation

Our Compensation and Management Development Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that we may not deduct compensation of more than $1,000,000 that is paid to certain individuals. In as much as no executive is currently paid an amount near the $1,000,000 threshold, our Compensation and Management Development Committee believes that compensation paid to our Named Executive Officers is generally fully deductible for federal income tax purposes. We also intend that stock options granted under our equity incentive plans are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code and therefore exempt from the $1,000,000 limit. However, in certain situations, certain of the independent members of our Compensation and Management Development Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation of our Named Executive Officers.

2010 Compensation Determinations

The Compensation and Management Development Committee uses its judgment and discretion in determining the amount of base salary for each Named Executive Officer, which is reviewed on an annual basis. For the year ended December 31, 2010, the Compensation and Management Development Committee reviewed base salaries and made no change to such salaries, except for Dr. Berger. Dr. Berger’s base salary has historically been paid by Beverly Radiology Medical Group III, an affiliate of BRMG. In 2010, the Compensation and Management Development Committee increased Dr. Berger’s base salary from $500,000 to $625,000, with the additional $125,000 to be paid by the Company. Dr. Berger has served as our Chief Executive Officer and the Chairman of the Board since 1992 and continues to provide critical and thoughtful leadership and support. During his 18 years of leadership, Dr. Berger has led every acquisition and financing, and has directly overseen all of our growth.

In addition to reviewing base salary compensation, the Compensation and Management Development Committee also considers the need for option grants since equity compensation is a primary component of total compensation. In 2010, the Compensation and Management Development Committee decided to make an equity grant of stock options to some of our Named Executive Officers. Messrs. Hames, Linden and Stolper, each a Named Executive Officer, were awarded options to purchase 100,000 shares of our common stock which vest in three equal annual increments beginning on the grant date. The Compensation and Management Development Committee decided to make these awards in order to provide each of these Named Executive Officers with a more significant equity stake in the Company and a greater incentive to contribute to our long term success and was based, in part, on their efforts in connection with our 2010 debt refinancing plan and the continued expansion of our business through strategic acquisitions during the fiscal year ended December 31, 2010, including the acquisition of eRAD, Inc.

2011 Compensation Determinations

For the last several years, the base salary of the executive officers has remained the same, except for Dr. Berger whose base salary was increased in 2010 as described above. Our Compensation and Management Development Committee decided to increase the base salary for some of our Named Executive Officers by $75,000 each, effective January 1, 2011. The decision to increase the base salaries was based, in part, on an increase in the Company’s revenues for the fiscal year ended December 31, 2010, the efforts of our Named Executive Officers in connection with our 2010 debt refinancing plan and their continued efforts to expand our business through several strategic acquisitions that occurred during the fiscal year ended December 31, 2010, including the acquisition of eRAD, Inc.

The following table provides the salaries of each of the Named Executive Officers for the fiscal year 2010 and 2011:

Name	Fiscal Year 2010 Salary($)	Fiscal Year 2011 Salary($)
Howard G. Berger, M.D.	625,000	625,000
Mark D. Stolper	350,000	425,000
Jeffrey L. Linden	400,000	475,000
John V. Crues, III, M.D.	549,870	549,870 (1)
Norman R. Hames	350,000	425,000

(1) Estimated based on 2010 salary.

The Compensation and Management Development Committee also decided to make an equity grant of stock options under our 2006 Plan, effective January 7, 2011, to some of our Named Executive Officers. Messrs. Hames, Linden and Stolper, each a Named Executive Officer, were awarded options to purchase 75,000 shares of our common stock which vest in three equal annual increments beginning on the first anniversary of the grant date. The Compensation and Management Development Committee decided to make these awards in order to provide each of these Named Executive Officers with a more significant equity stake in the Company and a greater incentive to contribute to our long term success and was based, in part, on their efforts in connection with our 2010 debt refinancing plan and the continued expansion of our business through strategic acquisitions during the fiscal year ended December 31, 2010.

Risk Consideration in Our Compensation Programs

Our Compensation and Management Development Committee has discussed the concept of risk as it relates to our compensation program and does not believe our compensation program encourages excessive or inappropriate risk taking. We structure our pay to consist of primarily fixed compensation with cash and non-cash long-term incentive programs. The base salary portion of compensation is designed to provide a steady income regardless of our stock price performance, so that our executive officers do not feel pressured to focus exclusively on stock price performance to the detriment of other important aspects of our business. Our equity incentive grants have traditionally been structured to provide longer term incentives. Our Compensation and Management Development Committee believes our compensation programs strike a balance between providing secure compensation and appropriate long-term incentives, such that our executive officers are not encouraged to take unnecessary or excessive risks.

COMPENSATION COMMITTEE REPORT*

The Compensation and Management Development Committee of the Board of Directors is comprised of independent non-employee directors and operates pursuant to a written charter. A copy of the charter can be viewed by visiting our website at www.radnet.com and clicking on “Investors” and then on “Corporate Governance.” The Compensation and Management Development Committee is responsible for setting and overseeing the administration of the policies governing annual compensation of the Company’s executive officers. The Compensation and Management Development Committee reviews the performance and compensation levels for executive officers, including the chief executive officer, and sets salary levels.

The Compensation and Management Development Committee has reviewed and discussed with RadNet’s management the “Compensation Discussion and Analysis” included in this Proxy Statement. Based upon that review and analysis, the Compensation and Management Development Committee recommended to the Board of Directors that the “Compensation Discussion and Analysis” be included in this Proxy Statement.

Submitted by the Compensation and Management Development Committee:

Lawrence L. Levitt, Chair
Michael L. Sherman, M.D.
David L. Swartz

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* The material in this report is not “soliciting material,” is not deemed filed with the SEC and is not to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act whether made before or after the date of this proxy statement and irrespective of any general incorporation language therein.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Summary Compensation Table

The table below summarizes the total compensation paid or earned by our Named Executive Officers:

		Annual Compensation					
Name and Principal Position	Year	Salary ($)(*)	Bonus ($)	Stock Awards($)	Option Awards($)(1)	All Other Compensation ($)(5)	Totals ($)
Howard G.	2010	625,000 (2)	—	—	—	9,765	634,765
Berger, M.D.,	2009	500,000 (3)	—	—	—	—	500,000
President and Chief Executive Officer (principal executive officer)	2008	500,000 (3)	—	—	—	—	500,000
Mark D. Stolper,	2010	350,000	—	—	159,640	7,964	517,604
Executive Vice	2009	350,000	—	—	366,290	7,100	723,390
President and Chief Financial Officer (principal financial officer)	2008	348,846	—	—	240,865	6,800	596,511

	2013	2012	Dollar increase / (decrease)
Net cash provided by (used for):			
Operating activities	$ 43,684	$ 75,545	$ (31,861)
Investing activities	(25,237)	(45,610)	20,373
Financing activities	(503)	(65,475)	64,972
Effect of exchange rate changes on cash and cash equivalents	326	1,364	(1,038)
Net change in cash and cash equivalents	$ 18,270	$ (34,176)	$ 52,446

The decrease in cash provided by operating activities for the year ended December 31, 2013 compared to the year ended December 31, 2012 was primarily due to maintaining higher working capital levels at our PST and Wiring segments which were attributable to planned production increases which offset a $12.8 million increase in net income. Our receivable terms and collections rates have remained consistent between periods presented. These uses of cash were partially offset by increases in accounts payable and accrued expenses of $16.8 million and $2.7 million,

respectively, during 2013 compared to 2012.

The decrease in net cash used for investing activities for 2013 was due to a $19.8 million payment made in conjunction with the acquisition of a controlling interest in PST during 2012.

The decrease in net cash used for financing activities was primarily due to lower principal payments made on the Credit Facility and PST term loans.

Summary of Cash Flows for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011	Dollar increase / (decrease)
Net cash provided by (used for):			
Operating activities	$75,545	$921	$74,624
Investing activities	(45,610)	(29,783)	(15,827)
Financing activities	(65,475)	37,522	(102,997)
Effect of exchange rate changes on cash and cash equivalents	1,364	(1,903)	3,267
Net change in cash and cash equivalents	$(34,176)	$6,757	$(40,933)

The increase in cash provided by operating activities for the year ended December 31, 2012 from the year ended December 31, 2011 was primarily due to higher depreciation and amortization charges in 2012 due to the consolidation of PST and a reduction in accounts receivable and inventory balances of $60.9 million. Our cash provided by operating activities for the year ended December 31, 2011 was negatively affected by higher accounts receivable and inventory balances. Our receivable terms and collections rates have remained consistent between periods presented.

The increase in net cash used for investing activities relates to cash disbursements in conjunction with the acquisition of controlling interest in PST of $19.8 million in 2012 compared to $7.3 million in 2011. In 2011, we received proceeds of $3.9 million from the sale of our former Sarasota facility.

The increase in net cash used for financing activities was primarily due to payments made on the Credit Facility and the PST term notes during 2012 compared to Credit Facility borrowings to finance the acquisition of controlling interest in PST in 2011.

The following table summarizes our future cash outflows resulting from financial contracts and commitments, as of December 31, 2013 (in thousands):

	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Debt	$199,171	$12,187	$183,813	$2,114	$1,057
Operating leases	14,098	5,815	5,215	2,988	80
Total contractual obligations	$213,269	$18,002	$189,028	$5,102	$1,137

Management will continue to focus on reducing its weighted-average cost of capital and believes that cash flows from operations and the availability of funds from our Credit Facility will provide sufficient liquidity to meet our future growth and operating needs.

On October 4, 2010, we issued $175.0 million of senior secured notes. These senior secured notes bear interest at an annual rate of 9.5% and mature on October 15, 2017. The senior secured notes are redeemable, at our option, beginning October 15, 2014 at 104.75%. Interest payments are payable on April 15 and October 15 of each year. The senior secured notes indenture limits our restricted subsidiaries' amount of indebtedness, restricts certain payments and includes various other non-financial restrictive covenants, which to date have not been and are not expected to have an impact on our financing flexibility. The senior secured notes are guaranteed by all of our existing domestic restricted subsidiaries. All other restricted subsidiaries that guarantee any of our or our guarantors' indebtedness will also guarantee the senior secured notes.

On October 4, 2010, we entered into a fixed-to-variable interest rate swap agreement (the "Swap") with a notional amount of $45.0 million. The Swap was designated as a fair value hedge of the fixed interest rate obligation under our $175.0 million 9.5% senior secured notes due October 15, 2017. We pay variable interest equal to the six-month LIBOR plus 7.19% and we receive a fixed interest rate of 9.5% under the Swap. The critical terms of the Swap match the terms of the senior secured notes, including maturity of October 15, 2017, resulting in no hedge ineffectiveness.

As outlined in Note 4 to our consolidated financial statements, our Credit Facility permits borrowing up to a maximum level of $100.0 million. This facility provides us with lower borrowing rates and allows us the flexibility to refinance other outstanding debt. At December 31, 2013 and 2012 there were no borrowings outstanding. The available borrowing capacity on our Credit Facility is based on eligible current assets, as defined. At December 31, 2013, we had undrawn borrowing capacity of $71.1 million based on eligible current assets. The Credit Facility contains financial performance covenants which would only constrain our borrowing capacity if our undrawn availability falls below $20.0 million. However, restrictions do include limits on capital expenditures, operating leases, dividends and investment activities in a negative covenant which limits investment activities to $15.0 million minus certain guarantees and obligations. The Company was in compliance with all covenants at December 31, 2013. The covenants included in our Credit Facility to date have not and are not expected to limit our financing flexibility.

PST maintains several term loans used for working capital purposes including a new term loan entered into in March 2013 for 25,000 Brazilian real whose U.S. dollar equivalent outstanding balance was $10.7 million at December 31, 2013. The new term loan matures on February 15, 2016 and interest is payable monthly at a fixed interest rate of 5.5%. At December 31, 2013, there was $21.7 million outstanding on these loans. Of the outstanding borrowings, $9.8 million is due in the next twelve months and is included on the December 31, 2013 consolidated balance sheets as a component of current portion of debt. The balance of $11.9 million is included on the December 31, 2013 consolidated balance sheets as a component of long-term debt and is comprised of $6.6 million that matures in 2015, $2.1 million in 2016 and annual maturities of approximately $1.1 million in 2017 through 2019. Depending on the specific loan, interest is payable either monthly or annually. The term loans due in the next twelve months have a fixed interest rate of 1.70% to 16.56%, while the long-term loans have a fixed interest rate of 4.0% to 5.5%. As of December 31, 2013 and 2012, PST was in compliance with all note covenants.

The term loan for our Suzhou, China subsidiary is in the amount of 9.0 million Chinese yuan, which U.S. dollar equivalent outstanding balance was approximately $1.5 million at December 31, 2013, and is included on the consolidated balance sheets as a component of current portion of debt. The term loan matures in February 2014. Interest is payable monthly at the one-year lending rate published by The People's Bank of China multiplied by 125.0%. At December 31, 2013, the interest rate on the term loan was 7.0%.

The Company's wholly owned subsidiary located in Stockholm, Sweden, has an overdraft credit line which allows overdrafts on the subsidiary's bank account up to a maximum level of 20.0 million Swedish krona, or $3.1 million, at December 31, 2013. At December 31, 2013, there were no overdrafts on the bank account.

Although the Company's notes and credit facilities contain various covenants, the violation of which would limit or preclude their use or accelerate the maturity, the Company has not experienced and does not expect these covenants to restrict our financing flexibility. The Company has been and expects to continue to remain in compliance with these covenants during the term of the notes and credit facilities.

Our future results could be unfavorably affected by increased commodity prices, specifically copper. Copper prices fluctuated during 2011, 2012 and 2013. We entered into fixed price commodity contracts for a portion of our 2013 copper purchases and a portion of our 2014 sales are subject to copper surcharge billings which would mitigate a portion of raw material cost increases. Our 2014 results could also be adversely affected by unfavorable foreign currency exchange rates. We have significant foreign denominated transaction exposure in certain locations, especially in Brazil, Mexico and Sweden. We have entered into foreign currency forward contracts and maintain Mexican peso- and euro-denominated cash balances to reduce our exposure related to foreign currency fluctuations.

We have significant U.S. federal income tax net operating loss carryforwards and research credit carryforwards. The Internal Revenue Code of 1986, as amended (the "Code"), imposes an annual limitation on the ability of a corporation that undergoes an "ownership change" to use its net operating loss and credit carryforwards to reduce its tax liability. During the fourth quarter of 2010 we undertook a secondary offering. As a result of the secondary offering a substantial change in our ownership occurred and we experienced an ownership change pursuant to Section 382 of the Code. There was no impact to current or deferred income taxes resulting from the ownership change.

At December 31, 2013, we had a cash and cash equivalents balance of approximately $62.8 million, of which $30.0 million was held domestically and $32.8 million was held in foreign locations. Our cash balance was not restricted at December 31, 2013.

Contingencies

On May 24, 2013, the State Revenue Services of São Paulo issued a tax deficiency notice against PST, our 74% owned consolidated subsidiary, claiming that the vehicle tracking and monitoring services it provides should be classified as communication services, and therefore subject to the State Value Added Tax – ICMS. The State Revenue Services assessment imposed the 25.0% ICMS tax on all revenues of PST related to the vehicle tracking and monitoring services during the period from January 2009 through December 2010. The Brazilian real ("R$") and U.S. dollar equivalent ("$") of the aggregate tax assessment is approximately R$92.5 million ($39.5 million) which is comprised of Value Added Tax – ICMS of R$13.2 million ($5.6 million), interest of R$11.4 million ($4.9 million) and penalties of R$67.9 million ($29.0 million).

The Company's vehicle tracking and monitoring services are non-communication services, as defined under Brazilian tax law, subject to the municipal ISS tax, not communication services subject to state ICMS tax as claimed by the State Revenue Services of São Paulo. PST has, and will continue to collect the municipal ISS tax on the vehicle tracking and monitoring services in compliance with Brazilian tax law and will defend its tax position. PST has received a legal opinion that the merits of the case are favorable to PST, determining among other things that the imposition on the subsidiary of the State ICMS by the State Revenue Services of São Paulo is not in accordance with the Brazilian tax code. Management believes, based on the legal opinion of PST's Brazilian legal counsel and the results of the Brazil Administrative Court's ruling in favor of another vehicle tracking and monitoring company related to the tax deficiency notice it received, the likelihood of loss is not probable although it may take years to resolve. As a result of the above, as of December 31, 2013, no accrual has been recorded with respect to the tax assessment. An unfavorable judgment on this issue for the years assessed and for subsequent years could result in significant costs to PST and adversely affect its results of operations.

In addition, PST has civil, labor and other tax contingencies for which the likelihood of loss is deemed to be reasonably possible, but not probable, by its legal advisors, and, therefore, no accrual has been recorded. Such contingencies amounted to $11.5 million and $11.9 million at December 31, 2013 and December 31, 2012. An unfavorable outcome on this issue could result in significant cost to PST and adversely affect its results of operations.

Seasonality

Our Electronics, Wiring and Control Devices segments are not typically materially affected by seasonality, however the demand for our PST segment consumer products is typically higher in the second half of the year, the fourth quarter in particular.

Inflation and International Presence

Given the current economic climate and recent fluctuations in certain commodity prices, we believe that an increase in such items could significantly affect our profitability. Furthermore, by operating internationally, we are affected by foreign currency exchange rates and the economic conditions of certain countries.

Off-balance Sheet Arrangements

At December 31, 2013, we do not have any off-balance sheet arrangements that have, or are, in the opinion of management, reasonably likely to have, a current or future material effect on our financial condition or results of operations.

Critical Accounting Policies and Estimates

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

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

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

Revenue Recognition and Sales Commitments. We recognize revenues from the sale of products, net of actual and estimated returns of products sold based on historical authorized returns, at the point of passage of title, which is either at the time of shipment or upon customer receipt based on the terms of the sale. We often enter into agreements with our customers at the beginning of a given vehicle's expected production life. Once such agreements are entered into, it is our obligation to fulfill the customers' purchasing requirements for the entire production life of the vehicle. These agreements are subject to renegotiation, which may affect product pricing. In certain limited instances, we may be committed under existing agreements to supply products to our customers at selling prices which are not sufficient to cover the direct cost to produce such products. In such situations, we recognize losses immediately. There were no such significant instances of this in 2013, 2012 or 2011. These agreements generally may also be terminated by our customers at any time.

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

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

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

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

legal counsel handling such matters.

We have accrued for estimated losses when it is probable that a liability or loss has been incurred and the amount can be reasonably estimated. Contingencies by their nature relate to uncertainties that require the exercise of judgment both in assessing whether or not a liability or loss has been incurred and estimating that amount of probable loss. The liabilities may change in the future due to new developments or changes in circumstances. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with respect to their resolution.

Inventory Valuation. Inventories are valued at the lower of cost or market using the FIFO method for our Electronics, Wiring and Control Devices segments and average cost method for our PST segment. Where appropriate, standard cost systems are utilized for purposes of determining cost and the standards are adjusted as necessary to approximate actual costs. Estimates of the lower of cost or market value of inventory are determined based upon current economic conditions, historical sales quantities and patterns and, in some cases, the specific risk of loss on specifically identified inventories. We adjust our excess and obsolescence reserve at least on a quarterly basis. Excess inventories are quantities of items that exceed anticipated sales or usage for a reasonable period. We have guidelines for calculating provisions for excess inventories based on the number of months of inventories on hand compared to anticipated sales or usage.

Long-Lived and Finite-Lived Assets. We review the carrying value of our long-lived assets and finite-lived intangible assets for impairment when events or circumstances indicate that their carrying value may not be recoverable. Factors that we consider important that could trigger our testing of the related asset groups for an impairment include current period operating or cash flow losses combined with a history of operating or cash flow losses, a projection or forecast that demonstrates continuing losses, significant adverse changes in the business climate within a particular business or current expectations that a long-lived asset will be sold or otherwise disposed of significantly before the end of its estimated useful life. To test for impairment, the estimated undiscounted cash flows expected to be generated from the use and disposal of the asset or asset group is compared to its carrying value. An asset group is established by identifying the lowest level of cash flows generated by the group of assets that are largely independent of cash flows of other assets. If cash flows cannot be separately and independently identified for a single asset, we will determine whether an impairment has occurred for the group of assets for which we can identify projected cash flows. If these undiscounted cash flows are less than their respective carrying values, an impairment charge would be recognized to the extent that the carrying values exceed estimated fair values. Although third-party estimates of fair value are utilized when available, the estimation of undiscounted cash flows and fair value requires us to make assumptions regarding future operating results. The results of the impairment testing are dependent on these estimates which require judgment. The occurrence of certain events, including changes in economic and competitive conditions, could impact cash flows eventually realized and management’s ability to accurately assess whether an asset is impaired.

Goodwill. Goodwill is tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The valuation methodologies employed by the Company use subjective measures including forward looking financial information and discount rates that directly impact the resulting fair values used to test the Company’s reporting units for impairment. We acquired controlling interest in PST on December 31, 2011 and based on the purchase price in excess of the fair value of net assets acquired goodwill was recorded.

Our annual measurement date to test goodwill for impairment is October 1. At October 1, 2013 and 2012, PST’s calculated fair value exceeded its carrying value, and no indicators of impairment were identified. However, PST’s calculated fair value exceeded its carrying value by approximately 10% at October 1, 2013, which is a decrease from the prior year assessment due to changes in certain key projections and assumptions. Given the smaller margin of excess in 2013, the PST reporting unit is at risk of potentially failing step one of the goodwill impairment test in future periods which may require the recognition of an impairment charge. If we perform step two of the impairment analysis, up to $53.7 million of goodwill assigned to this reporting unit could be at risk for impairment.

At October 1, 2013, PST’s fair value was computed using the income approach (discounted cash flows), which considered the Company’s outlook for current and future market conditions. Within this analysis, the projections reflect management’s best estimate of the future sales mix between product and services and the impact of that sales mix on future margins. If PST does not achieve the forecasts used in the cash flow analysis used in our October 1, 2013 goodwill impairment assessment, it may fail step one of a goodwill impairment test in a future period.

The estimated fair value of our PST reporting unit is closely aligned with the ultimate amount of revenue and operating income that it achieves over the projected period. The discounted cash flows, for goodwill impairment testing purposes, assumed that, through fiscal 2018, this reportable segment would achieve a compounded annual revenue growth rate of approximately 16.0% from its actual fiscal 2013 revenue of $178.5 million. Beyond fiscal 2018, a long-term revenue growth rate of 4.0% was used in the terminal year, and a weighted-average cost of capital ("WACC") of 19.5% was used to discount the cash flows. Given the current market conditions in Brazil, the moderate long-term growth rate and the WACC were deemed appropriate to use for future cash flow assumptions. Modest changes to these assumptions as well as other key assumptions used in our October 1, 2013 impairment analysis would result in the carrying value of the PST reporting unit exceeding its fair value.

During 2014, because our goodwill impairment analysis is sensitive to the ultimate spending decisions by the Brazilian consumer, we will continue to monitor key assumptions and other factors utilized in our October 1, 2013 annual goodwill impairment analysis. If the assumptions and related estimates change in the future, or if the reporting structure is changed or other events and circumstances change, an interim goodwill impairment analysis in advance of our annual October 1 assessment may be required to be performed.

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

Income Taxes. Deferred income taxes are provided for temporary differences between amounts of assets and liabilities for financial reporting purposes and the basis of such assets and liabilities as measured by tax laws and regulations. Our deferred tax assets include, among other items, net operating loss carryforwards and tax credits that can be used to offset taxable income in future periods and reduce income taxes payable in those future periods. These deferred tax assets begin to expire after December 31, 2025 and 2021, respectively.

Accounting standards requires that deferred tax assets be reduced by a valuation allowance if, based on all available evidence, it is considered more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This assessment requires significant judgment, and in making this evaluation, the Company considers available positive and negative evidence, including the potential to carryback net operating losses and credits, the future reversal of certain taxable temporary differences, actual and forecasted results, and tax planning strategies that are both prudent and feasible. Risk factors include the U.S. economic conditions affecting the U.S. automotive and commercial vehicle markets of which the Company has significant operations.

During the fourth quarter of 2008, the Company concluded that it was no longer more-likely-than-not that we would realize our U.S. deferred tax assets. As a result we provided a full valuation allowance, net of certain future reversing taxable temporary differences, with respect to our U.S. deferred tax assets. This conclusion has not changed through 2013. To the extent that realization of a portion or all of the tax assets becomes more-likely-than-not to be realized based on changes in circumstances a reversal of that portion of the deferred tax asset valuation allowance will be recorded.

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

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standards update requiring new disclosures about reclassifications from accumulated other comprehensive loss to net income. These disclosures may be presented on the face of the statements or in the notes to the consolidated financial statements. The standards update is effective for fiscal years beginning after December 15, 2012. We adopted this standards update on January 1, 2013 and revised our disclosures, see Note 2 to our consolidated financial statements.

In December 2011, the FASB issued an accounting standards update requiring new disclosures about financial instruments and derivative instruments that are either offset by or subject to an enforceable master netting arrangement or similar agreement. The standards update is effective for fiscal years beginning after December 15, 2012. We adopted this standards update on January 1, 2013 which had no impact on our disclosures.

Forward-Looking Statements

Portions of this report on Form 10-K contain “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company, with respect to, among other things, our (i) future product and facility expansion, (ii) acquisition strategy, (iii) investments and new product development, (iv) growth opportunities related to awarded business and (v) operation expectations. Forward-looking statements may be identified by the words “will,” “may,” “should,” “designed to,” “believes,” “plans,” “projects,” “intends,” “expects,” “estimates,” “anticipates,” similar words and expressions. The forward-looking statements are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, among other factors:

- the reduced purchases, loss or bankruptcy of a major customer;
- the costs and timing of facility closures, business realignment, or similar actions;
- a significant change in commercial, automotive, agricultural, motorcycle or off-highway vehicle production;
- competitive market conditions and resulting effects on sales and pricing;
- the impact on changes in foreign currency exchange rates on sales, costs and results, particularly the Brazilian real, Argentinian peso, Mexican peso and euro.
- our ability to achieve cost reductions that offset or exceed customer-mandated selling price reductions;
- a significant change in general economic conditions in any of the various countries in which we operate;
- labor disruptions at our facilities or at any of our significant customers or suppliers;

- the ability of our suppliers to supply us with parts and components at competitive prices on a timely basis;
- the amount of our indebtedness and the restrictive covenants contained in the agreements governing our indebtedness, including our Credit Facility and the senior secured notes;
- customer acceptance of new products;
- capital availability or costs, including changes in interest rates or market perceptions;
- the failure to achieve the successful integration of any acquired company or business; and
- the items described in Part I, Item IA ("Risk Factors").

In addition, the forward-looking statements contained herein represent our estimates only as of the date of this filing and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, whether to reflect actual results, changes in assumptions, changes in other factors affecting such forward-looking statements or otherwise.

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

Interest Rate Risk

From time to time, we are exposed to certain market risks, primarily resulting from the effects of changes in interest rates. The face amount of our senior secured notes was $175.0 million at December 31, 2013. We currently have no borrowings outstanding on our asset-based Credit Facility at December 31, 2013. As discussed in Note 9 to our consolidated financial statements, we entered into a fixed-to-floating interest rate swap agreement (the "Swap") with a notional amount of $45.0 million to hedge our exposure to fair value fluctuations on a portion of our senior secured notes. The Swap was designated as a fair value hedge of the fixed interest rate obligation under our $175.0 million 9.5% senior secured notes due October 15, 2017. Under the Swap, we pay a variable interest rate equal to the six-month London Interbank Offered Rate ("LIBOR") plus 7.19% and we receive a fixed interest rate of 9.5%. The Swap requires semi-annual settlements on April 15 and October 15, which began on April 15, 2011. The critical terms of the Swap are aligned with the terms of the senior secured notes, including maturity of October 15, 2017, resulting in no hedge ineffectiveness. A hypothetical 10.0% favorable or adverse change in the LIBOR would not significantly affect our results of operations, financial position or cash flows.

Commodity Price Risk

Given the current economic climate and recent fluctuations in certain commodity costs, we currently are experiencing an increased risk, particularly with respect to the purchase of copper, zinc, resins and certain other commodities. In the past, we managed this risk through a combination of fixed price agreements, staggered short-term contract maturities and commercial negotiations with our suppliers and customers. In the future, if we believe that the terms of a fixed

price agreement become beneficial to us, we will enter into another such instrument. We have sought to alleviate the effect of increasing commodity costs by including a material pass-through provision in our customer contracts whenever possible. We may also consider pursuing alternative commodities or alternative suppliers to mitigate this risk over a period of time. The recent volatility in certain commodity costs has negatively affected our operating results.

At December 31, 2013 we have several fixed price commodity contracts totaling 1.6 million pounds of copper. These contracts settle from January 2014 to December 2014. The purpose of these contracts is to reduce our price risk as it relates to copper prices. We estimate that a hypothetical pre-tax gain (loss) in fair value from a 10.0% favorable or adverse change in the fair value of commodity prices would be approximately $0.4 million and $(0.6) million, respectively.

Foreign Currency Exchange Risk

We use derivative financial instruments, including foreign currency forward contracts, to mitigate our exposure to fluctuations in foreign currency exchange rates by reducing the effect of such fluctuations on foreign currency denominated intercompany transactions and other foreign currency exposures. As discussed in Note 9 to our consolidated financial statements, we have entered into foreign currency forward contracts that had a notional value of $58.3 million as of December 31, 2013. The purpose of these foreign currency contracts is to reduce exposure related to the Company’s euro-denominated receivables as well as to reduce exposure to future Mexican peso-denominated purchases. The estimated fair value of these contracts at December 31, 2013, per quoted market sources, was a liability of approximately $0.3 million. These foreign currency contracts expire during 2014. We do not expect the effects of this risk to be material in the future based on the current operating and economic conditions in the countries in which we operate.

A hypothetical pre-tax gain (loss) in fair value from a 10.0% favorable or adverse change in quoted currency exchange rates would be approximately $1.2 million or $(1.5) million for our euro-denominated receivables, as of December 31, 2013. A hypothetical pre-tax gain (loss) in fair value from 10.0% favorable or adverse change in quoted currency exchange rates would be approximately $4.1 million or $(5.0) million for the Company's Mexican peso-denominated payables as of December 31, 2013. It is important to note that gains and losses indicated in the sensitivity analysis would generally be offset by gains and losses on the underlying exposures being hedged. Therefore, a hypothetical pre-tax gain or loss in fair value from a 10.0% favorable or adverse change in quoted foreign currencies would not significantly affect our results of operations, financial position or cash flows.

We have significant operations in foreign locations. As a result we are subject to the risk of price fluctuations due to the effects of exchange rates on net sales, operating costs, assets and liabilities denominated in currencies other than the U.S. dollar, particularly the Mexican peso, euro, Swedish krona, British pound and Brazilian real. We estimate that a hypothetical 10.0% favorable or adverse change of the U.S. dollar relative to other currencies in 2013 would have a pre-tax translation favorable (unfavorable) effect of $4.6 million or $(4.3) million as of December 31, 2013.

Item 8. Financial Statements and Supplementary Data.

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AND FINANCIAL STATEMENT SCHEDULE

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of

Stoneridge, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Stoneridge, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule included in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stoneridge, Inc. and Subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stoneridge, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated March 7, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

March 7, 2014

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CONSOLIDATED BALANCE SHEETS

As of December 31 (in thousands)	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$62,825	$44,555
Accounts receivable, less reserves of $3,514 and $3,394, respectively	133,736	141,503
Inventories, net	114,058	96,032
Prepaid expenses and other current assets	29,617	28,964
Total current assets	340,236	311,054
Long-term assets:		
Property, plant and equipment, net	110,872	119,147
Other assets:		
Intangible assets, net	68,842	84,397
Goodwill	58,521	66,381
Investments and other long-term assets, net	9,851	11,712
Total long-term assets	248,086	281,637
Total assets	$588,322	$592,691
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	$12,187	$18,925
Revolving credit facilities	-	1,160
Accounts payable	84,884	76,303
Accrued expenses and other current liabilities	56,651	57,081
Total current liabilities	153,722	153,469
Long-term liabilities:		
Long-term debt, net	185,045	181,311
Deferred income taxes	57,026	59,819
Other long-term liabilities	3,995	4,258
Total long-term liabilities	246,066	245,388
Shareholders' equity:		
Preferred Shares, without par value, authorized 5,000 shares, none issued	-	-
Common Shares, without par value, authorized 60,000 shares, issued 28,803 and 28,433 shares and outstanding 28,483 and 27,913 shares at December 31, 2013 and 2012, respectively, with no stated value	-	-
Additional paid-in capital	187,742	184,822
Common Shares held in treasury, 320 and 520 shares at December 31, 2013 and 2012, respectively, at cost	(519)	(1,885)
Accumulated deficit	(7,771)	(22,902)

Accumulated other comprehensive loss	(30,458)	(10,282)
Total Stoneridge Inc. shareholders' equity	148,994	149,753
Noncontrolling interest	39,540	44,081
Total shareholders' equity	188,534	193,834
Total liabilities and shareholders' equity	$588,322	$592,691

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31 (in thousands, except per share data)	2013	2012	2011
Net sales	$947,830	$938,513	$765,373
Costs and expenses:			
Cost of goods sold	721,809	713,869	618,596
Selling, general and administrative	186,317	195,915	128,306
Goodwill impairment charge	-	-	4,945
Operating income	39,704	28,729	13,526
Interest expense, net	18,346	20,033	17,234
Equity in earnings of investees	(476)	(760)	(10,034)
Gain on previously held equity interest	-	-	(65,372)
Other expense, net	1,100	4,896	56
Income before income taxes	20,734	4,560	71,642
Provision for income taxes	4,226	812	26,105
Net income	16,508	3,748	45,537
Net income (loss) attributable to noncontrolling interest	1,377	(1,613)	(3,820)
Net income attributable to Stoneridge, Inc.	$15,131	$5,361	$49,357
Earnings per share attributable to Stoneridge, Inc.:			
Basic	$0.57	$0.20	$2.04
Diluted	$0.56	$0.20	$2.00
Weighted-average shares outstanding:			
Basic	26,671	26,377	24,181
Diluted	27,193	27,032	24,645

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31 (in thousands)	2013	2012	2011
Net income	$16,508	$3,748	$45,537
Other comprehensive loss, net of tax:			
Foreign currency translation adjustments	(17,925)	(10,502)	(5,971)
Benefit plan liability adjustments	-	(27)	-
Unrealized gain on marketable securities	-	-	16
Unrealized gain (loss) on derivatives	(2,251)	9,862	(7,722)
Other comprehensive loss, net of tax	(20,176)	(667)	(13,677)
Consolidated comprehensive income (loss)	(3,668)	3,081	31,860
Income (loss) attributable to noncontrolling interest	1,377	(1,613)	(3,820)
Comprehensive income (loss) attributable to Stoneridge, Inc.	$(5,045)	$4,694	$35,680

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (in thousands)	2013	2012	2011
OPERATING ACTIVITIES:			
Net income	$16,508	$3,748	$45,537
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	28,989	28,519	18,847
Amortization, including accretion of debt discount	6,236	6,802	1,113
Deferred income taxes	(3,081)	(2,733)	23,938
Earnings of equity method investees	(476)	(760)	(10,034)
Loss (gain) on sale of fixed assets	189	(268)	(88)
Share-based compensation expense	4,974	4,890	4,423
Asset impairments	-	-	807
Goodwill impairment	-	-	4,945
Gain on previously held equity interest	-	-	(65,372)
Changes in operating assets and liabilities:			
Accounts receivable, net	4,122	19,466	(11,658)
Inventories, net	(23,646)	20,995	(9,895)
Prepaid expenses and other	(2,585)	1,772	(4,783)
Accounts payable	9,485	(7,282)	(23,879)
Accrued expenses and other	2,969	396	27,020
Net cash provided by operating activities	43,684	75,545	921
INVESTING ACTIVITIES:			
Capital expenditures	(25,344)	(26,352)	(26,290)
Proceeds from sale of fixed assets	107	521	3,863
Capital contribution from noncontrolling interest	-	-	397
Payment for additional interest in PST	-	(19,779)	(7,753)
Net cash used for investing activities	(25,237)	(45,610)	(29,783)
FINANCING ACTIVITIES:			
Revolving credit facility borrowings	-	21,579	38,993
Revolving credit facility payments	(1,160)	(59,600)	(554)
Proceeds from issuance of other debt	25,555	22,146	1,408
Repayments of other debt	(24,382)	(48,327)	(968)
Other financing costs	-	-	(605)
Repurchase of Common Shares to satisfy employee tax withholding	(516)	(1,273)	(752)
Net cash provided by (used for) financing activities	(503)	(65,475)	37,522
Effect of exchange rate changes on cash and cash equivalents	326	1,364	(1,903)
Net change in cash and cash equivalents	18,270	(34,176)	6,757
Cash and cash equivalents at beginning of period	44,555	78,731	71,974
Cash and cash equivalents at end of period	$62,825	$44,555	$78,731

Supplemental disclosure of cash flow information:			
Cash paid for interest	$18,634	$20,317	$17,494
Cash paid for income taxes, net	$6,426	$4,345	$1,365
Supplemental disclosure of non-cash financing activities:			
Change in fair value of interest rate swap	$(1,419)	$1,134	$4,095
Issuance of Common Shares for acquisition of additional PST interest	$-	$10,197	$5,113

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

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)	Number of Common Shares outstanding	Number of treasury shares	Additional paid-in capital	Common Shares held in treasury	Accumulated deficit	Accumulated other comprehensive income (loss)	Noncontrolling interest	Total shareholders' equity
BALANCE, JANUARY 1, 2011	25,393	601	$ 161,587	$ (1,118)	$ (77,620)	$ 4,062	$ 4,308	$ 91,219
Net income (loss)	-	-	-	-	49,357	-	(3,820)	45,537
Unrealized gain on marketable securities	-	-	-	-	-	16	-	16
Unrealized loss on derivatives	-	-	-	-	-	(7,722)	-	(7,722)
Currency translation adjustments	-	-	-	-	-	(5,971)	-	(5,971)
Business acquisition	647	-	5,113				48,727	53,840
Capital contribution from noncontrolling interest	-	-	-	-	-	-	397	397
Exercise of share options	19	-	194	-	-	-	-	194
Issuance of restricted Common Shares	437	-	-	-	-	-	-	-
Forfeited restricted Common Shares	(223)	223	-	-	-	-	-	-
Repurchased Common Shares for treasury	(51)	51	-	(752)	-	-	-	(752)
Share-based compensation matters	-	-	3,881	-	-	-	-	3,881
BALANCE, DECEMBER 31, 2011	26,222	875	170,775	(1,870)	(28,263)	(9,615)	49,612	180,639
Net income (loss)	-	-	-	-	5,361	-	(1,613)	3,748
Benefit plan liability adjustments	-	-	-	-	-	(27)	-	(27)
Unrealized gain on derivatives	-	-	-	-	-	9,862	-	9,862
Currency translation adjustments	-	-	-	-	-	(10,502)	(3,918)	(14,420)
Business acquisition	1,294	-	10,197	-	-	-	-	10,197

Issuance of restricted Common Shares	653	(611)	(1,258)	1,258	-	-	-	-
Forfeited restricted Common Shares	(142)	142	-	-	-	-	-	-
Repurchased Common Shares for treasury	(114)	114	-	(1,273)	-	-	-	(1,273)
Share-based compensation matters	-	-	5,108	-	-	-	-	5,108
BALANCE, DECEMBER 31, 2012	27,913	520	184,822	(1,885)	(22,902)	(10,282)	44,081	193,834
Net income	-	-	-	-	15,131	-	1,377	16,508
Unrealized loss on derivatives	-	-	-	-	-	(2,251)	-	(2,251)
Currency translation adjustments	-	-	-	-	-	(17,925)	(5,706)	(23,631)
PST dividends	-	-	-	-	-	-	(212)	(212)
Issuance of restricted Common Shares	883	(513)	(1,882)	1,882	-	-	-	-
Forfeited restricted Common Shares	(233)	233	-	-	-	-	-	-
Repurchased Common Shares for treasury	(80)	80	-	(516)	-	-	-	(516)
Share-based compensation matters	-	-	4,802	-	-	-	-	4,802
BALANCE, DECEMBER 31, 2013	28,483	320	$ 187,742	$ (519)	$ (7,771)	$ (30,458)	$ 39,540	$ 188,534

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

1. Organization and Nature of Business

Stoneridge, Inc. and its subsidiaries are global designers and manufacturers of highly engineered electrical and electronic components, modules and systems for the commercial, automotive, agricultural, motorcycle and off-highway vehicle markets.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Stoneridge, Inc. and its wholly-owned and majority-owned subsidiaries (collectively, the “Company”). Intercompany transactions and balances have been eliminated in consolidation. The Company analyzes its ownership interests in accordance with Accounting Standards Codification “ASC” Topic 810 to determine whether they are VIE’s and, if so, whether the Company is the primary beneficiary. The Company’s investment in Minda Stoneridge Instruments Ltd. (“Minda”) at December 31, 2013, 2012 and 2011 was determined under the provisions of ASC Topic 810 to be an unconsolidated entity and was accounted for under the equity method of accounting based on our 49% noncontrolling interest.

On December 31, 2011, the Company completed the acquisition of an additional 24% controlling interest in PST Eletrônica Ltda. (“PST”). As a result, the Company owns 74% of the outstanding equity of PST.

PST’s results for the years ended December 31, 2013 and 2012 were consolidated such that 100% of PST’s operations were included in each line from net sales through net income in the Company’s consolidated statements of operations with the 26% noncontrolling interest reduced (increased) in the net income (loss) attributable to noncontrolling interest line.

PST’s results for the year ended December 31, 2011 were accounted for as an unconsolidated joint venture under the equity method of accounting such that our 50% portion of PST’s after-tax earnings were included within equity in

earnings of investees in the consolidated statements of operations as a controlling interest in PST was not acquired until the close of business on December 31, 2011.

Accounting Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including certain self-insured risks and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Because actual results could differ from those estimates, the Company revises its estimates and assumptions as new information becomes available.

Cash and Cash Equivalents

The Company's cash and cash equivalents are actively traded money market funds with short-term investments in marketable securities, primarily U.S. government securities. Cash and cash equivalents are stated at cost, which approximates fair value, due to the highly liquid nature and short-term duration of the underlying securities.

Accounts Receivable and Concentration of Credit Risk

Revenues are principally generated from the commercial, automotive, agricultural, motorcycle and off-highway vehicle markets. The Company's largest customers were Deere & Company ("Deere") and Navistar International Corporation ("Navistar"), primarily related to the Wiring reportable segment, and accounted for the following percentages of consolidated net sales for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Deere	14 %	13 %	15 %
Navistar	13 %	18 %	24 %

Accounts receivable are recorded at the invoice price net of an estimate of allowance for doubtful accounts and other reserves.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

Allowance for Doubtful Accounts

The Company evaluates the collectability of accounts receivable based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, a specific allowance for doubtful accounts is recorded against amounts due to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. Additionally, the Company reviews historical trends for collectability in determining an estimate for its allowance for doubtful accounts. If economic circumstances change substantially, estimates of the recoverability of amounts due to the Company could be reduced by a material amount. The Company does not have collateral requirements with its customers.

Inventories

Inventories are valued at the lower of cost (using either the first-in, first-out ("FIFO") or average cost methods) or market. The Company evaluates and adjusts as necessary its excess and obsolescence reserve on a quarterly basis. Excess inventories are quantities of items that exceed anticipated sales or usage for a reasonable period. The Company has guidelines for calculating provisions for excess inventories based on the number of months of inventories on hand compared to anticipated sales or usage. Management uses its judgment to forecast sales or usage and to determine what constitutes a reasonable period. Inventory cost includes material, labor and overhead. Inventories consist of the following:

As of December 31	2013	2012
Raw materials	$71,631	$64,340
Work-in-progress	16,168	13,621
Finished goods	26,259	18,071
Total inventories, net	$114,058	$96,032

Inventory valued using the FIFO method was $67,750 and $57,004 at December 31, 2013 and 2012, respectively. Inventory valued using the average cost method was $46,308 and $39,028 at December 31, 2013 and 2012, respectively.

Pre-production Costs Related to Long-term Supply Arrangements

Engineering, research and development and other design and development costs for products sold on long-term supply arrangements are expensed as incurred unless the Company has a contractual guarantee for reimbursement from the customer. Costs for molds, dies and other tools used to make products sold on long-term supply arrangements for which the Company either has title to the assets or has the noncancelable right to use the assets during the term of the supply arrangement are capitalized in property, plant and equipment and amortized to cost of sales over the shorter of the term of the arrangement or over the estimated useful lives of the assets, typically three to five years. Costs for molds, dies and other tools used to make products sold on long-term supply arrangements for which the Company has a contractual guarantee to a lump sum reimbursement from the customer are capitalized as a component of prepaid expenses and other current assets within the consolidated balance sheets. The amounts recorded related to these pre-production costs as of December 31, 2013 and 2012 were $12,944 and $8,631, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and consist of the following:

As of December 31	2013	2012
Land and land improvements	$4,861	$5,117
Buildings and improvements	43,630	45,940
Machinery and equipment	208,243	196,003
Office furniture and fixtures	8,351	8,856
Tooling	70,050	71,045
Information technology	33,759	33,009
Vehicles	426	1,456
Leasehold improvements	3,447	3,560
Construction in progress	14,336	17,656
Total property, plant, and equipment	387,103	382,642
Less: accumulated depreciation	(276,231)	(263,495)
Property, plant and equipment, net	$110,872	$119,147

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended December 31, 2013, 2012 and 2011 was $28,989, $28,519 and $18,847, respectively. Depreciable lives within each property classification are as follows:

Buildings and improvements	10-40 years
Machinery and equipment	3-10 years
Office furniture and fixtures	3-10 years
Tooling	2-5 years
Information technology	3-5 years
Vehicles	3-5 years
Leasehold improvements	shorter of lease term or 3-10 years

Maintenance and repair expenditures that are not considered improvements and do not extend the useful life of the property, plant and equipment are charged to expense as incurred. Expenditures for improvements and major renewals are capitalized. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss on the disposition is recorded in the consolidated statements of

operations as a component of selling, general and administrative expenses.

Impairment of Long-Lived or Finite-Lived Assets

The Company reviews the carrying value of its long-lived assets and finite-lived intangible assets for impairment when events or circumstances indicate that their carrying value may not be recoverable. Factors the Company considers important that could trigger testing of the related asset groups for an impairment include current period operating or cash flow losses combined with a history of operating or cash flow losses, a projection or forecast that demonstrates continuing losses, significant adverse changes in the business climate within a particular business or current expectations that a long-lived asset will be sold or otherwise disposed of significantly before the end of its estimated useful life. To test for impairment, the estimated undiscounted cash flows expected to be generated from the use and disposal of the asset or asset group is compared to its carrying value. An asset group is established by identifying the lowest level of cash flows generated by the group of assets that are largely independent of cash flows of other assets. If cash flows cannot be separately and independently identified for a single asset, we will determine whether an impairment has occurred for the group of assets for which we can identify projected cash flows. If these undiscounted cash flows are less than their respective carrying values, an impairment charge would be recognized to the extent that the carrying values exceed estimated fair values. Although third-party estimates of fair value are utilized when available, the estimation of undiscounted cash flows and fair value requires us to make assumptions regarding future operating results. The results of the impairment testing are dependent on these estimates which require judgment. The occurrence of certain events, including changes in economic and competitive conditions, could impact cash flows eventually realized and management’s ability to accurately assess whether an asset is impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

During the year ended December 31, 2011, the Company recorded an impairment charge of $807 in its Wiring reportable segment related to certain capitalized software costs that were determined to no longer represent a future realizable benefit. This charge is recorded in the consolidated statements of operations as a component of selling, general and administrative expenses. No material impairment charges were recorded in 2013 or 2012 for long-lived or finite-lived intangible assets.

Acquisitions

PST Eletrônica Ltda.

On December 31, 2011, the Company acquired a controlling interest in PST, by increasing its interest from 50% to 74%. Prior to the acquisition of the additional interest, the PST joint venture was accounted for under the equity method of accounting. On the date of acquisition of controlling interest, PST became a consolidated subsidiary and a new reportable segment of the Company. PST’s results of operations were consolidated and included in the Company’s consolidated statements of operations, comprehensive income and cash flows for the year ended December 31, 2013 and 2012. For the year ended December 31, 2011, PST’s results of operations and cash flows were included in the Company’s consolidated statements of operations and cash flows as equity in earnings of investees. PST’s financial position is included in the consolidated balance sheets at December 31, 2013 and 2012.

As a result of obtaining a controlling interest in PST, the Company’s previously held 50% equity interest in PST of $38,746 was remeasured to an acquisition date fair value of $104,118. The Company recognized a one-time non-cash pre-tax gain on previously held equity interest of $65,372 as a result of this remeasurment in the fourth quarter of 2011.

The acquisition date fair value of the total consideration transferred consisted of the following:

Cash	$29,669
Common Shares (1,940,413 shares)	15,310
Fair value of consideration transferred	44,979
Fair value of the Company's previously held equity interest	104,118

Fair value of noncontrolling interest	48,727
Total fair value of PST	$197,824

Of the $44,979 consideration transferred for the additional 24% interest, $29,976 ($19,779 of cash and $10,197 of the fair value of 1,293,609 Company Common Shares) was transferred on January 5, 2012, in accordance with the terms of the purchase agreement.

The fair value of the Common Shares transferred was based on the closing market price of the Company's Common Shares on the acquisition date, less a discount for a lack of short-term marketability as the Common Shares transferred were issued through a private placement.

Goodwill of $67,118 was calculated as the excess of the fair value of consideration transferred over the fair market value of the identifiable assets and liabilities and represents the future economic benefits arising from other assets acquired that could not be separately recognized. Goodwill is reported in the Company's PST segment and is not deductible for income tax purposes.

The Company identified $97,398 of intangible assets that include; $47,126 assigned to customer lists with a 15 year useful life; $31,400 assigned to trademarks with a 20 year useful life; and $18,872 assigned to technology with a 17 year weighted-average useful life. The fair value of the identifiable intangible assets was determined using an income approach.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

The following unaudited pro forma information reflects the Company's consolidated results of operations as if the acquisition had occurred on January 1, 2011. The unaudited pro forma information is not necessarily indicative of the results of operations that the Company would have reported had the transaction actually occurred at the beginning this period, nor is it necessarily indicative of future results.

Years ended December 31	2011
Net sales	$999,553
Net income attributable to Stoneridge, Inc.	$10,608

The unaudited pro forma financial information presented in the table above has been adjusted to give effect to adjustments that are directly related to the business combination and factually supportable. These tax affected adjustments include, but are not limited to depreciation and amortization related to fair value adjustments to property, plant, and equipment, intangible assets and inventory.

Bolton Conductive Systems, LLC

On October 13, 2009, the Company acquired a 51% controlling interest in Bolton Conductive Systems, LLC ("BCS") for a purchase price of $5,967, net of cash acquired. BCS designs and manufactures a wide variety of electrical solutions for the military, automotive, marine and specialty vehicle markets. The Company purchased the remaining 49% noncontrolling interest in BCS in February 2013 for a nominal amount, which was treated as an equity transaction.

During the period from February 2013 through December 2013, 100% of BCS results of operations were included in the Company's consolidated statements of operations. During the years ended December 31, 2012 and 2011, 49% of BCS's results were included within loss attributable to noncontrolling interest within the consolidated statements of operations.

Goodwill and Other Intangible Assets

The total purchase price associated with acquisitions is allocated to the acquisition date fair values of identifiable assets acquired and liabilities assumed, with the excess purchase price assigned to goodwill.

In 2011, the Company recorded goodwill of $67,118 related to the acquisition of PST (see Acquisitions above). In 2009, the Company recorded goodwill of $9,118 within the Wiring segment related to the BCS acquisition. The goodwill related to these acquisitions is not deductible for income tax purposes. The remainder of the December 31, 2013 and 2012 goodwill balance relates to the 2008 acquisition of Magnum Trade AB, which is included within the Electronics segment.

Goodwill as of December 31, 2013 and 2012, and changes in the carrying amount of goodwill by segment were as follows:

	Electronics	Wiring	Control Devices	PST	Total
Balance at January 1, 2012	$ 564	$4,173	$ -	$67,118	$71,855
Currency translation	34	-	-	(5,508)	(5,474)
Balance at December 31, 2012	598	4,173	-	61,610	66,381
Currency translation	6	-	-	(7,866)	(7,860)
Balance at December 31, 2013	$ 604	$4,173	$ -	$53,744	$58,521

Goodwill is subject to an annual assessment for impairment (or more frequently if impairment indicators arise) by applying a fair value-based test.

The Company performed its annual impairment test of goodwill as of the beginning of the fourth quarter. The Company utilized an income approach (discounted cash flow method) valuation technique in determining the fair value of the Company’s applicable reporting units in the annual impairment test of goodwill. The discounted cash flow method utilizes a market-derived rate of return to discount anticipated performance.

The income approach methodology is applied to the reporting units’ projected future financial performance. The impairment review is highly judgmental and involves the use of significant estimates and assumptions. These estimates and assumptions have a significant impact on the amount of impairment charge recorded, if any. The discounted cash flow method is dependent upon assumption of future sales trends, market conditions and cash flows of each reporting unit over several years. Actual cash flows in the future may differ significantly from those previously forecasted. Other significant assumptions include growth rates and the discount rate applicable to future cash flows.

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During the year ended December 31, 2011, the Company recorded a goodwill impairment charge of $4,945 within the Wiring reportable segment. The goodwill impairment charge reduced the carrying value of BCS goodwill to $4,173 and was the result of a decline in business activity due to a reduction in military and defense related spending by customers since the Company's acquisition of BCS. No impairment was identified in the Wiring segment for the years ended December 31, 2013 or 2012.

The Company's accumulated goodwill impairment loss for the years ended December 31, 2013 and 2012 was $253,570.

Intangible assets, net at December 31, 2013 and 2012 consisted of the following:

As of December 31, 2013	Acquisition cost	Accumulated amortization	Net
Customer lists	$ 38,451	$ (5,402)	$33,049
Trademarks	25,572	(2,943)	22,629
Technology	15,111	(1,947)	13,164
Other	57	(57)	-
Total	$ 79,191	$ (10,349)	$68,842

As of December 31, 2012	Acquisition cost	Accumulated amortization	Net
Customer lists	$ 43,973	$ (3,166)	$40,807
Trademarks	29,252	(1,870)	27,382
Technology	17,323	(1,115)	16,208
Other	66	(66)	-
Total	$ 90,614	$ (6,217)	$84,397

The Company recognized $5,275, $5,940 and $238 of amortization expense in 2013, 2012 and 2011, respectively. Amortization expense is included as a component of selling, general and administrative on the consolidated statements of operations. Amortization expense for intangible assets is estimated to be approximately $5,000 for the years 2014 through 2019 and the weighted-average remaining amortization period is approximately 15 years.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

As of December 31	2013	2012
Compensation related liabilities	$24,631	$22,620
Product warranty and recall obligations	5,462	5,613
Other [A]	26,558	28,848
Total accrued expenses and other current liabilities	$56,651	$57,081

(A) "Other" is comprised of miscellaneous accruals, none of which contributed a significant portion of the total.

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Income Taxes

The Company accounts for income taxes using the liability method. Deferred income taxes reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not to occur.

The Company's policy is to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2013, the Company believes it has appropriately accounted for any unrecognized tax benefits (see Note 5). To the extent the Company prevails in matters for which a liability for an unrecognized tax benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected.

Currency Translation

The financial statements of foreign subsidiaries, where the local currency is the functional currency, are translated into U.S. dollars using exchange rates in effect at the period end for assets and liabilities and average exchange rates during each reporting period for the results of operations. Adjustments resulting from translation of financial statements are reflected as a component of accumulated other comprehensive loss. Foreign currency transactions are remeasured into the functional currency using translation rates in effect at the time of the transaction, with the resulting adjustments included on the consolidated statements of operations within other expense, net. These foreign currency transaction losses, including the impact of hedging activities, were $1,752, $4,275 and $106 for the years ended December 31, 2013, 2012 and 2011, respectively.

Revenue Recognition and Sales Commitments

The Company recognizes revenues from the sale of products, net of actual and estimated returns, at the point of passage of title, which is either at the time of shipment or upon customer receipt based upon the terms of the sale. The Company collects certain taxes and fees on behalf of government agencies and remits such collections on a periodic

basis. The taxes are collected from customers but are not included in net sales. Estimated returns are based on historical authorized returns. The Company often enters into agreements with its customers at the beginning of a given vehicle's expected production life. Once such agreements are entered into, it is the Company's obligation to fulfill the customers' purchasing requirements for the entire production life of the vehicle. These agreements are subject to renegotiation, which may affect product pricing.

Shipping and Handling Costs

Shipping and handling costs are included in cost of goods sold on the consolidated statements of operations.

Product Warranty and Recall Reserves

Amounts accrued for product warranty and recall claims are established based on the Company's best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet dates. These accruals are based on several factors including past experience, production changes, industry developments and various other considerations. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend or settle such claims beyond the amounts accrued or beyond what the Company may recover from its suppliers. The current portion of the product warranty and recall reserve is included as a component of accrued expenses and other current liabilities on the consolidated balance sheets. Product warranty and recall includes $1,019 and $494 of a long-term liability at December 31, 2013 and 2012, respectively, which is included as a component of other long-term liabilities on the consolidated balance sheets.

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The following provides a reconciliation of changes in the product warranty and recall reserve:

Years ended December 31	2013	2012
Product warranty and recall at beginning of period	$6,107	$5,301
Accruals for products shipped during period	4,793	3,288
Aggregate changes in pre-existing liabilities due to claim developments	1,715	1,062
Settlements made during the period (in cash or in kind)	(6,134)	(3,544)
Product warranty and recall at end of period	$6,481	$6,107

Product Development Expenses

Expenses associated with the development of new products and changes to existing products are charged to expense as incurred and are included in the Company’s consolidated statements of operations as a component of selling, general and administrative. These product development costs amounted to $45,261, $44,798 and $35,263 in years ended December 31, 2013, 2012 and 2011, respectively, or 4.8%, 4.8% and 4.6% of net sales for these respective periods.

Share-Based Compensation

At December 31, 2013, the Company had three types of share-based compensation plans: (1) Long-Term Incentive Plan, as amended, (2) Directors’ Share Option Plan and (3) the Amended Directors’ Restricted Shares Plan. One plan is for employees and two plans are for non-employee directors. The Long-Term Incentive Plan is made up of the Long-Term Incentive Plan that was approved by the Company's shareholders on September 30, 1997, which expired on June 30, 2007, and the Amended and Restated Long-Term Incentive Plan, as amended, that was approved by shareholders on May 17, 2010, and expires on April 24, 2016.

Total compensation expense recognized as a component of selling, general and administrative on the consolidated statements of operations for share-based compensation arrangements was $4,974, $4,890 and $4,423 for the years ended December 31, 2013, 2012 and 2011, respectively. Of these amounts, $155, $47 and $375 for the years ended December 31, 2013, 2012 and 2011, respectively, were related to the Long-Term Cash Incentive Plan “Phantom Shares” discussed in Note 8. There was no share-based compensation expense capitalized in inventory during 2013, 2012 or 2011.

Financial Instruments and Derivative Financial Instruments

Financial instruments, including derivative financial instruments, held by the Company include cash and cash equivalents, accounts receivable, accounts payable, long-term debt, an interest rate swap, fixed price commodity contracts and foreign currency forward contracts. The carrying value of cash and cash equivalents, accounts receivable and accounts payable is considered to be representative of fair value because of the short maturity of these instruments. See Note 9 for fair value disclosures of the Company’s financial instruments.

Common Shares Held in Treasury

The Company accounts for Common Shares held in treasury under the cost method and includes such shares as a reduction of total shareholders’ equity.

Net Income Per Share

Basic net income per share was computed by dividing net income by the weighted-average number of Common Shares outstanding for each respective period. Diluted net income per share was calculated by dividing net income by the weighted-average of all potentially dilutive Common Shares that were outstanding during the periods presented.

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Actual weighted-average Common Shares outstanding used in calculating basic and diluted net income per share were as follows:

Years ended December 31	2013	2012	2011
Basic weighted-average shares outstanding	26,670,501	26,377,352	24,180,671
Effect of dilutive securities	522,984	654,518	464,258
Diluted weighted-average shares outstanding	27,193,485	27,031,870	24,644,929

Options not included in the computation of diluted net income per share to purchase 20,000, 59,000 and 50,000 Common Shares at an average price of $15.73, $12.20 and $15.73 per share were outstanding at December 31, 2013, 2012 and 2011, respectively. These outstanding options were not included in the computation of diluted net income per share because their respective exercise prices were greater than the average closing market price of Company Common Shares.

There were 663,750, 635,850 and 419,100 performance-based restricted Common Shares outstanding at December 31, 2013, 2012 and 2011, respectively. These shares were not included in the computation of diluted net income per share because all vesting conditions have not been and are not expected to be achieved as of December 31, 2013, 2012 and 2011. These shares may become dilutive based on the Company’s ability to meet or exceed future performance targets.

Deferred Finance Costs

Deferred finance costs are being amortized over the life of the related financial instrument using the straight-line method, which approximates the effective interest method. The 2.5% discount to the initial purchasers of the Company’s senior secured notes is being accreted using the effective interest rate of 10.0% over the life of the senior secured notes. Deferred finance cost amortization and debt discount accretion for the years ended December 31, 2013, 2012 and 2011 was $961, $862 and $875, respectively, and is included as a component of interest expense, net on the consolidated statements of operations. As of December 31, 2013 and 2012, deferred financing costs, net were $1,168 and $1,564, respectively and were included on the consolidated balance sheets as a component of investments and other long-term assets, net.

Changes in Accumulated Other Comprehensive Loss by Component

Changes in accumulated other comprehensive loss for the years ended December 31, 2013 and 2012 were as follows:

	Foreign currency translation	Derivatives	Benefit plan liability	Total
Balance at January 1, 2013	$ (12,410)	$ 2,140	$ (12)	$ (10,282)
Other comprehensive loss before reclassifications	(17,925)	(325)	-	(18,250)
Amounts reclassified from accumulated other comprehensive loss	-	(1,926)	-	(1,926)
Net other comprehensive loss, net of tax	(17,925)	(2,251)	-	(20,176)
Balance at December 31, 2013	$ (30,335)	$ (111)	$ (12)	$ (30,458)
Balance at January 1, 2012	$ (1,908)	$ (7,722)	$ 15	$ (9,615)
Other comprehensive income (loss) before reclassifications	(10,502)	7,106	-	(3,396)
Amounts reclassified from accumulated other comprehensive loss	-	2,756	(27)	2,729
Net other comprehensive income (loss), net of tax	(10,502)	9,862	(27)	(667)
Balance at December 31, 2012	$ (12,410)	$ 2,140	$ (12)	$ (10,282)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standards update requiring new disclosures about reclassifications from accumulated other comprehensive loss to net income. These disclosures may be presented on the face of the statements or in the notes to the consolidated financial statements. The standards update is effective for fiscal years beginning after December 15, 2012. We adopted this standards update on January 1, 2013 and revised our disclosures, see above.

In December 2011, the FASB issued an accounting standards update requiring new disclosures about financial instruments and derivative instruments that are either offset by or subject to an enforceable master netting arrangement or similar agreement. The standards update is effective for fiscal years beginning after December 15, 2012. We adopted this standards update on January 1, 2013 which had no impact on our disclosures.

Reclassifications

Certain prior period amounts have been reclassified to conform to their 2013 presentation in the consolidated financial statements.

3. Investments

Minda Stoneridge Instruments Ltd.

The Company has a 49% interest in Minda, a company based in India that manufactures electronics, instrumentation equipment and sensors for the motorcycle and commercial vehicle markets. The investment is accounted for under the equity method of accounting. The Company’s investment in Minda, recorded as a component of investments and other long-term assets, net on the consolidated balance sheets, was $5,981 and $6,215 as of December 31, 2013 and 2012, respectively. Equity in earnings of Minda included in the consolidated statements of operations was $476, $760 and $1,229 for the years ended December 31, 2013, 2012 and 2011, respectively.

PST Eletrônica Ltda.

The Company has a 74% controlling interest in PST for the years ended December 31, 2013 and 2012. Noncontrolling interest in PST decreased by $4,537 to $39,540 at December 31, 2013 due to a change in foreign currency translation of $5,706 and a dividend of $212 partially offset by a proportionate share of its net income of $1,381 for the year ended December 31, 2013. Noncontrolling interest in PST decreased by $4,651 to $44,076 at December 31, 2012 due to a change in foreign currency translation of $3,918 and a proportionate share of its net loss of $733 for the year ended December 31, 2012. Comprehensive loss related to the PST noncontrolling interest was $4,325 and $4,651 for the years ended December 31, 2013 and 2012, respectively.

Prior to the acquisition of controlling interest on December 31, 2011, PST was an unconsolidated joint venture accounted for under the equity method of accounting. Condensed financial information of PST for the year ended December 31, 2011 was as follows:

Net sales	$234,160
Cost of goods sold	$132,489
Total income before income taxes	$20,995
The Company's share of income before income taxes	$10,498

Equity in earnings of PST included in the consolidated statements of operations was $8,805 for the year ended December 31, 2011.

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4. Debt

	Principal Outstanding at December 31, 2013	December 31, 2012	Weighted Average Interest as of December 31, 2013	Maturity
Revolving Credit Facilities				
Asset-based credit facility	$ -	$ -	N/A	Dec - 2016
BCS revolver	-	1,160	N/A	Feb - 2013
Total revolving credit facilities	$ -	$ 1,160		
Debt				
Senior secured notes, net of discount and swap fair value adjustment (A)	$ 173,061	$ 173,916	9.50 %	Oct - 2017
PST short-term notes	4,822	16,161	1.70% - 16.56 %	Various 2014
PST long-term notes	16,896	8,155	4.00% - 5.50 %	2014 - 2019
Suzhou note	1,487	1,445	7.00 %	Feb - 2014
Other	966	559		
Total debt	197,232	200,236		
Less: current portion	(12,187)	(18,925)		
Total long-term debt, net	$ 185,045	$ 181,311		

(A) Weighted-average interest rate excludes the impact of the Company's interest rate swap and the accretion of debt discount.

Revolving Credit Facilities

On November 2, 2007, the Company entered into an asset-based credit facility (the "Credit Facility"), which permits borrowing up to a maximum level of $100,000. The Company entered into an Amended and Restated Credit and Security Agreement and a Second Amended and Restated Credit and Security Agreement (the "Second Amended and Restated Agreement") on September 20, 2010 and December 1, 2011, respectively. The Second Amended and Restated Agreement extended the termination date of the Credit Facility to December 1, 2016, increased the borrowing base by increasing the sublimit on eligible inventory located at Mexican facilities and made changes to certain covenants relating to, among other things, guarantees, investments, capital expenditures and permitted indebtedness. The Credit

Facility requires a commitment fee of 0.375% on the unused balance. Interest is payable quarterly at either (i) the higher of the prime rate or the Federal Funds rate plus 0.50%, plus a margin of 0.00% to 0.25% or (ii) LIBOR plus a margin of 1.00% to 1.75%, depending upon the Company's undrawn availability, as defined.

The available borrowing capacity on the Credit Facility is based on eligible current assets, as defined. At December 31, 2013 and 2012, the Company had undrawn borrowing capacity of approximately $71,072 and $74,060, respectively, based on eligible current assets. The Credit Facility contains financial performance covenants which would only constrain the Company's borrowing capacity if our undrawn availability falls below $20,000. However, restrictions include limits on capital expenditures, operating leases, dividends and investment activities in a negative covenant which limits investment activities to $15,000 minus certain guarantees and obligations.

The Company was in compliance with all Credit Facility covenants at December 31, 2013 and 2012.

On October 13, 2009, BCS entered into a master revolving note (the "BCS Revolver"), subject to an annual renewal, which permitted borrowing up to a maximum level of $3,000. At December 31, 2012, the Company had outstanding borrowings under this facility of $1,160 and did not have any remaining borrowing capacity based on an advance formula, as defined. The BCS Revolver was paid off and the agreement was terminated in February 2013.

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Debt

On October 4, 2010, the Company issued $175,000 of senior secured notes which were included as a component of long-term debt, net on the consolidated balance sheets. The senior secured notes were issued at a 2.5% discount to the initial purchasers for which the remaining balance at December 31, 2013 and 2012 was $2,732 and $3,296, respectively. The senior secured notes are redeemable in full, at the Company’s option, beginning October 15, 2014 at 104.75%. Interest payments are payable on April 15 and October 15 of each year. The senior secured notes indenture limits the amount of the Company and its restricted subsidiaries’ indebtedness, restricts certain payments and includes various other non-financial restrictive covenants. The Company was in compliance with all covenants at December 31, 2013 and 2012. The senior secured notes are guaranteed by all of the Company’s existing domestic restricted subsidiaries. All other restricted subsidiaries that guarantee any indebtedness of the Company or the guarantors will also guarantee the senior secured notes.

Our consolidated subsidiary, PST ,maintains several term notes used for working capital purposes including a new term loan (the "PST note") entered into on March 19, 2013 for 25,000 Brazilian real which had a U.S. dollar equivalent outstanding balance of $10,697 at December 31, 2013. The PST note matures on February 15, 2016 with interest payable monthly at a fixed interest rate of 5.5%. PST's other short-term and long-term notes also have fixed interest rates. Depending on the specific note, interest is payable either monthly or annually. The noncurrent portion of the PST long-term notes at December 31, 2013 is $11,909 and mature as follows: $6,616 in 2015, $2,122 in 2016 and $1,057 annually in 2017 through 2019. As of December 31, 2013 and 2012, PST was in compliance with all note covenants.

On August 29, 2012, the Company's wholly-owned subsidiary located in Suzhou, China entered into a term loan for 9,000 Chinese yuan which matured in August 2013. On August 21, 2013, the subsidiary entered into a new term loan for 9,000 Chinese yuan (the "Suzhou note"). The U.S. dollar equivalent outstanding loan balance was $1,487 and $1,445 at December 31, 2013 and 2012, respectively, under these term loan agreements. The Suzhou note is included on the consolidated balance sheets as a component of current portion of long-term debt. Interest is payable quarterly at 125.0% of the one-year lending rate published by The People's Bank of China.

The Company's wholly-owned subsidiary located in Stockholm, Sweden, has an overdraft credit line which allows overdrafts on the subsidiary's bank account up to a maximum level of 20,000 Swedish krona, or $3,107 and $3,075, at December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, there were no overdrafts on this bank account.

At December 31, 2013, the future maturities of long-term debt were as follows:

Year ended December 31	
2014	$12,187
2015	6,691
2016	177,122
2017	1,057
2018	1,057
Thereafter	1,057
Total	$199,171

5. Income Taxes

The provision for income taxes included in the accompanying consolidated financial statements represents federal, state and foreign income taxes. The components of income before income taxes and the provision for income taxes consist of the following:

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Years ended December 31	2013	2012	2011
Income (loss) before income taxes:			
Domestic	$(1,118)	$3,411	$62,510
Foreign	21,852	1,149	9,132
Total income before income taxes	$20,734	$4,560	$71,642
Provision for income taxes:			
Current:			
Federal	$-	-	-
State and foreign	7,307	3,545	2,167
Total current provision	7,307	3,545	2,167
Deferred:			
Federal	-	98	23,443
State and foreign	(3,081)	(2,831)	495
Total deferred provision (benefit)	(3,081)	(2,733)	23,938
Total provision for income taxes	$4,226	$812	$26,105

A reconciliation of the Company’s effective income tax rate to the statutory federal tax rate is as follows:

Years ended December 31	2013	2012	2011
Statutory U.S. deferal income tax rate	35.0 %	35.0 %	35.0%
State income taxes, net of federal tax benefit	2.7	3.8	0.2
Tax credits	(4.7)	-	(1.4)
Foreign tax rate differential	(16.5)	(16.1)	(1.4)
Reduction (increase) of income tax accruals	(1.3)	0.5	0.1
Tax on foreign dividends, net of foreign tax credits	(3.2)	45.6	1.1
Reduction of deferred taxes	3.6	6.4	0.3
Valuation allowances	2.2	(78.3)	(1.4)
Loss of domestic flow-through entity not attributable to Stoneridge, Inc.	-	6.8	1.9
Non-deductible compensation	3.4	12.8	0.3
Other	(0.8)	1.3	1.7
Effective income tax rate	20.4 %	17.8 %	36.4%

The Company recognized a provision for income taxes of $4,226 or 20.4%, $812 or 17.8% and $26,105 or 36.4% of income before income tax for federal, state and foreign income taxes for the years ended December 31, 2013, 2012 and 2011, respectively. The increase in tax expense for the year ended December 31, 2013 compared to the same period for 2012 was related to the improved financial performance of our Swedish and Brazilian operations. The

results of our U.S. operations do not impact tax expense due to the valuation allowance. However, the income or loss of the U.S. operations does impact the effective tax rate. The effective tax rate for 2013 increased primarily due to a decline in the financial performance of the U.S. operations.

A deferred tax liability of $456 has been recorded related to earnings that are not considered indefinitely reinvested related to Brazil. The Company has not recorded deferred income taxes on the remaining undistributed earnings of its foreign subsidiaries because of management's intent and ability to indefinitely reinvest such earnings. At December 31, 2013 the aggregate undistributed earnings of our foreign subsidiaries amounted to $27,509 The Company may be subject to U.S. income taxes and foreign withholding taxes if these earnings were distributed. It is not practical to estimate the amount of taxes, if any, that may be payable on these earnings as that estimate depends upon circumstances that would exist at the time a remittance occurs.

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Significant components of the Company's deferred tax assets and liabilities were as follows:

As of December 31	2013	2012
Deferred tax assets:		
Inventories	$2,943	$3,200
Employee salary and benefits	3,653	3,860
Insurance	489	562
Depreciation and amortization	2,359	10,029
Net operating loss carryforwards	45,859	39,834
General business credit carryforwards	12,900	11,897
Reserves not currently deductible	8,883	9,643
Gross deferred tax assets	77,086	79,025
Less: Valuation allowance	(71,827)	(71,790)
Deferred tax assets less valuation allowance	5,259	7,235
Deferred tax liabilities:		
Depreciation and amortization	(23,718)	(29,615)
Basis difference - equity investee	(31,016)	(31,016)
Other	(1,764)	(4,315)
Gross deferred tax liabilities	(56,498)	(64,946)
Net deferred tax liability	$(51,239)	$(57,711)

The Company has concluded based on objective evidence that at December 31, 2013 and 2012 it is more likely than not that sufficient taxable income will not be generated to utilize the remaining U.S. federal, and certain state and foreign, deferred tax assets before they expire and as such a valuation allowance has been recorded. The valuation allowance represents the amount of tax benefit related to U.S. federal, state and foreign net operating losses, credits and other deferred tax assets.

The Company has net operating loss carry forwards of $106,637, $96,260 and $22,381 for U.S. federal, state and foreign tax jurisdictions, respectively. The U.S. federal net operating losses, if unused, begin to expire in December 31, 2025, the state net operating losses expire at various times and the foreign net operating losses expire at various times or have indefinite expiration dates. The Company has general business and foreign tax credit carry forwards of $12,271, $2,005 and $1,908 for U.S. federal, state and foreign jurisdictions respectively. The U.S. federal general business credits, if unused, begin to expire in December 31, 2021, and the state and foreign tax credits expire at various times. The Company is required to provide a deferred tax liability corresponding to the difference between the financial reporting basis (which was remeasured to fair value upon the acquisition of an additional 24% of PST in

2011) and the tax basis in the previously held 50% ownership interest in PST (the “outside” basis difference). This outside basis difference will generally remain fixed until (1) dividends from the subsidiary exceed the parent’s share of earnings subsequent to the date it became a subsidiary or (2) there is a transaction that affects the Company’s ownership of PST.

During the fourth quarter of 2010 we undertook a secondary offering. As a result of the secondary offering a substantial change in our ownership occurred and we experienced an ownership change pursuant to Section 382 of the Code. There was no impact to current or deferred income taxes resulting from the ownership change.

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The following is a reconciliation of the Company's total gross unrecognized tax benefits:

	2013	2012	2011
Balance as of January 1	$**3,416**	$3,452	$3,101
Tax positions related to the current year:			
Additions	**217**	93	381
Tax positions related to the prior years:			
Additions	**216**	-	28
Reductions	**(71**)	(58)	-
Expirations of statutes of limitation	**(154**)	(71)	(58)
Balance as of December 31	$**3,624**	$3,416	$3,452

At December 31, 2013 the Company has classified $639 as a noncurrent liability and $3,329 as a reduction to non-current deferred income tax assets. The amount of unrecognized tax benefits is not expected to change significantly during the next 12 months. Management is currently unaware of issues under review that could result in a significant change or a material deviation in this estimate.

If the Company's tax positions at December 31, 2013 are sustained by the taxing authorities in favor of the Company, approximately $3,547 would affect the Company's effective tax rate.

Consistent with historical financial reporting, the Company has elected to classify interest expense and, if applicable, penalties which could be assessed related to unrecognized tax benefits as a component of income tax expense. For the years ended December 31, 2013, 2012 and 2011, the Company recognized approximately $(82), $64 and $67 of gross interest and penalties, respectively. The Company has accrued approximately $624 and $706 for the payment of interest and penalties at December 31, 2013 and 2012, respectively.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. The following table summarizes the open tax years for each important jurisdiction:

Jurisdiction	Open Tax Years
U.S. Federal	2010-2013
Brazil	2008-2013
China	2010-2013
France	2009-2013
Mexico	2009-2013
Spain	2009-2013
Sweden	2008-2013
United Kingdom	2009-2013

6. Operating Lease Commitments

The Company leases equipment, vehicles and buildings from third parties under operating lease agreements. For the years ended December 31, 2013, 2012 and 2011, lease expense totaled $8,447, $8,810 and $7,403, respectively.

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Future minimum operating lease commitments as of December 31, 2013 were as follows:

Year ended December 31,	
2014	$5,815
2015	3,146
2016	2,069
2017	1,882
2018	1,106
Thereafter	80
Total	$14,098

7. Share-Based Compensation Plans

In May 2002, the Company adopted the Director Share Option Plan (“Director Option Plan”). The Company reserved 500,000 Common Shares for issuance under the Director Option Plan. Under the Director Option Plan, the Company granted cumulative options to purchase 86,000 Common Shares to directors of the Company with exercise prices equal to the fair market value of the Company’s Common Shares on the date of grant. The options granted cliff-vested one year after the date of grant and have a contractual life of 10 years. The Director Option Plan expired in May 2012.

In April 2006, the Company’s shareholders approved the Amended and Restated Long-Term Incentive Plan (the "2006 Plan") and reserved 3,000,000 Common Shares of which the maximum number of Common Shares which may be issued subject to incentive stock options is 500,000. In May 2013, shareholders approved an amendment to the 2006 Plan to increase the number of shares from 3,000,000 to 4,500,000. Under the 2006 Plan, as of December 31, 2013, the Company has issued 3,319,200 restricted Common Shares, of which 2,145,300 are time-based with cliff vesting using the straight-line method and 1,173,900 are performance-based. Restricted Common Shares awarded under the Incentive Plan entitle the shareholder to all the rights of Common Share ownership except that the shares may not be sold, transferred, pledged, exchanged, or otherwise disposed of during the vesting period.

In 2008, pursuant to the 2006 Plan, the Company granted time-based restricted Common Share and performance-based restricted Common Share awards. The time-based restricted Common Share awards cliff vest three years after the grant date. The performance-based restricted Common Share awards vest and are no longer subject to forfeiture upon the recipient remaining an employee of the Company for three years from date of grant and upon achieving certain net income per share targets established by the Company.

In 2009, pursuant to the 2006 Plan, the Company granted time-based restricted Common Share awards. These restricted Common Share awards cliff vest three years after the grant date.

In 2010 and 2013, pursuant to the 2006 Plan, the Company granted time-based restricted Common Share and market-based restricted Common Share awards. The time-based restricted Common Share awards cliff vest three years after the date of grant. The performance-based restricted Common Share awards vest and are no longer subject to forfeiture upon the recipient remaining an employee of the Company for three years from the date of grant and upon the Company attaining certain targets of performance measured against a peer group's performance in terms of total return to shareholders.

In 2011 and 2012, pursuant to the 2006 Plan, the Company granted time-based, market-based and performance-based restricted Common Share awards. The time-based restricted Common Share awards cliff vest three years after the date of grant. The performance-based restricted Common Share awards vest and are no longer subject to forfeiture upon the recipient remaining an employee of the Company for three years from the date of grant and, for one half of the annual awards, upon the Company attaining certain targets of performance measured against a peer group's performance in terms of total shareholder return and, for the remaining half of the annual awards, upon achieving certain annual net income per share targets established by the Company during the performance period of the award.

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In April 2005, the Company adopted the Directors' Restricted Shares Plan ("Director Share Plan") and reserved 500,000 Common Shares for issuance under the Director Share Plan. In May 2013, shareholders approved an amendment to the Director Share Plan to increase the number of shares for issuance from 500,000 to 700,000. Under the Director Share Plan, the Company has cumulatively issued 435,534 restricted Common Shares. Shares issued under the Director Share Plan during 2010, 2011, 2012 and 2013 cliff vest one year after the date of grant.

Options

A summary of option activity under the plans noted above as of December 31, 2013, and changes during the year ended are presented below:

	Share options	Weighted-average exercise price	Weighted-average remaining contractual term
Outstanding as of December 31, 2012	59,000	$ 12.20	
Expired	(39,000)	$ 10.39	
Exercised	-	$ -	
Outstanding and exercisable as of December 31, 2013	20,000	$ 15.73	0.36

There were no options granted during the years ended December 31, 2013, 2012 and 2011, and all outstanding options have vested.

The intrinsic value of options outstanding and exercisable is the difference between the fair market value of the Company's Common Shares on the applicable date ("Measurement Value") and the exercise price of those options that had an exercise price that was less than the Measurement Value. The intrinsic value of options exercised is the difference between the fair market value of the Company's Common Shares on the date of exercise and the exercise price. There were no options exercised during the years ended December 31, 2013 and 2012. The total intrinsic value of options exercised during the year ended December 31, 2011 was $117.

As of December 31, 2013, 2012, and 2011, the aggregate intrinsic value of both outstanding and exercisable options was $0, $0, and $5, respectively.

Restricted Shares

The fair value of the non-vested time-based restricted Common Share awards was calculated using the market value of the shares on the date of issuance. The weighted-average grant-date fair value of time-based restricted Common Shares granted during the years ended December 31, 2013, 2012 and 2011 was $6.13, $9.95 and $15.79, respectively.

The fair value of the non-vested performance-based restricted Common Share awards with a performance condition requiring the Company to obtain certain earnings per share targets was estimated using the market value of the shares on the date of grant. The fair value of non-vested performance-based restricted Common Share awards with a market condition requiring the Company to obtain a total shareholder return target relative to a group of peer companies was estimated using a Monte Carlo valuation model taking into consideration the probability of achievement using multiple simulations.

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A summary of the status of the Company's non-vested restricted Common Shares as of December 31, 2013 and the changes during the year then ended, are presented below:

	Time-based awards		Performance-based awards	
	Common shares	Weighted-average grant-date fair value	Common shares	Weighted-average grant-date fair value
Non-vested as of December 31, 2012	842,830	$ 10.31	635,850	$ 10.78
Granted	633,470	$ 6.13	248,850	$ 7.52
Vested	(337,369)	$ 7.42	-	$ -
Forfeited	(12,061)	$ 9.68	(220,950)	$ 6.92
Non-vested as of December 31, 2013	1,126,870	$ 8.83	663,750	$ 11.45

As of December 31, 2013, total unrecognized compensation cost related to non-vested time-based restricted Common Share awards granted was $3,330. That cost is expected to be recognized over a weighted-average period of 1.93 years. For the years ended December 31, 2013, 2012 and 2011, the total fair value of time-based restricted Common Share awards vested was $2,177, $4,413 and $3,743, respectively.

As of December 31, 2013, total unrecognized compensation cost related to non-vested performance-based restricted Common Share awards granted was $1,873. That cost is expected to be recognized over a weighted-average period of 1.25 years dependent upon the achievement of performance conditions. As noted above, the Company has issued and outstanding performance-based restricted Common Share awards that use different performance targets. The awards that use earnings per share as the performance target will not be expensed until it is probable that the Company will meet the underlying performance condition.

Cash received from option exercises under all share-based payment arrangements for the years ended December 31, 2013, 2012 and 2011 was $0, $0 and $168, respectively. There was no actual tax benefit realized for the tax deductions from the vesting of restricted Common Shares and option exercises of the share-based payment arrangements for the years ended December 31, 2013, 2012 and 2011.

8. Employee Benefit Plans

The Company has certain defined contribution profit sharing and 401(k) plans covering substantially all of its employees in the United States and United Kingdom. Company contributions are generally discretionary. The Company's policy is to fund all benefit costs accrued. For the years ended December 31, 2013, 2012 and 2011, expenses related to these plans amounted to $1,469, $1,527 and $1,801, respectively.

The Company provides matching contributions to the Company's 401(k) plan covering substantially all of its employees in the United States.

Long-Term Cash Incentive Plans

In March 2009, the Company adopted the Stoneridge, Inc. Long-Term Cash Incentive Plan ("LTCIP") and granted awards to certain officers and key employees. Awards under the LTCIP provided recipients with the right to receive cash three years from the date of grant depending on the Company's actual earnings per share performance for the defined performance period. If the participant voluntarily terminated employment or was discharged for cause, as defined in the LTCIP, the award would be forfeited. In May 2009, the LTCIP was approved by the Company's shareholders. At December 31, 2011, the Company had a liability recorded of $2,173, which was paid in March 2012 based on achievement of the performance goal. As such, no liability remains for this award at December 31, 2012 or 2013.

For 2010, the awards under the LTCIP provided recipients with the right to receive an amount of cash equal to the fair market value of a specified number of Common Shares, without par value, of the Company ("Phantom Shares") three years from the date of grant depending on the Company's actual earnings per share performance for each fiscal year of 2011, 2012 and 2013 within the performance period. The Company recorded an accrual based on the fair market value of the Phantom Shares for an award to be paid in the period earned based on anticipated achievement of the performance goals. If the participant voluntarily terminates employment or is discharged for cause, as defined in the LTCIP, the award will be forfeited. At December 31, 2012, the Company recorded a liability of $606 for the awards granted under the LTCIP which was included on the consolidated balance sheet as component of accrued expenses and other current liabilities. In February 2013, the 2010 awards were paid based on achievement of the performance goal. As such, no liability remains for this award at December 31, 2013.

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For 2013, the Company granted Phantom Share awards that vest three years from the date of grant depending on the Company's actual earnings per share performance for each fiscal year of 2013, 2014 and 2015 within the performance period. As of December 31, 2013, the Company has not recorded a liability as the 2013 performance goal was not achieved. There were no awards granted under the LTCIP during the year ended December 31, 2012 or 2011.

9. Financial Instruments and Fair Value Measurements

Financial Instruments

A financial instrument is cash or a contract that imposes an obligation to deliver, or conveys a right to receive cash or another financial instrument. The carrying values of cash and cash equivalents, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. The estimated fair value of the Company's senior secured notes with a face value of $175,000 (fixed rate debt) at December 31, 2013 and 2012 was $190,103 and $188,895, respectively, and was determined using market quotes classified as Level 2 input within the fair value hierarchy.

Derivative Instruments and Hedging Activities

On December 31, 2013, the Company had open foreign currency forward contracts, fixed price commodity contracts and an interest rate swap. These contracts are used solely for hedging and not for speculative purposes. Management believes that its use of these instruments to reduce risk is in the Company's best interest. The counterparties to these financial instruments are financial institutions with investment grade credit ratings.

Foreign Currency Exchange Rate Risk

The Company conducts business internationally and therefore is exposed to foreign currency exchange rate risk. The Company uses derivative financial instruments as cash flow and fair value hedges to mitigate its exposure to fluctuations in foreign currency exchange rates by reducing the effect of such fluctuations on foreign currency

denominated intercompany transactions and other foreign currency exposures. The currencies hedged by the Company during 2013 include the euro and Mexican peso.

In certain instances, the foreign currency forward contracts do not qualify for hedge accounting and are marked to market, with gains and losses recognized in the Company's consolidated statements of operations as a component of other expense, net.

The Company's foreign currency forward contracts offset some of the gains and losses on the underlying foreign currency denominated transactions as follows:

Euro-denominated and Swedish krona-denominated Foreign Currency Forward Contracts

At December 31, 2013 and 2012, the Company held a foreign currency forward contract with an underlying notional amount of $13,335 and $12,643, respectively, to reduce the exposure related to the Company's euro-denominated intercompany loans. This contract expires in March 2014. During 2012, the Company also held a foreign currency forward contract to reduce the exposure related to the Company's Swedish krona-denominated intercompany loans. This contract expired on November 30, 2012. The euro-denominated and Swedish krona-denominated foreign currency forward contracts have not been designated as hedging instruments. For the years ended December 31, 2013 and 2012, the Company recognized a loss of $638 and $492, respectively, in the consolidated statements of operations as a component of other expense, net related to the euro- and Swedish krona-denominated contracts. For the year ended December 31, 2011, the Company recognized a $225 gain related to foreign currency forward contracts.

Mexican peso-denominated Foreign Currency Forward Contracts – Cash Flow Hedge

The Company holds Mexican peso-denominated foreign currency contracts with notional amounts at December 31, 2013 totaling $45,000 which expire ratably on a monthly basis from January 2014 through December 2014. The Company held Mexican peso-denominated foreign currency contracts with notional amounts at December 31, 2012 of 36,500 which expired ratably on a monthly basis from January 2013 through December 2013.

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These contracts were executed to hedge forecasted transactions and are accounted for as cash flow hedges. As such, the effective portion of the unrealized gain or loss is deferred and reported in the Company's consolidated balance sheets as a component of accumulated other comprehensive loss. The cash flow hedges are highly effective and the Company expects them to remain highly effective in future periods. The effectiveness of the transactions has been and will be measured on an ongoing basis using regression analysis and forecasted future Mexican peso purchases.

Commodity Price Risk - Cash Flow Hedge

To mitigate the risk of future price volatility and, consequently, fluctuations in gross margins, the Company entered into fixed price commodity contracts with a financial institution to fix the cost of a portion of the Company's copper purchases as copper is a significant raw material.

The Company has fixed price commodity contracts at December 31, 2013 with an aggregate notional amount of 1,582 pounds, which expire on a monthly basis over the period from January through December 2014, compared to an aggregate notional amount of 2,436 pounds at December 31, 2012.

All of these contracts represent a portion of the Company's forecasted copper purchases. These contracts were executed to hedge a portion of forecasted transactions and the contracts are accounted for as cash flow hedges. The unrealized gain or loss for the effective portion of the hedges is deferred and reported in the Company's consolidated balance sheets as a component of accumulated other comprehensive loss while the ineffective portion, if any, is reported in the consolidated statements of operations. The effectiveness of the transactions is measured on an ongoing basis using regression analysis and forecasted future copper purchases. Based upon the results of the regression analysis, the Company has concluded that these cash flow hedges are highly effective.

Interest Rate Risk - Fair Value Hedge

The Company has a fixed-to-floating interest rate swap agreement (the "Swap") with a notional amount of $45,000 to hedge its exposure to fair value fluctuations on a portion of its senior secured notes. The Swap was designated as a fair value hedge of the fixed interest rate obligation under the Company's $175,000 9.5% senior secured notes due October 15, 2017. The critical terms of the Swap are aligned with the terms of the senior secured notes, including maturity of

October 15, 2017, resulting in no hedge ineffectiveness. The unrealized gain or loss for the effective portion of the hedge is deferred and reported in the Company's consolidated balance sheets as an asset or liability, as applicable, with the offset to the carrying value of the senior secured notes.

Under the Swap, the Company pays a variable interest rate equal to the six-month London Interbank Offered Rate ("LIBOR") plus 7.2% and it receives a fixed interest rate of 9.5%. The Swap requires semi-annual settlements on April 15 and October 15. The difference between amounts to be received and paid under the Swap is recognized as a component of interest expense, net on the consolidated statements of operations.

The Swap reduced interest expense by $810, $736 and $473 for the years ended December 31, 2013, 2012 and 2011, respectively.

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The notional amounts and fair values of derivative instruments in the consolidated balance sheets were as follows:

	Notional amounts (A)		Prepaid expenses and other current assets / other long-term assets		Accrued expenses and other current liabilities	
	December 31,		December 31,		December 31,	
	2013	2012	2013	2012	2013	2012
Derivatives designated as hedging instruments:						
Cash Flow Hedges:						
Forward currency contracts	$ 45,000	$ 36,500	$ -	$ 1,800	$ 263	$ -
Fixed price commodity contracts	1,582	2,436	152	340	-	-
Fair Value Hedge:						
Interest rate swap contract	$ 45,000	$ 45,000	$ 793	$ 2,212	$ -	$ -
Derivatives not designated as hedging instruments:						
Forward currency contracts	$ 13,335	$ 12,643	$ -	$ -	$ 18	$ 191

(A) Notional amounts represent the gross contract / notional amount of the derivatives outstanding.

Amounts recorded for the cash flow hedges in other comprehensive income (loss) in shareholders' equity and in net income for the years ended December 31 were as follows:

	Gain (loss) recorded in other comprehensive income (loss)			Gain (loss) reclassified from other comprehensive income (loss) into net income		
	2013	2012	2011	2013	2012	2011
Derivatives designated as cash flow hedges:						
Forward currency contracts	$ 683	$ 5,717	$ (7,118)	$ 2,746	$ (241)	$ (2,960)
Fixed price commodity contracts	(1,008)	1,389	(4,686)	(820)	(2,515)	(1,122)
Total derivatives designated as cash flow hedges	$ (325)	$ 7,106	$ (11,804)	$ 1,926	$ (2,756)	$ (4,082)

Gains and losses reclassified from comprehensive income (loss) into net income were recognized in cost of goods sold in the Company’s consolidated statements of operations.

The net deferred losses of $111 on the cash flow hedge derivatives will be reclassified from other comprehensive income (loss) to the consolidated statements of operations in 2014. The Company has measured the ineffectiveness of the forward currency and commodity contracts and any amounts recognized in the consolidated financial statements were immaterial for the years ended December 31, 2013, 2012 and 2011.

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Fair Value Measurements

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

	December 31, 2013				December 31, 2012
		Fair value estimated using			
	Fair value	**Level 1 inputs (A)**	**Level 2 inputs (B)**	**Level 3 inputs (C)**	Fair value
Financial assets carried at fair value:					
Interest rate swap contract	$793	$ -	$ 793	$ -	$ 2,212
Forward currency contracts	-	-	-	-	1,800
Fixed price commodity contracts	152	-	152	-	340
Total financial assets carried at fair value	$945	$ -	$ 945	$ -	$ 4,352
Financial liabilities carried at fair value:					
Forward currency contracts	$281	$ -	$ 281	$ -	$ 191
Total financial liabilities carried at fair value	$281	$ -	$ 281	$ -	$ 191

(A) Fair values estimated using Level 1 inputs, which consist of quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. The Company did not have any fair value estimates using Level 1 inputs at December 31, 2013 or 2012.

(B) Fair values estimated using Level 2 inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly and include among other things, quoted prices for similar assets or liabilities in markets that are active or inactive as well as inputs other than quoted prices that are observable. For forward currency, fixed price commodity and interest rate swap contracts, inputs include foreign currency exchange rates, commodity indexes and the six-month forward LIBOR.

(C) Fair values estimated using Level 3 inputs consist of significant unobservable inputs. The Company did not have any fair value estimates using Level 3 inputs at December 31, 2013 or 2012.

For the year ended December 31, 2011, the Company recorded a fair value adjustment of $4,945 related to the BCS goodwill. The Company utilized Level 3 inputs to estimate the fair value adjustment for nonfinancial assets. For additional information, see the discussion of Goodwill and Other Intangible Assets in Note 2. No adjustments to fair value were required for nonfinancial assets for the years ended December 31, 2013 or 2012.

10. Commitments and Contingencies

In the ordinary course of business, the Company is subject to various claims and legal proceedings, workers' compensation and product liability disputes. The Company is of the opinion that the ultimate resolution of these matters will not have a material adverse affect on the results of operations, cash flows or the financial position of the Company.

As a result of environmental studies performed at the Company's former facility located in Sarasota, Florida, the Company became aware of soil and groundwater contamination at the Company site. The Company engaged an environmental engineering consultant to assess the level of contamination and to develop a remediation and monitoring plan for the site. Soil remediation at the site was completed during the year ended December 31, 2010. Ground water remediation will begin in the first quarter of 2014, in accordance with a remedial action plan approved by the Florida Department of Environmental Protection. During the years ended December 31, 2013 and 2012, environmental remediation costs incurred were immaterial. At December 31, 2013 and 2012, the Company had accrued an undiscounted liability of $944 and $1,340, respectively, related to future remediation. The decrease in the accrual is related to changes in assumptions used in the remedial action plan. At December 31, 2013 and 2012, $683 and $733, respectively, were recorded as a component of accrued expenses and other current liabilities on the consolidated balance sheets while the remaining amounts were recorded as a component of other long-term liabilities. A majority of the costs associated with the recorded liability will be incurred at the start of the groundwater remediation, with the balance relating to monitoring costs to be incurred over multiple years. The recorded liability is based on assumptions in the remedial action plan. In December 2011, the Company sold the Sarasota facility and related property. However, the liability to remediate the site contamination remains the responsibility of the Company. Due to the ongoing site remediation, the closing terms of the sale agreement included a requirement for the Company to maintain a $2,000 letter of credit for the benefit of the buyer.

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On May 24, 2013, the State Revenue Services of São Paulo issued a tax deficiency notice against PST, our 74% owned consolidated subsidiary, claiming that the vehicle tracking and monitoring services it provides should be classified as communication services, and therefore subject to the State Value Added Tax – ICMS. The State Revenue Services assessment imposed the 25.0% ICMS tax on all revenues of PST related to the vehicle tracking and monitoring services during the period from January 2009 through December 2010. The Brazilian real ("R$") and (U.S. dollar equivalent "$") of the aggregate tax assessment is approximately R$92,500 ($39,500) which is comprised of Value Added Tax – ICMS of R$13,200 ($5,600), interest of R$11,400 ($4,900) and penalties of R$67,900 ($29,000).

The Company's vehicle tracking and monitoring services are non-communication services, as defined under Brazilian tax law, subject to the municipal ISS tax, not communication services subject to state ICMS tax as claimed by the State Revenue Services of São Paulo. PST has, and will continue to collect the municipal ISS tax on the vehicle tracking and monitoring services in compliance with Brazilian tax law and will defend its tax position. PST has received a legal opinion that the merits of the case are favorable to PST, determining among other things that the imposition on the subsidiary of the State ICMS by the State Revenue Services of São Paulo is not in accordance with the Brazilian tax code. Management believes, based on the legal opinion of PST's Brazilian legal counsel and the results of the Brazil Administrative Court's ruling in favor of another vehicle tracking and monitoring company related to the tax deficiency notice it received, the likelihood of loss is not probable although it may take years to resolve. As a result of the above, as of December 31, 2013, no provision has been made with respect to this tax assessment. An unfavorable judgment on this issue for the years assessed and for subsequent years could result in significant costs to PST and adversely affect its results of operations.

In addition, PST has civil, labor and tributary contingencies for which the likelihood of loss is deemed to be reasonably possible, but not probable, by its legal advisors. As a result, no provision has been made with respect to these contingencies, which amount to $11,469 and $11,925 at December, 2013 and 2012, respectively. An unfavorable outcome on this issue could result in significant cost to PST and adversely affect its results of operations.

11. Restructuring

On October 29, 2007, the Company announced restructuring initiatives to improve manufacturing efficiency and cost position by ceasing manufacturing operations at its Sarasota, Florida (Control Devices reportable segment) and Mitcheldean, United Kingdom (Electronics reportable segment) locations. During 2008 and 2009, in response to the depressed conditions in the North American and European commercial and automotive vehicle markets, the Company continued and expanded the restructuring initiatives in the Control Devices and Electronics reportable segments. While the initiatives were completed in 2009 in regards to the Control Devices reportable segment, in 2010 the

Company continued restructuring initiatives within the Electronics reportable segment and recorded amounts related to its cancelled property lease in Mitcheldean, United Kingdom. During the third quarter of 2012, the Company finalized a settlement agreement to modify the terms of and the obligation associated with the property consistent with previous estimates.

As a result of the restructuring plan approved on October 29, 2007, the manufacturing facility located in Sarasota, Florida was closed in 2008. During the year ended December 31, 2011, the Company sold the facility and recognized a gain of $95 as a component of selling, general and administrative expense.

In connection with the Electronics segment restructuring initiative, the Company recorded lease related restructuring charges during the year ended December 31, 2013 and 2012 of $469 and $256, respectively, as part of selling, general and administrative expense. At December 31, 2013 and 2012, the only remaining restructuring related accrual relates to the cancelled property lease in Mitcheldean, United Kingdom, for which the Company has accrued $780 and $765, respectively, on the consolidated balance sheets of which $427 and $419, respectively, is a component of other long-term liabilities.

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The expenses related to the restructuring activities that belong to the Electronics reportable segment include the following:

	Contract termination costs	
Accrued balance at January 1, 2011	$ 1,117	
2011 charge to expense	951	
Foreign currency translation effect	(148	)
Cash payments	-	
Accrued balance at December 31, 2011	1,920	
2012 charge to expense	256	
Foreign currency translation effect	172	
Cash payments	(1,583	)
Accrued balance at December 31, 2012	765	
2013 charge to expense	469	
Foreign currency translation effect	24	
Cash payments	(478	)
Accrued balance at December 31, 2013	$ 780	

There were no significant restructuring expenses related to the Wiring or Control Devices reportable segments during the years ended December 31, 2013, 2012 or 2011.

In response to a change in customer demand, the PST segment incurred and paid business realignment charges of $1,646 for the year ended December 31, 2012, of which $729 was recorded in cost of goods sold with the remainder recorded in selling, general and administrative expenses. The charges consist primarily of severance costs related to workforce reductions. There were no restructuring expenses related to the PST segment during the year ended December 31, 2013.

Contract termination costs represent costs associated with long-term lease obligations that were cancelled as part of the restructuring initiatives.

12. Segment Reporting

Operating segments are defined as components of an enterprise that are evaluated regularly by the Company’s chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company’s chief operating decision maker is the chief executive officer.

The Company has four reportable segments: Control Devices, Electronics, Wiring and PST which also represents its operating segments. The Control Devices reportable segment produces sensors, switches, valves and actuators. The Electronics reportable segment produces electronic instrument clusters, electronic control units and driver information systems. The Wiring reportable segment produces electrical power and signal distribution systems, primarily wiring harnesses and connectors and instrument panel assemblies. The PST reportable segment specializes in the design, manufacture and sale of electronic vehicle security alarms, convenience accessories, vehicle tracking devices and monitoring services and in-vehicle audio and video devices.

The accounting policies of the Company’s reportable segments are the same as those described in Note 2. The Company’s management evaluates the performance of its reportable segments based primarily on revenues from external customers, capital expenditures and income before income taxes. Inter-segment sales are accounted for on terms similar to those to third parties and are eliminated upon consolidation.

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A summary of financial information by reportable segment is as follows:

Years ended December 31	2013	2012	2011
Net Sales:			
Control Devices	$291,145	$267,859	$259,315
Inter-segment sales	2,875	3,906	3,619
Control Devices net sales	294,020	271,765	262,935
Electronics	189,809	164,196	180,508
Inter-segment sales	41,137	51,857	58,029
Electronics net sales	230,946	216,053	238,537
Wiring	288,344	326,048	325,549
Inter-segment sales	7,593	3,783	2,825
Wiring net sales	295,937	329,831	328,374
PST [(A)]	178,532	180,410	-
Inter-segment sales	-	-	-
PST net sales	178,532	180,410	-
Eliminations	(51,605)	(59,546)	(64,473)
Total net sales	$947,830	$938,513	$765,373
Income (Loss) Before Income Taxes:			
Control Devices	$26,914	$15,048	$17,145
Electronics	15,596	10,049	14,743
Wiring	(10,074)	(289)	(17,119)
PST [(A)]	5,395	(4,985)	-
PST - equity in earnings of investee [(A)]	-	-	8,805
Other corporate activities [(A)]	(1,117)	635	63,461
Corporate interest expense	(15,980)	(15,898)	(15,393)
Total income before income taxes	$20,734	$4,560	$71,642
Depreciation and Amortization:			
Control Devices	$9,877	$9,137	$9,270
Electronics	4,800	4,467	5,174
Wiring	4,978	5,054	4,442
PST [(A)]	14,426	15,613	-
Corporate	183	188	199
Total depreciation and amortization [(B)]	$34,264	$34,459	$19,085
Interest Expense, net:			
Control Devices	$182	$254	$144

Electronics	760	1,342	1,619
Wiring	250	164	78
PST [(A)]	1,174	2,375	-
Corporate	15,980	15,898	15,393
Total interest expense, net	$18,346	$20,033	$17,234
Capital Expenditures:			
Control Devices	$9,906	$9,574	$10,368
Electronics	4,667	2,841	6,148
Wiring	3,768	3,251	9,740
PST [(A)]	6,663	9,102	-
Corporate	340	1,584	34
Total capital expenditures	$25,344	$26,352	$26,290

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

As of December 31	2013	2012
Total Assets:		
Control Devices	$105,730	$100,351
Electronics	105,352	84,772
Wiring	98,180	99,755
PST	237,649	267,687
Corporate (C)	308,167	308,969
Eliminations	(266,756)	(268,843)
Total assets	$588,322	$592,691

(A) The acquisition of a controlling interest in PST occurred on December 31, 2011. As such, PST's results for the year ended December 31, 2011 were accounted for under the equity method. PST's results for the years ended December 31, 2013 and 2012 were consolidated. See Note 2 to the consolidated financial statements included in this report. PST's balance sheet is reflected in the consolidated balance sheet as of December 31, 2013 and 2012. The Company recognized a one-time non-cash pre-tax gain of $65,372 in 2011 within other corporate activities on its previously held interest in PST related to the acquisition.

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

(C) Assets located at Corporate consist primarily of cash, equity investments and intercompany loan receivables.

The following table presents net sales and long-term assets for the geographic areas in which the Company operates:

Years ended December 31	2013	2012	2011
Net Sales:			
North America	$594,854	$611,756	$601,490
South America	178,532	180,410	-
Europe and Other	174,444	146,347	163,883
Total net sales	$947,830	$938,513	$765,373

	December 31, 2013	December 31, 2012
Long-term Assets:		
North America	$ 79,219	$ 82,777
South America	154,226	185,109

Europe and Other	14,641	13,751
Total long-term assets	$ 248,086	$ 281,637

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise indicated)

13. Unaudited Quarterly Financial Data

The following is a summary of quarterly results of operations:

				Quarter ended
2013	December 31	September 30	June 30	March 31
Net sales	$ 235,824	$ 233,511	$242,785	$ 235,710
Gross profit	53,553	53,519	60,220	58,729
Operating income	6,882	10,705	11,825	10,292
Provision for income taxes	1,066	1,016	1,125	1,019
Net income	321	5,513	6,391	4,283
Net income attributable to noncontrolling interests	117	466	634	160
Net income attributable to Stoneridge, Inc.	204	5,047	5,757	4,123
Earnings per share attributable to Stoneridge, Inc.:				
Basic (A)	0.01	0.19	0.22	0.15
Diluted (A)	0.01	0.19	0.21	0.15

				Quarter ended
2012	December 31	September 30	June 30	March 31
Net sales	$ 222,725	$ 219,256	$234,265	$ 262,267
Gross profit	54,609	51,238	53,659	65,138
Operating income	8,648	6,615	1,617	11,849
Provision (benefit) for income taxes	95	383	(884)	1,218
Net income (loss)	2,711	589	(5,298)	5,746
Net income (loss) attributable to noncontrolling interests	90	170	(1,740)	(133)
Net income (loss) attributable to Stoneridge, Inc.	2,621	419	(3,558)	5,879
Earnings per share attributable to Stoneridge, Inc.:				
Basic (A)	0.10	0.02	(0.13)	0.22
Diluted (A)	0.10	0.02	(0.13)	0.22

(A) Earnings per share for the year may not equal the sum of the four historical quarters earnings per share due to changes in weighted-average basic and diluted shares outstanding.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

	Balance at beginning of period	Charged to costs and expenses	Write-offs	Balance at end of period
Accounts receivable reserves:				
Year ended December 31, 2011	$ 2,013	$ 191	$ (719)	$ 1,485
Year ended December 31, 2012	1,485	3,415	(1,506)	3,394
Year ended December 31, 2013	3,394	1,628	(1,508)	**3,514**

	Balance at beginning of period	Net additions charged to income (expense)	Exchange rate fluctuations and other items	Balance at end of period
Valuation allowance for deferred tax assets:				
Year ended December 31, 2011	$ 74,940	$ 1,059	$ 2,212	$ 78,211
Year ended December 31, 2012	78,211	(2,842)	(3,579)	71,790
Year ended December 31, 2013	71,790	453	(416)	71,827

Item 9. Changes In and Disagreements With Accountants On Accounting and Financial Disclosure.

There have been no disagreements between the management of the Company and its Independent Registered Public Accounting Firm on any matter of accounting principles or practices of financial statement disclosures, or auditing scope or procedure.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of December 31, 2013, an evaluation was performed under the supervision and with the participation of the Company’s management, including the principal executive officer (“PEO”) and principal financial officer (“PFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based on that evaluation, the Company’s PEO and PFO, concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2013.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). In evaluating the Company’s internal control over financial reporting, management has adopted the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework). Under the supervision and with the participation of our management, including the PEO and PFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting, as of December 31, 2013. Based on our evaluation under the framework in *Internal Control-Integrated Framework* (1992 Framework), our management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal controls over financial reporting during the quarter ended December 31, 2013 that has materially or is reasonably likely to materially affect internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of

Stoneridge, Inc. and Subsidiaries

We have audited Stoneridge, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). Stoneridge, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stoneridge, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stoneridge, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended December 31, 2013 of Stoneridge, Inc. and Subsidiaries and our report dated March 7, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

March 7, 2014

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 regarding our directors is incorporated by reference to the information under the sections and subsections entitled, “Proposal One: Election of Directors,” “Nominating and Corporate Governance Committee,” “Audit Committee,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance Guidelines” contained in the Company's Proxy Statement in connection with its Annual Meeting of Shareholders to be held on May 6, 2014. The information required by this Item 10 regarding our executive officers appears as a Supplementary Item following Item 1 under Part I hereof.

Item 11. Executive Compensation.

The information required by this Item 11 is incorporated by reference to the information under the sections and subsections “Compensation Committee,” “Compensation Committee Interlocks and Insider Participation,” “Compensation Committee Report” and “Executive Compensation” contained in the Company's Proxy Statement in connection with its Annual Meeting of Shareholders to be held on May 6, 2014.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item 12 (other than the information required by Item 201(d) of Regulation S-K which is set forth below) is incorporated by reference to the information under the heading “Security Ownership of Certain Beneficial Owners and Management” contained in the Company's Proxy Statement in connection with its Annual Meeting of Shareholders to be held on May 6, 2014.

In October 1997, we adopted a Long-Term Incentive Plan for our employees, which expired on June 30, 2007. In May 2002, we adopted a Director Share Option Plan for our directors. In April 2005, we adopted a Directors' Restricted Shares Plan. In April 2006, we adopted an Amended and Restated Long-Term Incentive Plan. In May 2010, we adopted an Amended Directors' Restricted Share Plan and an Amended and Restated Long-Term Incentive Plan, as amended. In May 2013, we adopted an Amended Directors' Restricted Shares Plan and an Amended and Restated Long-Term Incentive Plan, as amended to increase the number of shares available for issuance under the plans. Our shareholders approved each plan. Equity compensation plan information, as of December 31, 2013, is as follows:

	Number of securities to be issued upon the exercise of outstanding share options	Weighted-average exercise price of outstanding share options	Number of securities remaining available for future issuance under equity compensation plans (A)
Equity compensation plans approved by shareholders	20,000	$ 15.73	2,217,739
Equity compensation plans not approved by shareholders	-	$ -	-

(A) Excludes securities reflected in the first column, "Number of securities to be issued upon the exercise of outstanding share options." Also excludes 1,625,100 restricted Common Shares issued and outstanding to key employees pursuant to the Company's Amended and Restated Long-Term Incentive Plan, as amended and 80,570 restricted Common Shares issued and outstanding to directors under the Amended Directors' Restricted Share Plan as of December 31, 2013.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 is incorporated by reference to the information under the sections and subsections “Transactions with Related Persons” and “Director Independence” contained in the Company's Proxy Statement in connection with its Annual Meeting of Shareholders to be held on May 6, 2014.

Item 14. Principal Accounting Fees and Services.

The information required by this Item 14 is incorporated by reference to the information under the sections and subsections “Service Fees Paid to Independent Registered Accounting Firm” and “Pre-Approval Policy” contained in the Company's Proxy Statement in connection with its Annual Meeting of Shareholders to be held on May 6, 2014.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Form 10-K.

		Page in Form 10-K
(1)	Consolidated Financial Statements:	
	Report of Independent Registered Public Accounting Firm	38
	Consolidated Balance Sheets as of December 31, 2013 and 2012	39
	Consolidated Statements of Operations for the Years Ended December 31, 2013, 2012 and 2011	40
	Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2013, 2012 and 2011	41
	Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011	42
	Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2013, 2012 and 2011	43
	Notes to Consolidated Financial Statements	44
(2)	Financial Statement Schedule:	

Schedule II – Valuation and Qualifying Accounts 71

(3) Exhibits:

See the list of exhibits on the Index to Exhibits following the signature page.

(b) The exhibits listed on the Index to Exhibits are filed as part of or incorporated by reference into this report.

(c) Additional Financial Statement Schedules.

None.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) 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.

STONERIDGE, INC.

Date: March 7, 2014 /s/ GEORGE E. STRICKLER
George E. Strickler
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 7, 2014 /s/ JOHN C. COREY
John C. Corey
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 7, 2014 /s/ GEORGE E. STRICKLER
George E. Strickler
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Date: March 7, 2014 /s/ WILLIAM M. LASKY
William M. Lasky
Chairman of the Board of Directors

Date: March 7, 2014 /s/ JEFFREY P. DRAIME
Jeffrey P. Draime
Director

Date: March 7, 2014 /s/ DOUGLAS C. JACOBS
Douglas C. Jacobs
Director

Date: March 7, 2014 /s/ IRA C. KAPLAN
Ira C. Kaplan
Director

Date: March 7, 2014 /s/ KIM KORTH
Kim Korth
Director

Date: March 7, 2014 /s/ GEORGE S. MAYES, JR.
George S. Mayes, Jr.
Director

Date: March 7, 2014 /s/ PAUL J. SCHLATHER
Paul J. Schlather
Director

INDEX TO EXHIBITS

Exhibit Number	Exhibit
2.1	Share Purchase Agreement, dated November 22, 2011, by and among Stoneridge, Inc., Marcos Ferretti, Adriana Campos De Cerqueira Leite, Alphabet do Brasil Ltda., PST Eletronica S.A., and Sergio De Cerqueira Leite (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on January 5, 2012).
3.1	Second Amended and Restated Articles of Incorporation of the Company (incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 1999).
3.2	Amended and Restated Code of Regulations of the Company (incorporated by reference to Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).
4.1	Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 1997).
4.2	Senior Secured Notes Indenture dated as of October 4, 2010 among Stoneridge, Inc. as Issuer, Stoneridge Control Devices, Inc. and Stoneridge Electronics, Inc, as Guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on October 6, 2010).
4.3	First Supplemental Indenture to Indenture dated as of October 4, 2010 among Stoneridge, Inc., Stoneridge Control Devices, Inc., Stoneridge Electronics, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on October 6, 2010).
10.1	Directors’ Share Option Plan (incorporated by reference to Exhibit 4 of the Company’s Registration Statement on Form S-8 (No. 333-96953))*.
10.2	Form of Long-Term Incentive Plan Share Option Agreement (incorporated by reference to Exhibit 10.16 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2004)*.
10.3	Form of Directors’ Share Option Plan Share Option Agreement (incorporated by reference to Exhibit 10.17 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2004)*.
10.4	Directors' Restricted Shares Plan (incorporated by reference to Exhibit 4.3 of the Company’s Registration Statement on Form S-8 (No. 333-127017))*.
10.5	Form of Directors' Restricted Shares Plan Agreement, (incorporated by reference to Exhibit 10.22 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2005)*.
10.6	Employment Agreement between the Company and John C. Corey (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended April 1, 2006)*.

10.7	Form of 2006 Directors' Restricted Shares Plan Grant Agreement (incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K filed on July 26, 2006)*.
10.8	Amended Annual Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on May 12, 2011)*.
10.9	Amended and Restated Change in Control Agreement (incorporated by reference to Exhibit 10.1 to the Company's Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)*.

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Exhibit Number	Exhibit
10.10	Amended Employment Agreement between Stoneridge, Inc. and John C. Corey (incorporated by reference to Exhibit 10.31 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2008)*.
10.11	Amended and Restated Change in Control Agreement (incorporated by reference to Exhibit 10.32 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2008)*.
10.12	Form of Stoneridge, Inc. Long-Term Incentive Plan – Restricted Shares Grant Agreement (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009)*.
10.13	Form of Stoneridge, Inc. Long-Term Cash Incentive Plan – Grant Agreement (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009)*.
10.14	Stoneridge, Inc. Long-Term Cash Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009)*.
10.15	Stoneridge, Inc. Officers’ and Key Employees’ Severance Plan (incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K filed on October 9, 2009)*.
10.16	Stoneridge, Inc. Form of Indemnification Agreement between the Company and John C. Corey, George E. Strickler, Kenneth A. Kure and James E. Malcolm (incorporated by reference to Exhibit 10.31 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2009).
10.17	Stoneridge, Inc. Amended and Restated Long-Term Incentive Plan – Form of 2010 Restricted Shares Grant Agreement (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)*.
10.18	Stoneridge, Inc. Long-Term Cash Incentive Plan – Form of 2010 Phantom Share Grant Agreement (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)*.
10.19	Amended and Restated Credit and Security Agreement dated as of September 20, 2010 by and among Stoneridge, Inc., Stoneridge Control Devices, Inc. and Stoneridge Electronics, Inc., as Borrowers, the Lending Institutions Named Therein as Lenders, PNC Bank, National Association, Comerica Bank, JPMorgan Chase Bank, N.A. and Fifth Third Bank, as lenders (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.20	Amendment No. 1 dated December 2, 2010 to the Amended and Restated Credit and Security Agreement as of September 20, 2010 by and among Stoneridge, Inc., Stoneridge Control Devices, Inc. and Stoneridge Electronics, Inc., as Borrowers, the Lending Institution Named Therein as Lenders, PNC Bank, National Association, Comerica Bank, JPMorgan Chase Bank, N.A, and Fifth Third Bank, as lenders (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).
10.21	

	Amended and Restated Long-Term Incentive Plan, as amended (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 (No. 333-172002))*.
10.22	Amended Directors' Restricted Share Plan (incorporated by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-8 (No. 333-172002))*.

Exhibit Number	Exhibit
10.23	Second Amended and Restated Credit and Security Agreement as of December 1, 2011 by and among Stoneridge, Inc. and certain of its subsidiaries as Borrowers, PNC Bank, National Association, as Agent, an Issuer and Lead Arranger, and PNC Bank, National Association, JPMorgan Chase Bank, N.A., Comerica Bank and Fifth Third Bank, as lenders (incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 2, 2011).
10.24	Amended and Restated Change in Control Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2011)*.
14.1	Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2003).
21.1	Principal Subsidiaries and Affiliates of the Company, filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm, filed herewith.
23.2	Consent of Independent Auditors, filed herewith.
31.1	Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
99.1	Financial Statements of PST Eletrônica Ltda., filed herewith.

* - Reflects management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(b) of this Annual Report on Form 10-K.