

Commercial Vehicle Group, Inc.
Form 10-Q
May 04, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from _____ to _____

Commission file number 001-34365

COMMERCIAL VEHICLE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Edgar Filing: Commercial Vehicle Group, Inc. - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

41-1990662
(I.R.S. Employer
Identification No.)

7800 Walton Parkway

New Albany, Ohio
(Address of principal executive offices)

43054
(Zip Code)

(614) 289-5360

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the Registrant's common stock, par value \$.01 per share, at March 31, 2012 was 29,061,691 shares.

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

PART I FINANCIAL INFORMATION

<u>ITEM 1 FINANCIAL STATEMENTS</u>	1
<u>CONDENSED CONSOLIDATED BALANCE SHEETS</u>	1
<u>CONDENSED CONSOLIDATED STATEMENTS OF INCOME</u>	2
<u>CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	3
<u>CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY</u>	4
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	5
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>	6
<u>ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	16
<u>ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	24
<u>ITEM 4 CONTROLS AND PROCEDURES</u>	24
<u>PART II. OTHER INFORMATION</u>	25
<u>SIGNATURE</u>	27
Certification of CEO	
Certification of CFO	
CEO Certification Pursuant to Section 906	
CFO Certification Pursuant to Section 906	

ITEM 1 FINANCIAL STATEMENTS

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011 (Unaudited)
	(In thousands, except share and per share amounts)	
Assets		
Current Assets:		
Cash	\$ 90,854	\$ 87,955
Accounts receivable, net of reserve for doubtful accounts of \$4,086 and \$3,867, respectively	147,473	130,297
Inventories	85,803	79,423
Other current assets	13,147	9,307
Total current assets	337,277	306,982
Property, plant and equipment, net of accumulated depreciation of \$112,036 and \$109,403, respectively	77,354	76,672
Intangible assets, net	7,249	7,315
Other assets, net	15,214	15,915
Total assets	\$ 437,094	\$ 406,884
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	\$ 90,977	\$ 74,239
Accrued liabilities	38,402	38,960
Total current liabilities	129,379	113,199
Long-term debt	250,000	250,000
Pension and other post-retirement benefits	27,253	28,013
Other long-term liabilities	2,661	2,897
Total liabilities	409,293	394,109
Commitments and contingencies (NOTE 10)		
Stockholders Equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized, no shares issued and outstanding;		
common stock, \$0.01 par value per share; 60,000,000 shares authorized; 28,170,929 shares issued and outstanding, respectively	285	285
Treasury stock purchased from employees; 426,870 shares, respectively	(4,059)	(4,059)
Additional paid-in capital	220,311	219,112
Retained loss	(162,749)	(174,754)
Accumulated other comprehensive loss	(25,983)	(27,818)
Total CVG stockholders equity	27,805	12,766
Non-controlling interest	(4)	9
Total stockholders equity	27,801	12,775

Edgar Filing: Commercial Vehicle Group, Inc. - Form 10-Q

Total liabilities and stockholders equity	\$ 437,094	\$ 406,884
---	------------	------------

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

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
	2012 (Unaudited) (In thousands, except per share amounts)	2011 (Unaudited)
Revenues	\$ 236,990	\$ 182,509
Cost of Revenues	200,212	157,793
Gross Profit	36,778	24,716
Selling, General and Administrative Expenses	18,183	16,194
Amortization Expense	92	96
Restructuring Costs		310
Operating Income	18,503	8,116
Other Expense	5	6
Interest Expense	5,302	3,981
Income Before Provision for Income Taxes	13,196	4,129
Provision for Income Taxes	1,204	852
Net Income	11,992	3,277
Less: Non-controlling interest in subsidiary's loss	(13)	
Net Income Attributable to CVG Stockholders	\$ 12,005	\$ 3,277
Earnings per Common Share:		
Basic	\$ 0.43	\$ 0.12
Diluted	\$ 0.42	\$ 0.12
Weighted Average Shares Outstanding:		
Basic	28,171	27,765
Diluted	28,373	28,186

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

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2012 (Unaudited)	2011 (Unaudited)
	(In thousands)	
Net income	\$ 11,992	\$ 3,277
Other comprehensive income:		
Foreign currency translation adjustments	1,835	1,786
Other comprehensive income	1,835	1,786
Comprehensive income	\$ 13,827	\$ 5,063
Less: Comprehensive loss attributed to noncontrolling interests		(13)
Comprehensive income attributable to CVG stockholders	\$ 13,840	\$ 5,063

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

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

		Common Stock			Additional	Retained	Accum.	CVG	Non-	
		Shares	Amount	Treasury	Paid-In	Earnings	Other	Stockholders	Controlling	Total
				Stock	Capital	(Accum.	Comp.	Equity	Interest	
						Deficit)	Loss			
						(Unaudited)				
						(In thousands, except share data)				
Balance	December 31, 2011	28,170,929	\$ 285	\$ (4,059)	\$ 219,112	\$ (174,754)	\$ (27,818)	\$ 12,766	\$ 9	\$ 12,775
Share-based compensation	expense				1,199			1,199		1,199
Comprehensive income:										
	Net income					12,005		12,005	(13)	11,992
	Foreign currency translation									
	adjustment						1,835	1,835		1,835
	Total comprehensive income									
	(loss)							13,840	(13)	13,827
Balance	March 31, 2012	28,170,929	\$ 285	\$ (4,059)	\$ 220,311	\$ (162,749)	\$ (25,983)	\$ 27,805	\$ (4)	\$ 27,801

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

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2012 (Unaudited)	2011 (Unaudited)
	(In thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 11,992	\$ 3,277
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,082	2,901
Provision for doubtful accounts	87	1,314
Noncash amortization of debt financing costs	283	379
Amortization of bond discount/premium, net		(269)
Pension plan contributions	(1,020)	(821)
Shared-based compensation expense	1,199	842
Loss on sale of assets	135	6
Noncash gain on forward exchange contracts	(865)	
Change in other operating items	(9,450)	(20,297)
Net cash provided by (used in) operating activities	5,443	(12,668)
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(2,884)	(3,020)
Proceeds from disposal/sale of property, plant and equipment	11	7
Post-acquisition and acquisition payments, net of cash received		(8,785)
Net cash used in investing activities	(2,873)	(11,798)
Effect of Currency Exchange Rate Changes on Cash	329	367
Net Increase (Decrease) in Cash	2,899	(24,099)
Cash:		
Beginning of period	87,955	42,591
End of period	\$ 90,854	\$ 18,492
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 66	\$ 7,283
Cash paid (received) for income taxes, net	\$ 748	\$ (114)
Unpaid purchases of property and equipment included in accounts payable	\$ 556	\$ 464

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

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Basis of Presentation

Commercial Vehicle Group, Inc. and its subsidiaries (CVG or the Company) design and manufacture seat systems, interior trim systems (including instrument and door panels, headliners, cabinetry, molded products and floor systems), cab structures and components, mirrors, wiper systems, electronic wiring harness assemblies and controls and switches for the global commercial vehicle market, including the heavy-duty truck market, the construction, military, bus, agriculture and specialty transportation markets. We have facilities located in the U.S. in Alabama, Arizona, Indiana, Illinois, Iowa, Michigan, North Carolina, Ohio, Oregon, Tennessee and Virginia and outside of the U.S. in Australia, China, Czech Republic, Mexico, Ukraine and the United Kingdom.

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations and statements of financial position for the interim periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with our fiscal 2011 consolidated financial statements and the notes thereto included in Part II, Item 8 of our Annual Report on Form 10-K as filed with the SEC on March 13, 2012. Unless otherwise indicated, all amounts are in thousands except per share amounts.

Revenues and operating results for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected in future operating quarters.

2. Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement*. This ASU clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of stockholders' equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The provisions of this ASU were effective prospectively for interim and annual periods beginning on or after December 15, 2011. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income*. This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in stockholders' equity. The provisions of this ASU were adopted in the first fiscal quarter of 2012 and were applied retrospectively. The adoption of this ASU resulted in the presentation of a new statement, the consolidated statement of comprehensive income.

In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This update defers the provisions within ASU 2011-05 requiring the presentation on the face of the financial statements of the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. The deferral will allow the FASB further time to deliberate operational concerns expressed by constituents. ASU 2011-12 was effective concurrently with the adoption of ASU 2011-05.

3. Fair Value Measurement

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3 Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. The fair values of our derivative assets and liabilities are categorized as follows (in thousands):

	March 31, 2012			December 31, 2011				
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivative assets ¹	\$ 527	\$	\$ 527	\$	\$ 1	\$	\$ 1	\$
Derivative liabilities ¹	\$ 9	\$	\$ 9	\$	\$ 348	\$	\$ 348	\$

¹ Based on observable market transactions of spot and forward rates.

Our derivative assets and liabilities represent foreign exchange contracts that are measured at fair value using observable market inputs such as forward rates, interest rates, our own credit risk and our counterparties' credit risks. Based on these inputs, the derivative assets and liabilities are classified as Level 2.

Our financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and our revolving credit facility. The carrying value of these instruments approximates fair value as a result of the short duration of such instruments or due to the variability of interest cost associated with such instruments.

The carrying amounts and fair values of our long-term debt obligations are as follows (in thousands):

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 250,000	\$ 256,250	\$ 250,000	\$ 250,000

The following methods were used to estimate the fair value of each class of financial instruments:

Long-term debt. The fair value of long-term debt obligations is based on quoted market prices. Based on these inputs, our long-term debt is classified as Level 2.

There were no fair value measurements of our long-lived assets and definite-lived intangible assets measured on a non-recurring basis as of March 31, 2012.

4. Stockholders Equity

Common Stock Our authorized capital stock consists of 60,000,000 shares of common stock with a par value of \$0.01 per share, with 28,170,929 shares issued and outstanding as of March 31, 2012.

Preferred Stock Our authorized capital stock consists of 5,000,000 shares of preferred stock with a par value of \$0.01 per share, with no preferred shares outstanding as of March 31, 2012.

Earnings Per Share Basic earnings per share is determined by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share, and all other diluted per share amounts presented, is determined by dividing net income by the weighted average number of common shares and potential

Edgar Filing: Commercial Vehicle Group, Inc. - Form 10-Q

common shares outstanding during the period as determined by the Treasury Stock Method. Potential common shares are included in the diluted earnings per share calculation when dilutive. Diluted earnings per share for the three months ended March 31, 2012 and 2011 includes the effects of potential common shares consisting of common stock issuable upon exercise of outstanding stock options when dilutive (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2012	2011
Net income attributable to common stockholders basic and diluted	\$ 12,005	\$ 3,277
Weighted average number of common shares outstanding	28,171	27,765
Dilutive effect of outstanding stock options and restricted stock grants after application of the Treasury Stock Method	202	421
Dilutive shares outstanding	28,373	28,186
Basic earnings per share	\$ 0.43	\$ 0.12
Diluted earnings per share	\$ 0.42	\$ 0.12

For the three months ended March 31, 2012 and 2011, diluted earnings per share did not include approximately 0.5 million outstanding stock options, respectively, as the effect would have been antidilutive.

Dividends We have not declared or paid any cash dividends in the past. The terms of the Loan and Security Agreement (as defined below in Note 11) restrict the payment or distribution of our cash or other assets, including cash dividend payments.

5. Share-Based Compensation

Restricted Stock Awards Restricted stock is a grant of shares of common stock that may not be sold, encumbered or disposed of, and that may be forfeited in the event of certain terminations of employment, prior to the end of a restricted period set by the Compensation Committee of the Board of Directors. A participant granted restricted stock generally has all of the rights of a stockholder, unless the Compensation Committee determines otherwise. The following table summarizes information about restricted stock grants as of March 31, 2012:

Grant	Shares	Estimated Forfeiture Rate	Vesting Schedule
November 2009	638,150	5.5%	3 equal annual installments commencing on October 20, 2010
November 2010	404,000	8.2%	3 equal annual installments commencing on October 20, 2011
November 2011	443,250	8.2%	3 equal annual installments commencing on October 20, 2012

As of March 31, 2012, there was approximately \$7.5 million of unearned compensation expense related to non-vested share-based compensation arrangements granted under our equity incentive plans. This expense is subject to future adjustments for vesting and forfeitures and will be recognized on a straight-line basis over the remaining period of seven months for the November 2009 awards, 19 months for the November 2010 awards and 31 months for the November 2011 awards.

The following table summarizes information about the non-vested restricted stock grants as of March 31, 2012:

	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2011	893	\$ 11.42
Granted		

Edgar Filing: Commercial Vehicle Group, Inc. - Form 10-Q

Vested		
Forfeited	(2)	12.79
Nonvested at March 31, 2012	891	\$ 11.42

As of March 31, 2012, 1,271,329 of the 4.6 million shares authorized for issuance were available for issuance under the Fourth Amended and Restated Equity Incentive Plan, including cumulative forfeitures.

6. Accounts Receivable

Trade accounts receivable are stated at current value less an allowance for doubtful accounts, which approximates fair value. This estimated allowance is based primarily on management's evaluation of specific balances as the balances become past due, the financial condition of our customers and our historical experience of write-offs. If not reserved through specific identification procedures, our general policy for uncollectible accounts is to reserve at a certain percentage, based upon the aging categories of accounts receivable and our historical experience with write-offs. Past due status is based upon the due date of the original amounts outstanding. When items are ultimately deemed uncollectible, they are charged off against the reserve previously established in the allowance for doubtful accounts.

7. Inventories

Inventories are valued at the lower of first-in, first-out (FIFO) cost or market. Cost includes applicable material, labor and overhead. Inventories consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
Raw materials	\$ 51,989	\$ 49,178
Work in process	16,486	15,343
Finished goods	17,328	14,902
	\$ 85,803	\$ 79,423

Inventory quantities on-hand are regularly reviewed and, where necessary, provisions for excess and obsolete inventory are recorded based primarily on our estimated production requirements driven by expected market volumes. Excess and obsolete provisions may vary by product depending upon future potential use of the product.

8. Intangible Assets

We review long-lived assets, including definite-lived intangible assets, for recoverability whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. If the estimated undiscounted cash flows are less than the carrying amount of such assets, we recognize an impairment loss in an amount necessary to write down the assets to fair value as estimated from expected future discounted cash flows. Estimating the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions. We base our fair value estimates on assumptions we believe to be reasonable, but that are inherently uncertain.

Our intangible assets were comprised of the following (in thousands):

	March 31, 2012				December 31, 2011			
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:								
Trademarks/Tradenames	23 years	\$ 9,494	\$ (2,245)	\$ 7,249	23 years	\$ 9,468	\$ (2,153)	\$ 7,315

The aggregate intangible asset amortization expense was approximately \$0.1 million for the three months ended March 31, 2012 and 2011, respectively.

The estimated intangible asset amortization expense for the fiscal year ending December 31, 2012, and for the five succeeding years is as follows (in thousands):

Fiscal Year Ended	Estimated
December 31,	Amortization Expense
2012	\$366
2013	\$366
2014	\$366
2015	\$366
2016	\$366
2017	\$366

9. Restructuring Activities

In 2009, we announced the closure of our Norwalk, Ohio facility as a result of Navistar's decision to insource the cab assembly operations into its existing assembly facility in Escobedo, Mexico. We completed the Norwalk closure as of September 30, 2010.

We estimate that we will record total cash expenditures for this restructuring of approximately \$2.9 million, consisting of approximately \$0.9 million of severance costs and \$2.0 million of facility closure costs. We have incurred cumulative restructuring charges of \$2.5 million consisting of approximately \$0.9 million of severance costs and \$1.6 million of facility closure costs as of March 31, 2012.

A summary of the restructuring liability for the three months ended March 31, 2012 is as follows (in thousands):

	Employee	Facility Exit	Total
	Costs	and Other Contractual Costs	
Balance December 31, 2011	\$ 1	\$ 481	\$ 482
Utilizations		(38)	(38)
Balance March 31, 2012	\$ 1	\$ 443	\$ 444

10. Commitments and Contingencies

Warranty We are subject to warranty claims for products that fail to perform as expected due to design or manufacturing deficiencies. Customers continue to require their outside suppliers to guarantee or warrant their products and bear the cost of repair or replacement of such products. Depending on the terms under which we supply products to our customers, a customer may hold us responsible for some or all of the repair or replacement costs of defective products when the product supplied did not perform as represented. Our policy is to reserve for estimated future customer warranty costs based on historical trends and current economic factors. The following represents a summary of the warranty provision for the three months ended March 31, 2012 (in thousands):

Balance December 31, 2011	\$ 2,777
Additional provisions recorded	1,030
Deduction for payments made	(639)
Currency translation adjustment	16
Balance March 31, 2012	\$ 3,184

Edgar Filing: Commercial Vehicle Group, Inc. - Form 10-Q

Leases We lease office and manufacturing space and certain equipment under non-cancelable operating lease agreements that require us to pay maintenance, insurance, taxes and other expenses in addition to annual rents. As of March 31, 2012, our equipment leases did not provide for any material guarantee of a specified portion of residual values.

Guarantees We accrue for costs associated with guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts, and where no amount within a range of estimates is more likely, the minimum is accrued. In accordance with accounting guidance for guarantees issued after December 31, 2002, we record a liability for the fair value of such guarantees in the balance sheet. As of March 31, 2012, we had no such guarantees.

Litigation We are subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, product warranties, employment-related matters and environmental matters. Management believes that we maintain adequate insurance to cover these claims. We have established reserves for issues that are probable and estimable in amounts management believes are adequate to cover reasonable adverse judgments not covered by insurance. Based upon the information available to management and discussions with legal counsel, it is the opinion of management that the ultimate outcome of the various legal actions and claims that are incidental to our business will not have a material adverse impact on our consolidated financial position, results of operations or cash flows; however, such matters are subject to many uncertainties, and the outcomes of individual matters are not predictable with assurance.

11. Debt

Debt consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
7.875% senior notes due April 15, 2019	\$ 250,000	\$ 250,000

Revolving Credit Facility On January 7, 2009, we and certain of our direct and indirect U.S. subsidiaries, as borrowers (the borrowers), entered into a loan and security agreement with Bank of America, N.A., as agent and lender, which provided for a three-year asset-based revolving credit facility (as amended, the revolving credit facility) with an aggregate principal amount of up to \$37.5 million (after giving effect to a second amendment to our loan and security agreement entered into on August 4, 2009), which was subject to an availability block. On April 26, 2011, we entered into an amendment and restatement to the loan and security agreement governing the revolving credit facility (as so amended and restated, the Loan and Security Agreement) which, among other things, extended the maturity of the revolving credit facility to April 26, 2014, increased the revolving commitment to \$40.0 million and revised the availability block to equal the amount of debt Bank of America, N.A. or its affiliates makes available to the Company's foreign subsidiaries. Up to an aggregate of \$10.0 million is available to the borrowers for the issuance of letters of credit, which reduces availability under the revolving credit facility.

As of March 31, 2012, we did not have borrowings under the Loan and Security Agreement. In addition, as of March 31, 2012, we had outstanding letters of credit of approximately \$3.0 million and borrowing availability of \$37.0 million under the Loan and Security Agreement.

The Loan and Security Agreement contains financial covenants, including a minimum fixed charge coverage ratio, if we do not maintain certain availability requirements. Because we had borrowing availability in excess of \$10.0 million from December 31, 2011 through March 31, 2012, we were not required to comply with the minimum fixed charge coverage ratio covenant during the quarter ended March 31, 2012.

Under the revolving credit facility, borrowings bear interest at various rates plus a margin based on certain financial ratios. The borrowers obligations under the revolving credit facility are secured by a first-priority lien (subject to certain permitted liens) on substantially all of the tangible and intangible assets of the borrowers, as well as 100% of the capital stock of the direct domestic subsidiaries of each borrower and 65% of the capital stock of each foreign subsidiary directly owned by a borrower. Each of CVG and each other borrower is jointly and severally liable for the obligations under the revolving credit facility and unconditionally guarantees the prompt payment and performance thereof.

The applicable margin for borrowings under the revolving credit facility is based upon the fixed charge coverage ratio for the most recently ended fiscal quarter, as follows:

Level	Ratio	Domestic Base Rate Loans	LIBOR Revolver Loans
III	£ 1.25 to 1.00	1.50%	2.50%
II	³ 1.25 to 1.00 but < 1.75 to 1.00	1.25%	2.25%
I	³ 1.75 to 1.00	1.00%	2.00%

The applicable margin shall be subject to increase or decrease following receipt by the agent of the financial statements and corresponding compliance certificate for each fiscal quarter. If the financial statements or corresponding compliance certificate are not timely delivered, then the highest rate shall be applicable until the first day of the calendar month following actual receipt. Until receipt by the agent of the financial statements and corresponding compliance certificate for the fiscal quarter ending March 31, 2012, the applicable margin was set at Level II, which corresponds to our December 31, 2011 financial statements and compliance certificate.

We pay a commitment fee to the lenders, which is calculated at a rate per annum based on a percentage of the difference between committed amounts and amounts actually borrowed under the revolving credit facility multiplied by an applicable margin. The commitment fee is payable quarterly in arrears. Currently, the unused commitment fees is (i) .500% per annum times the unused commitment during any fiscal quarter in which the aggregate average daily unused commitment is equal to or greater than 50% of the revolver commitments or (ii) .375% per annum times the unused commitment during any fiscal quarter in which the aggregate average daily unused commitment is less than 50% of the revolver commitments.

Terms, Covenants and Compliance Status The Loan and Security Agreement requires the maintenance of a minimum fixed charge coverage ratio calculated based upon consolidated EBITDA (as defined in the revolving credit facility) as of the last day of each of our fiscal quarters. We are not required to comply with the fixed charge coverage ratio requirement for as long as we maintain at least \$10.0 million of borrowing availability under the revolving credit facility. If borrowing availability is less than \$10.0 million at any time, we would be required to comply with a fixed charge coverage ratio of 1.1:1.0 as of the end of any fiscal quarter, and would be required to continue to comply with these requirements until we have borrowing availability of \$10.0 million or greater for 60 consecutive days.

The Loan and Security Agreement contains customary restrictive covenants, including, without limitation, limitations on the ability of the borrowers and their subsidiaries to incur additional debt and guarantees; grant liens on assets; make investments or acquisitions; dispose of assets; make payments on certain indebtedness; merge, combine with any other person or liquidate; amend organizational documents; file consolidated tax returns with entities other than other borrowers or their subsidiaries; make material changes in accounting treatment or reporting practices; enter into restrictive agreements; enter into hedging agreements; engage in transactions with affiliates; enter into certain employee benefit plans; amend subordinated debt or the indenture governing the 7.875% notes; and other matters customarily restricted in loan agreements. In addition, subject to certain exceptions, the revolving credit facility does not permit the borrowers and their subsidiaries to pay dividends or make other distributions on any equity interests or to purchase or redeem any equity interests other than: (i) upstream payments to a borrower or a subsidiary of a borrower, (ii) the cashless exercise of options and warrants, (iii) the retirement of fractional shares and (iv) repurchases of equity interests deemed to occur in connection with the surrender of shares of equity interests to satisfy tax withholding obligations, subject to certain limitations. The revolving credit facility also contains customary reporting and other affirmative covenants. We were in compliance with these covenants as of March 31, 2012.

The Loan and Security Agreement contains customary events of default, including, without limitation, nonpayment of obligations under the revolving credit facility when due; material inaccuracy of representations and warranties; violation of covenants in the Loan and Security Agreement and certain other documents executed in connection therewith; breach or default of agreements related to debt in excess of \$5.0 million that could result in acceleration of that debt; revocation or attempted revocation of guarantees; denial of the validity or enforceability of the loan documents or failure of the loan documents to be in full force and effect; certain judgments in excess of \$2.0 million; the inability of an obligor to conduct any material part of its business due to governmental intervention, loss of any material license, permit, lease or agreement necessary to the business; cessation of an obligor's business for a material period of time; impairment of collateral through condemnation proceedings; certain events of bankruptcy or insolvency; certain Employee Retirement Income Securities Act (ERISA) events; and a change in control of CVG. Certain of the defaults are subject to exceptions, materiality qualifiers, grace periods and baskets customary for credit facilities of this type.

Voluntary prepayments of amounts outstanding under the revolving credit facility are permitted at any time, without premium or penalty.

The Loan and Security Agreement requires us to make mandatory prepayments with the proceeds of certain asset dispositions and upon the receipt of insurance or condemnation proceeds to the extent we do not use the proceeds for the purchase of assets useful in our business.

7.875% Senior Secured Notes due 2019 The 7.875% notes were issued pursuant to an indenture, dated as of April 26, 2011 (the 7.875% Notes Indenture), by and among CVG, certain of our subsidiaries party thereto, as guarantors (the guarantors) and U.S. Bank National Association, as trustee. Interest is payable on the 7.875% notes on April 15 and October 15 of each year until their maturity date of April 15, 2019.

The 7.875% notes are senior secured obligations of CVG. Our obligations under the 7.875% notes are guaranteed by the guarantors. The obligations of CVG and the guarantors under the 7.875% notes are secured by a second-priority lien (subject to certain permitted liens) on substantially all of the property and assets of CVG and the guarantors, and a pledge of 100% of the capital stock of CVG's domestic subsidiaries and 65% of the voting capital stock of each foreign subsidiary directly owned by CVG and the guarantors. The liens, the security interests and all of the obligations of CVG and the guarantors and all provisions regarding remedies in an event of default are subject to an intercreditor agreement among CVG, certain of its subsidiaries, the agent for the revolving credit facility and the collateral agent for the 7.875% notes (the Intercreditor Agreement).

The 7.875% Notes Indenture contains restrictive covenants, including, without limitation, limitations on our ability and the ability of our restricted subsidiaries to: incur additional debt; restrict dividends or other payments of subsidiaries; make investments; engage in transactions with affiliates; create liens on assets; engage in sale/ leaseback transactions; and consolidate, merge or transfer all or substantially all of our assets and the assets of our restricted subsidiaries. In addition, subject to certain exceptions, the 7.875% Notes Indenture does not permit us to pay dividends on, redeem or repurchase our capital stock or make other restricted payments unless certain conditions are met, including (i) no default under the 7.875% Notes Indenture has occurred and is continuing, (ii) we and our subsidiaries maintain a consolidated coverage ratio of 2.0 to 1.0 on a pro forma basis and (iii) the aggregate amount of the dividends or payments made under this restriction would not exceed 50% of consolidated net income from October 1, 2010 to the end of the most recent fiscal quarter (or, if consolidated net income for such period is a deficit, minus 100% of such deficit), plus cash proceeds received from certain issuances of capital stock, plus certain other amounts. These covenants are subject to important qualifications and exceptions set forth in the 7.875% Notes Indenture. We were in compliance with these covenants as of March 31, 2012.

The 7.875% Notes Indenture provides for events of default (subject in certain cases to customary grace and cure periods) which include, among others, nonpayment of principal or interest when due, breach of covenants or other agreements in the 7.875% Notes Indenture, defaults in payment of certain other indebtedness, certain events of bankruptcy or insolvency and certain defaults with respect to the security interests. Generally, if an event of default occurs, the trustee or the holders of at least 25% in principal amount of the then outstanding 7.875% notes may declare the principal of and accrued but unpaid interest on all of the 7.875% notes to be due and payable immediately. All provisions regarding remedies in an event of default are subject to the Intercreditor Agreement.

We may redeem the 7.875% notes, in whole or in part, at any time prior to April 15, 2014 at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the make-whole premium set forth in the 7.875% Notes Indenture. We may redeem the 7.875% notes, in whole or in part, at any time on or after April 15, 2014 at the redemption prices set forth in the 7.875% Notes Indenture, plus accrued and unpaid interest, if any, to the redemption date. Not more than once during each twelve-month period ending on April 15, 2012, April 15, 2013 and April 15, 2014, we may redeem up to \$25.0 million of the aggregate principal amount of the 7.875% notes at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. In addition, at any time on or prior to April 15, 2014, on one or more occasions, we may redeem up to 35% of the aggregate principal amount of the 7.875% notes with the net proceeds of certain equity offerings, as described in the 7.875% Notes Indenture, at a redemption price equal to 107.875% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. If we experience certain change of control events, holders of the 7.875% notes may require us to repurchase all or part of their notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

12. Income Taxes

We, or one of our subsidiaries, file federal income tax returns in the United States and income tax returns in various states and foreign jurisdictions. With few exceptions, we are no longer subject to income tax examinations by any of the taxing authorities for years before 2007. There are currently two income tax examinations in process.

As of March 31, 2012, we have provided a liability of approximately \$0.9 million of unrecognized tax benefits related to various federal and state income tax positions, which would impact our effective tax rate if recognized.

We accrue penalties and interest related to unrecognized tax benefits through income tax expense, which is consistent with the recognition of these items in prior reporting periods. We had approximately \$0.5 million accrued for the payment of interest and penalties at March 31, 2012, of which \$8 thousand was accrued during the current year. Accrued interest and penalties are included in the \$0.9 million of unrecognized tax benefits.

During the fiscal quarter ended March 31, 2012, we did not release any tax reserves associated with items falling outside the statute of limitations and the closure of certain tax years for examination purposes. Events could occur within the next 12 months that would have an impact on the amount of unrecognized tax benefits that would be required. Approximately \$68 thousand of unrecognized tax benefits relate to items that are affected by expiring statutes of limitation within the next 12 months.

During 2011, we continued to maintain a full valuation allowance against our net deferred tax assets, except in specific foreign jurisdictions and certain state jurisdictions, which did not have a multiple year cumulative loss. Though objective and verifiable negative evidence continues to outweigh positive evidence in jurisdictions with significant valuation allowances, we are experiencing positive evidence trends in certain of these jurisdictions. Our U.S. operations are experiencing current profitability, but these operations remain in an adjusted cumulative three-year loss position at March 31, 2012. To the extent this profitability trend continues, it is reasonably possible our conclusion regarding the need for a full valuation allowance could change within the next 12 months, resulting in the reversal of some or all of the U.S. valuation allowance. At March 31, 2012, the valuation allowance for the U.S. was \$53.5 million.

During the first quarter of 2012, we made an entity classification election to no longer treat KAB Seating Limited (a U.K. entity) as a branch of the U.S. for tax purposes. This tax election will result in an estimated \$12 million gain for federal income tax purposes, which will be offset by existing net operating losses. The utilization of these net operating losses will reduce deferred assets, which will result in a release of valuation allowance and will have no impact on the current year tax provision.

13. Foreign Currency Forward Exchange Contracts

We use forward exchange contracts to hedge certain of the foreign currency transaction exposures. We estimate our projected revenues and purchases in certain foreign currencies or locations and will hedge a portion or all of the anticipated long or short positions. As of March 31, 2012, we did not have any derivatives designated as hedging instruments; therefore, our forward foreign exchange contracts have been marked-to-market and the fair value of contracts recorded in the consolidated balance sheets with the offsetting non-cash gain or loss recorded in our consolidated statements of operations. We do not hold or issue foreign exchange options or forward contracts for trading purposes.

The following table summarizes the notional amount of our open foreign exchange contracts (in thousands):

	March 31, 2012		December 31, 2011	
	U.S. \$ Equivalent	U.S. Equivalent Fair Value	U.S. \$ Equivalent	U.S. Equivalent Fair Value
Commitments to buy currencies:				
Mexican peso	\$ 10,441	\$ 10,959	\$ 11,212	\$ 10,865

We consider the impact of our credit risk on the fair value of the contracts, as well as the ability to execute obligations under the contract.

Edgar Filing: Commercial Vehicle Group, Inc. - Form 10-Q

The following table summarizes the fair value and presentation in the consolidated balance sheets for derivatives not designated as accounting hedges (in thousands):

	Asset Derivatives			
	March 31, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 527	Other assets	\$ 1

	Liability Derivatives			
	March 31, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Accrued liabilities	\$ 2	Accrued liabilities	\$ 339
Foreign exchange contracts	Other long-term liabilities	7	Other long-term liabilities	9
		\$ 9		\$ 348

The following table summarizes the effect of derivative instruments on the consolidated statements of operations for derivatives not designated as hedging instruments (in thousands):

	Location of Gain Recognized in Income on Derivatives	Three Months Ended March 31,	
		2012	2011
		Amount of Gain Recognized in Income on Derivatives	
Foreign exchange contracts	Cost of revenues	\$ 865	\$

14. Pension and Other Post-Retirement Benefit Plans

We sponsor pension and other post-retirement benefit plans that cover certain hourly and salaried employees in the United States and United Kingdom. Our policy is to make annual contributions to the plans to fund the normal cost as required by local regulations. In addition, we have a post-retirement benefit plan for certain U.S. operations, retirees and their dependents.

The components of net periodic benefit cost related to the pension and other post-retirement benefit plans was as follows (in thousands):

	U.S. Pension Plans		Non-U.S. Pension Plans		Other Post-Retirement Benefit Plans	
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011	2012	2011
Service cost	\$ 26	\$ 20	\$	\$	\$	\$
Interest cost	453	488	468	561	12	16
Expected return on plan assets	(489)	(478)	(424)	(467)		
Amortization of prior service cost					(32)	(32)
Recognized actuarial loss (gain)	95	25	54	75	(21)	(34)
Net benefit cost	\$ 85	\$ 55	\$ 98	\$ 169	\$ (41)	\$ (50)

Edgar Filing: Commercial Vehicle Group, Inc. - Form 10-Q

We previously disclosed in our financial statements for the year ended December 31, 2011, that we expect to contribute approximately \$3.1 million to our pension plans and \$0.3 million to our other post-retirement benefit plans in 2012. As of March 31, 2012, approximately \$1.0 million of contributions have been made to our pension plans.

15. Related Party Transactions

In May 2008, we entered into a freight services arrangement with Group Transportation Services Holdings, Inc. (GTS), a third party logistics and freight management company. Under this arrangement, which was approved by our Audit Committee on April 29, 2008, GTS manages a portion of our freight and logistics program as well as administers its payments to additional third party freight service providers. In May 2010, GTS merged with Roadrunner Transportation Systems, Inc. (RRTS) in connection with the initial public offering of RRTS. Richard A. Snell, a member of our Board, is an Operating Partner of HCI Equity Partners, the controlling shareholder of RRTS, and Chad M. Utrup, our Chief Financial Officer, was elected to the Board of Directors of RRTS in May 2010. For each of the three months ended March 31, 2012 and 2011, we made payments (net of pass through payments to other third party freight service providers) to GTS/RRTS of approximately \$0.1 million of fees for services.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Overview

We are a leading supplier of a full range of cab related products and systems for the global commercial vehicle market, including the heavy-duty (Class 8) truck market, the construction, military, bus and agriculture markets and the specialty transportation markets. Our products include static and suspension seat systems, electronic wire harness assemblies, control and switches, cab structures and components, interior trim systems (including instrument panels, door panels, headliners, cabinetry and floor systems), mirrors and wiper systems specifically designed for applications in commercial vehicles.

We are differentiated from suppliers to the automotive industry by our ability to manufacture low volume customized products on a sequenced basis to meet the requirements of our customers. We believe that we have the number one or two position in several of our major markets and that we are one of the only suppliers in the North American commercial vehicle market that can offer complete cab systems, including cab body assemblies, sleeper boxes, seats, interior trim, flooring, wire harnesses, panel assemblies and other structural components. We believe our products are used by a majority of the North American heavy truck and certain leading global construction original equipment manufacturers (OEMs), which we believe creates an opportunity to cross-sell our products and offer a full range of cab related products and systems.

Demand for our heavy truck products is generally dependent on the number of new heavy truck commercial vehicles manufactured in North America, which in turn is a function of general economic conditions, interest rates, changes in governmental regulations, consumer spending, fuel costs and our customers' inventory levels and production rates. New heavy truck commercial vehicle demand has historically been cyclical and is particularly sensitive to the industrial sector of the economy, which generates a significant portion of the freight tonnage hauled by commercial vehicles. Production of heavy truck commercial vehicles in North America was strong from 2004 to 2006 due to the broad economic recovery in North America, corresponding growth in the movement of goods, the growing need to replace aging truck fleets and OEMs receiving larger than expected preorders in anticipation of the new EPA emissions standards becoming effective in 2007.

During 2007, the demand for North American Class 8 heavy trucks experienced a downturn as a result of preorders in 2006 and general weakness in the North American economy and corresponding decline in the need for commercial vehicles to haul freight tonnage in North America. The demand for new heavy truck commercial vehicles in 2008 was similar to 2007 levels as weakness in the overall North American economy continued to impact production related orders. The overall weakness in the North American economy and credit markets continued to put pressure on the demand for new vehicles in 2009 as reflected in the 42% decline of North American Class 8 production levels from 2008. We believe this general weakness contributed to the reluctance of trucking companies to invest in new truck fleets. In 2010, North American Class 8 production levels increased approximately 30% over the prior year period, indicating a recovery in the heavy truck market. This recovery continued into 2011 as North American Class 8 production levels increased approximately 66% from 2010. According to a March 2012 report by ACT Research, a publisher of industry market research, North American Class 8 production levels are expected to increase from 255,000 in 2011, peak at 307,000 in 2013 and decline to 289,000 in 2017.

Demand for our construction products is dependent on the overall vehicle demand for new commercial vehicles in the global construction equipment market and generally follows certain economic conditions around the world. Our products are primarily used in the medium/heavy construction equipment markets (weighing over 12 metric tons). Demand in the medium/heavy construction equipment market is typically related to the level of larger scale infrastructure development projects such as highways, dams, harbors, hospitals, airports and industrial development, as well as activity in the mining, forestry and other raw material based industries. During 2009, we experienced a significant decline in global construction equipment production levels as a result of the global economic downturn and related reduction in new equipment orders. During 2010 and continuing in 2011, the global construction market has shown signs of recovery.

Along with the United States, we have operations in Europe, Asia, Australia and Mexico. Our operating results are, therefore, impacted by exchange rate fluctuations to the extent we translate our foreign operations from their local currencies into U.S. dollars.

We continuously seek ways to improve our operating performance by lowering costs. These efforts include, but are not limited to, the following:

adjusting our hourly and salaried workforce to optimize costs in line with our production levels;

sourcing efforts in Mexico, Europe and Asia;

consolidating our supply base to improve purchasing leverage;

eliminating excess production capacity through the closure and consolidation of manufacturing, warehousing or assembly facilities;

improving our manufacturing cost basis by locating production in low-cost regions of the world; and

implementing Lean Manufacturing and Total Quality Production System (TQPS) initiatives to improve operating efficiency and product quality.

In the three months ended December 31, 2009, we announced restructuring plans for the closure and consolidation of one of our facilities located in Liberec, Czech Republic and the closing of our Norwalk, Ohio truck cab assembly facility. The closure and consolidation of our Liberec, Czech Republic facility was a result of management's continued focus on reducing fixed costs and eliminating excess capacity. The closure of this facility was substantially completed as of December 31, 2009. The closure of our Norwalk, Ohio facility was a result of Navistar's decision to source the cab assembly operations into its existing assembly facility in Escobedo, Mexico. We completed the Norwalk closure as of September 30, 2010.

Although OEM demand for our products is directly correlated with new vehicle production, we also have the opportunity to grow through increasing our product content per vehicle through cross selling and bundling of products. We generally compete for new business at the beginning of the development of a new vehicle platform and upon the redesign of existing programs. New platform development generally begins at least one to three years before the marketing of such models by our customers. Contract durations for commercial vehicle products generally extend for the entire life of the platform, which is typically five to seven years.

In sourcing products for a specific platform, the customer generally develops a proposed production timetable, including current volume and option mix estimates based on their own assumptions, and then sources business with the supplier pursuant to written contracts, purchase orders or other firm commitments in terms of price, quality, technology and delivery. In general, these contracts, purchase orders and commitments provide that the customer can terminate if a supplier does not meet specified quality and delivery requirements and, in many cases, they provide that the price will decrease over the proposed production timetable. Awarded business generally covers the supply of all or a portion of a customer's production and service requirements for a particular product program rather than the supply of a specific quantity of products. Accordingly, in estimating awarded business over the life of a contract or other commitment, a supplier must make various assumptions as to the estimated number of vehicles expected to be produced, the timing of that production, mix of options on the vehicles produced and pricing of the products being supplied. The actual production volumes and option mix of vehicles produced by customers depend on a number of factors that are beyond a supplier's control.

Results of Operations

The table below sets forth certain operating data expressed as a percentage of revenues:

	Three Months Ended March 31,	
	2012	2011
Revenues	100.0%	100.0%
Cost of revenues	84.5	86.5
Gross profit	15.5	13.5
Selling, general and administrative expenses	7.7	8.9
Amortization expense		
Restructuring costs		0.2
Operating income	7.8	4.4
Other expense		
Interest expense	2.2	2.2
Income before provision for income taxes	5.6	2.2
Provision for income taxes	0.5	0.4
Net income	5.1	1.8
Less: Non-controlling interest in subsidiary's loss		
Net income attributable to CVG stockholders	5.1%	1.8%

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Revenues. Revenues increased approximately \$54.5 million, or 29.9%, to \$237.0 million in the three months ended March 31, 2012 from \$182.5 million in the three months ended March 31, 2011. This change resulted primarily from:

a 51% increase in North American heavy-duty (class 8) production, fluctuations in production levels for other North American end markets and net new business awards resulting in approximately \$55.1 million of increased revenues;

an increase in production levels and net new business awards in our European, Australian and Asian markets resulting in approximately \$0.1 million of increased revenues; and

unfavorable foreign exchange fluctuations from the translation of our foreign operations into U.S. Dollars resulting in a decrease of approximately \$0.7 million.

Gross Profit. Gross profit was approximately \$36.8 million for the three months ended March 31, 2012 compared to \$24.7 million in the three months ended March 31, 2011, an increase of approximately \$12.1 million. This increase was primarily the result of the impact of the increased revenues discussed above and a gain of approximately \$0.9 million related to the mark to market of our foreign exchange contracts. As a percentage of revenues, gross profit was 15.5% for the three months ended March 31, 2012 compared to 13.5% for the three months ended March 31, 2011.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased approximately \$2.0 million to \$18.2 million in the three months ended March 31, 2012 from \$16.2 million in the three months ended March 31, 2011. This increase was primarily the result of increased wages and compensation, along with increased travel and other expenses to support our new business and strategic initiatives.

Amortization Expense. Amortization expense was approximately \$0.1 million for the three months ended March 31, 2012 and 2011, respectively.

Edgar Filing: Commercial Vehicle Group, Inc. - Form 10-Q

Restructuring Costs. We recorded restructuring charges for the three months ended March 31, 2011 of \$0.3 million relating to the closure of our Norwalk, Ohio facility.

Other Expense. We recorded miscellaneous expenses for the three months ended March 31, 2012 and 2011 of \$5 thousand and \$6 thousand, respectively.

Interest Expense. Interest expense increased approximately \$1.3 million to \$5.3 million in the three months ended March 31, 2012 from \$4.0 million in the three months ended March 31, 2011. This increase was primarily due to higher average outstanding debt.

Provision for Income Taxes. Our effective tax rate was 9.1% and 20.6% for the three months ended March 31, 2012 and 2011, respectively. An income tax provision of approximately \$1.2 million was recorded for the three months ended

March 31, 2012 compared to approximately \$0.9 million for the three months ended March 31, 2011. The provision is currently being offset by valuation allowances except in China, Australia and several state tax jurisdictions. The change in income tax from the prior year's quarter can be primarily attributed to income generated by our non-U.S. locations that are not subject to valuation allowances. Their tax rates are generally lower than the U.S. federal statutory rate of 35%.

Net Income. Net income was \$12.0 million in the three months ended March 31, 2012, compared to \$3.3 million in the three months ended March 31, 2011, primarily as a result of the factors discussed above.

Net Income Attributable to CVG Stockholders. Net income was \$12.0 million in the three months ended March 31, 2012, compared to \$3.3 million in the three months ended March 31, 2011, primarily as a result of the factors discussed above.

Liquidity and Capital Resources

Cash Flows

For the three months ended March 31, 2012, net cash provided by operations was approximately \$5.4 million compared to net cash used of approximately \$12.7 million for the three months ended March 31, 2011. The net cash provided by operations for the three months ended March 31, 2012 was primarily a result of higher operating income, which was partially offset by higher working capital requirements due to increased production volumes. Net cash used for the three months ended March 31, 2011 was primarily the result of an increase in accounts receivable due to higher sales and the timing of collections.

Net cash used in investing activities was approximately \$2.9 million for the three months ended March 31, 2012 compared to \$11.8 million for the three months ended March 31, 2011. The amounts used in investing activities for the three months ended March 31, 2012 primarily reflect capital expenditure purchases. The amounts used in investing activities for the three months ended March 31, 2011 primarily reflect capital expenditures and our acquisition of Bostrom.

Debt and Credit Facilities

As of March 31, 2012, our outstanding indebtedness consisted of an aggregate of \$250.0 million of 7.875% notes due 2019 (the 7.875% notes), excluding \$3.0 million of outstanding letters of credit under various financing arrangements and an additional \$37.0 million of borrowing capacity under our revolving credit facility, which is subject to an availability block.

Revolving Credit Facility

On January 7, 2009, we and certain of our direct and indirect U.S. subsidiaries, as borrowers (the borrowers), entered into a loan and security agreement with Bank of America, N.A., as agent and lender, which provided for a three-year asset-based revolving credit facility (as amended, the revolving credit facility) with an aggregate principal amount of up to \$37.5 million (after giving effect to a second amendment to our loan and security agreement entered into on August 4, 2009), which was subject to an availability block. On April 26, 2011, we entered into an amendment and restatement to the loan and security agreement governing the revolving credit facility (as so amended and restated, the Loan and Security Agreement) which, among other things, extended the maturity of the revolving credit facility to April 26, 2014, increased the revolving commitment to \$40.0 million and revised the availability block to equal the amount of debt Bank of America, N.A. or its affiliates makes available to the Company's foreign subsidiaries. As of March 31, 2012, the availability block was \$0. Up to an aggregate of \$10.0 million is available to the borrowers for the issuance of letters of credit, which reduces availability under the revolving credit facility.

In connection with the amendment and restatement of the Loan and Security Agreement on April 26, 2011, we issued \$250.0 million aggregate principal amount of 7.875% notes pursuant to a new indenture (as discussed below). We used the net proceeds from the offering of the 7.875% notes to repay all outstanding indebtedness under our loan and security agreement, dated as of August 24, 2009, to fund the repurchase of approximately \$94.9 million of our 8% Senior Notes due 2013 (the 8% notes) and approximately \$48.0 million of our 11%/13% Third Lien Senior Secured Notes due 2013 (the third lien notes) and to pay related fees and expenses.

As of March 31, 2012, approximately \$0.3 million in deferred fees relating to the revolving credit facility and our 7.875% notes were being amortized over the life of the agreements.

Under the revolving credit facility, borrowings bear interest at various rates plus a margin based on certain financial ratios. The borrowers obligations under the revolving credit facility are secured by a first-priority lien (subject to certain permitted liens) on substantially all of the tangible and intangible assets of the borrowers, as well as 100% of the capital stock of the direct domestic subsidiaries of each borrower and 65% of the capital stock of each foreign subsidiary directly owned by a borrower. Each of CVG and each other borrower is jointly and severally liable for the obligations under the revolving credit facility and unconditionally guarantees the prompt payment and performance thereof.

The applicable margin for borrowings under the revolving credit facility is based upon the fixed charge coverage ratio for the most recently ended fiscal quarter, as follows:

Level	Ratio	Domestic Base Rate Loans	LIBOR Revolver Loans
III	< 1.25 to 1.00	1.50%	2.50%
II	³ 1.25 to 1.00 but < 1.75 to 1.00	1.25%	2.25%
I	³ 1.75 to 1.00	1.00%	2.00%

The applicable margin shall be subject to increase or decrease following receipt by the agent of the financial statements and corresponding compliance certificate for each fiscal quarter. If the financial statements or corresponding compliance certificate are not timely delivered, then the highest rate shall be applicable until the first day of the calendar month following actual receipt. Until receipt by the agent of the financial statements and corresponding compliance certificate for the fiscal quarter ending March 31, 2012, the applicable margin was set at Level II based on our December 31, 2011 financial statements and compliance certificate.

We pay a commitment fee to the lenders, which is calculated at a rate per annum based on a percentage of the difference between committed amounts and amounts actually borrowed under the revolving credit facility multiplied by an applicable margin. The commitment fee is payable quarterly in arrears. Currently, the unused commitment fees is (i) .500% per annum times the unused commitment during any fiscal quarter in which the aggregate average daily unused commitment is equal to or greater than 50% of the revolver commitments or (ii) .375% per annum times the unused commitment during any fiscal quarter in which the aggregate average daily unused commitment is less than 50% of the revolver commitments.

Terms, Covenants and Compliance Status

The Loan and Security Agreement requires the maintenance of a minimum fixed charge coverage ratio calculated based upon consolidated EBITDA (as defined in the revolving credit facility) as of the last day of each of our fiscal quarters. We are not required to comply with the fixed charge coverage ratio requirement for as long as we maintain at least \$10.0 million of borrowing availability under the revolving credit facility. Because we had borrowing availability in excess of \$10.0 million from December 31, 2011 through March 31, 2012, we were not required to comply with the minimum fixed charge coverage ratio covenant during the quarter ended March 31, 2012. If borrowing availability is less than \$10.0 million at any time, we would be required to comply with a fixed charge coverage ratio of 1.1:1.0 as of the end of any fiscal quarter, and would be required to continue to comply with these requirements until we have borrowing availability of \$10.0 million or greater for 60 consecutive days.

The Loan and Security Agreement contains customary restrictive covenants, including, without limitation, limitations on the ability of the borrowers and their subsidiaries to incur additional debt and guarantees; grant liens on assets; make investments or acquisitions; dispose of assets; make payments on certain indebtedness; merge, combine with any other person or liquidate; amend organizational documents; file consolidated tax returns with entities other than other borrowers or their subsidiaries; make material changes in accounting treatment or reporting practices; enter into restrictive agreements; enter into hedging agreements; engage in transactions with affiliates; enter into certain employee benefit plans; amend subordinated debt or the indenture governing the 7.875% notes; and other matters customarily restricted in loan agreements. In addition, subject to certain exceptions, the revolving credit facility does not permit the borrowers and their subsidiaries to pay dividends or make other distributions on any equity interests or to purchase or redeem any equity interests other than: (i) upstream payments to a borrower or a subsidiary of a borrower, (ii) the cashless exercise of options and warrants, (iii) the retirement of fractional shares and (iv) repurchases of equity interests deemed to occur in connection with the surrender of shares of equity interests to satisfy tax withholding obligations, subject to certain limitations. The revolving credit facility also contains customary reporting and other affirmative covenants. We were in compliance with these covenants as of March 31, 2012.

The Loan and Security Agreement contains customary events of default, including, without limitation, nonpayment of obligations under the revolving credit facility when due; material inaccuracy of representations and warranties; violation of covenants in the Loan and Security Agreement and certain other documents executed in connection therewith; breach or default of agreements related to debt in excess of \$5.0 million that could result in acceleration of that debt; revocation or attempted revocation of guarantees; denial of the validity or enforceability of the loan documents or failure of the loan documents to be in full force and effect; certain judgments in excess of \$2.0 million; the inability of an obligor to conduct any material part of its business due to governmental intervention, loss of any material license, permit, lease or agreement necessary to the business; cessation of an obligor's business for a material period of time; impairment of collateral through condemnation proceedings; certain events of bankruptcy or insolvency; certain Employee Retirement Income Securities Act (ERISA) events; and a change in control of CVG. Certain of the defaults are subject to exceptions, materiality qualifiers, grace periods and baskets customary for credit facilities of this type.

Voluntary prepayments of amounts outstanding under the revolving credit facility are permitted at any time, without premium or penalty.

The Loan and Security Agreement requires us to make mandatory prepayments with the proceeds of certain asset dispositions and upon the receipt of insurance or condemnation proceeds to the extent we do not use the proceeds for the purchase of assets useful in our business.

7.875% Senior Secured Notes due 2019

The 7.875% notes were issued pursuant to an indenture, dated as of April 26, 2011 (the 7.875% Notes Indenture), by and among CVG, certain of our subsidiaries party thereto, as guarantors (the guarantors) and U.S. Bank National Association, as trustee. Interest is payable on the 7.875% notes on April 15 and October 15 of each year until their maturity date of April 15, 2019.

The 7.875% notes are senior secured obligations of CVG. Our obligations under the 7.875% notes are guaranteed by the guarantors. The obligations of CVG and the guarantors under the 7.875% notes are secured by a second-priority lien (subject to certain permitted liens) on substantially all of the property and assets of CVG and the guarantors, and a pledge of 100% of the capital stock of CVG's domestic subsidiaries and 65% of the voting capital stock of each foreign subsidiary directly owned by CVG and the guarantors. The liens, the security interests and all of the obligations of CVG and the guarantors and all provisions regarding remedies in an event of default are subject to an intercreditor agreement among CVG, certain of its subsidiaries, the agent for the revolving credit facility and the collateral agent for the 7.875% notes (the Intercreditor Agreement).

The 7.875% Notes Indenture contains restrictive covenants, including, without limitation, limitations on our ability and the ability of our restricted subsidiaries to: incur additional debt; restrict dividends or other payments of subsidiaries; make investments; engage in transactions with affiliates; create liens on assets; engage in sale/ leaseback transactions; and consolidate, merge or transfer all or substantially all of our assets and the assets of our restricted subsidiaries. In addition, subject to certain exceptions, the 7.875% Notes Indenture does not permit us to pay dividends on, redeem or repurchase our capital stock or make other restricted payments unless certain conditions are met, including (i) no default under the 7.875% Notes Indenture has occurred and is continuing, (ii) we and our subsidiaries maintain a consolidated coverage ratio of 2.0 to 1.0 on a pro forma basis and (iii) the aggregate amount of the dividends or payments made under this restriction would not exceed 50% of consolidated net income from October 1, 2010 to the end of the most recent fiscal quarter (or, if consolidated net income for such period is a deficit, minus 100% of such deficit), plus cash proceeds received from certain issuances of capital stock, plus certain other amounts. These covenants are subject to important qualifications and exceptions set forth in the 7.875% Notes Indenture. We were in compliance with these covenants as of March 31, 2012.

The 7.875% Notes Indenture provides for events of default (subject in certain cases to customary grace and cure periods) which include, among others, nonpayment of principal or interest when due, breach of covenants or other agreements in the 7.875% Notes Indenture, defaults in payment of certain other indebtedness, certain events of bankruptcy or insolvency and certain defaults with respect to the security interests. Generally, if an event of default occurs, the trustee or the holders of at least 25% in principal amount of the then outstanding 7.875% notes may declare the principal of and accrued but unpaid interest on all of the 7.875% notes to be due and payable immediately. All provisions regarding remedies in an event of default are subject to the Intercreditor Agreement.

We may redeem the 7.875% notes, in whole or in part, at any time prior to April 15, 2014 at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the make-whole premium set forth in the 7.875% Notes Indenture. We may redeem the 7.875% notes, in whole or in part, at any time on or after April 15, 2014 at the redemption prices set forth in the 7.875% Notes Indenture, plus accrued and unpaid interest, if any, to the redemption date. Not more than once during each twelve-month period ending on April 15, 2012, April 15, 2013 and April 15, 2014, we may redeem up to \$25.0 million of the aggregate principal amount of the 7.875% notes at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. In addition, at any time on or prior to April 15, 2014, on one or more occasions, we may redeem up to 35% of the aggregate principal amount of the 7.875% notes with the net proceeds of certain equity offerings, as described in the 7.875% Notes Indenture, at a redemption price equal to 107.875% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. If we experience certain change of control events, holders of the 7.875% notes may require us to repurchase all or part of their notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants and Liquidity

We continue to operate in a challenging economic environment, and our ability to comply with the covenants in the Loan and Security Agreement may be affected in the future by economic or business conditions beyond our control. Based on our current forecast, we believe that we will be able to maintain compliance with the fixed charge coverage ratio covenant, if applicable, and other covenants in the Loan and Security Agreement for the next twelve months; however, no assurances can be given that we will be able to comply. We base our forecasts on historical experience, industry forecasts and various other assumptions that we believe are reasonable under the circumstances. If actual results are substantially different than our current forecast, or if we do not realize a significant portion of our planned cost savings or sustain sufficient cash or borrowing availability, we could be required to comply with our financial covenants, and there is no assurance that we would be able to comply with such financial covenants. If we do not comply with the financial and other covenants in the Loan and Security Agreement, and we are unable to obtain necessary waivers or amendments from the lender, we would be precluded from borrowing under the Loan and Security Agreement, which could have a material adverse effect on our business, financial condition and liquidity. If we are unable to borrow under the Loan and Security Agreement, we will need to meet our capital requirements using other sources and alternative sources of liquidity may not be available on acceptable terms. In addition, if we do not comply with the financial and other covenants in the Loan and Security Agreement, the lender could declare an event of default under the Loan and Security Agreement, and our indebtedness thereunder could be declared immediately due and payable, which would also result in an event of default under the 7.875% notes. Any of these events would have a material adverse effect on our business, financial condition and liquidity.

We believe that cash on hand, cash flow from operating activities together with available borrowings under the Loan and Security Agreement will be sufficient to fund currently anticipated working capital, planned capital spending, certain strategic initiatives and debt service requirements for at least the next 12 months. No assurance can be given, however, that this will be the case.

Update on Contractual Obligations

At March 31, 2012, we have provided a liability for \$0.9 million of unrecognized tax benefits related to various income tax positions. We do not expect a significant tax payment related to these obligations within the next year.

Forward-Looking Statements

All statements, other than statements of historical fact included in this Form 10-Q, including without limitation the statements under Management's Discussion and Analysis of Financial Condition and Results of Operations are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Form 10-Q, the words believes, anticipates, plans, expects, and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such forward-looking statements may include management's current expectations for future periods with respect to industry outlook, financial covenant compliance, anticipated effects of acquisitions, production of new products, plans for capital expenditures and our results of operations or financial position and liquidity, and are based on the beliefs of our management as well as on assumptions made by and information currently available to us at the time such statements were made. Investors are warned that actual results may differ from management's expectations. Various economic and competitive factors could cause actual results to differ materially from those discussed in such forward-looking statements, including factors which are outside of our control, such as risks relating to: (i) general economic or business

conditions affecting the markets in which we serve; (ii) our ability to develop or successfully introduce new products; (iii) risks associated with conducting business in foreign countries and currencies; (iv) increased competition in the heavy-duty truck or construction market; (v) our failure to complete or successfully integrate additional strategic acquisitions; (vi) the impact of changes in governmental regulations on our customers or on our business; (vii) the loss of business from a major customer or the discontinuation of particular commercial vehicle platforms; (viii) our ability to obtain future financing due to changes in the lending markets or our financial position; (ix) our ability to comply with the financial covenants in our revolving credit facility; and (x) various other risks as outlined under the heading **Risk Factors** in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such cautionary statements.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our exposure to market risk since December 31, 2011.

ITEM 4 CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Our senior management is responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2012.

Changes in Internal Control over Financial Reporting. There was no change in our internal control over financial reporting during the three months ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

Item 1. Legal Proceedings:

From time to time, we are involved in various disputes and litigation matters that arise in the ordinary course of our business. We do not have any material litigation at this time.

Item 1A. Risk Factors:

There have been no material changes to our risk factors as disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 13, 2012.

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

We did not sell any equity securities during the three months ended March 31, 2012 that were not registered under the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits:

- 10.1 Commercial Vehicle Group, Inc. 2012 Bonus Plan (incorporated by reference to the Company's current report on Form 8-K (File No. 001-34365), filed on March 9, 2012).
- 31.1 Certification by Mervin Dunn, President and Chief Executive Officer.
- 31.2 Certification by Chad M. Utrup, Chief Financial Officer.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive Data Files

SIGNATURE

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

COMMERCIAL VEHICLE GROUP, INC.

Date: May 4, 2012

By: /s/ Chad M. Utrup
Chad M. Utrup
Chief Financial Officer
(Principal financial and accounting officer
and duly authorized officer)