

Commercial Vehicle Group, Inc.

Form 10-Q

May 05, 2006

Table of Contents

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

Form 10-Q

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

For the quarterly period ended March 31, 2006

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 000-50890

COMMERCIAL VEHICLE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

6530 West Campus Oval

New Albany, Ohio

(Address of principal executive offices)

41-1990662

(I.R.S. Employer
Identification No.)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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, 2006 was 21,069,512 shares.

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q**

| | | |
|----------------|---|-----------|
| PART I | FINANCIAL INFORMATION | |
| ITEM 1 | <u>FINANCIAL STATEMENTS</u> | 1 |
| | <u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (UNAUDITED)</u> | 1 |
| | <u>CONDENSED CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2006 AND DECEMBER 31, 2005 (UNAUDITED)</u> | 2 |
| | <u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (UNAUDITED)</u> | 3 |
| | <u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u> | 4 |
| ITEM 2 | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 19 |
| ITEM 3 | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 23 |
| ITEM 4 | <u>CONTROLS AND PROCEDURES</u> | 23 |
| PART II | <u>OTHER INFORMATION</u> | 24 |
| | <u>SIGNATURES</u> | 25 |
| | <u>Certification of Chief Executive Officer</u> | |
| | <u>Certification of Chief Financial Officer</u> | |
| | <u>Certification of Chief Executive Officer</u> | |
| | <u>Certification of Chief Financial Officer</u> | |

Table of Contents**ITEM 1 FINANCIAL STATEMENTS**

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | Three Months Ended | |
|--|---|-------------|
| | March 31, | |
| | 2006 | 2005 |
| | (In thousands, except per share amounts) | |
| REVENUES | \$ 229,345 | \$ 152,415 |
| COST OF REVENUES | 190,611 | 126,163 |
| Gross Profit | 38,734 | 26,252 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 13,152 | 9,549 |
| AMORTIZATION EXPENSE | 105 | 24 |
| Operating Income | 25,477 | 16,679 |
| OTHER EXPENSE (INCOME) | 230 | (2,881) |
| INTEREST EXPENSE | 3,890 | 2,168 |
| Income Before Provision for Income Taxes | 21,357 | 17,392 |
| PROVISION FOR INCOME TAXES | 7,949 | 6,506 |
| NET INCOME | \$ 13,408 | \$ 10,886 |
| BASIC EARNINGS PER SHARE | \$ 0.64 | \$ 0.61 |
| DILUTED EARNINGS PER SHARE | \$ 0.62 | \$ 0.59 |

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

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

| | March 31, 2006 | December 31, 2005 |
|---|-------------------------------|----------------------------------|
| | (In thousands) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 26,468 | \$ 40,641 |
| Accounts receivable, net of reserve for doubtful accounts of \$6,214 and \$6,087, respectively | 145,561 | 114,116 |
| Inventories, net | 70,786 | 69,053 |
| Prepaid expenses and other current assets | 6,777 | 4,724 |
| Deferred income taxes | 12,670 | 12,571 |
| Total current assets | 262,262 | 241,105 |
| PROPERTY, PLANT AND EQUIPMENT, net | 81,641 | 80,415 |
| GOODWILL | 125,800 | 125,607 |
| INTANGIBLE ASSETS, net of accumulated amortization of \$549 and \$450, respectively | 84,478 | 84,577 |
| OTHER ASSETS, net | 11,809 | 12,179 |
| TOTAL ASSETS | \$ 565,990 | \$ 543,883 |
| LIABILITIES AND STOCKHOLDERS INVESTMENT | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | \$ 5,574 | \$ 5,309 |
| Accounts payable | 80,784 | 73,709 |
| Accrued liabilities | 44,846 | 42,983 |
| Total current liabilities | 131,204 | 122,001 |
| LONG-TERM DEBT, net of current maturities | 184,635 | 185,700 |
| DEFERRED TAX LIABILITIES | 8,802 | 8,802 |
| OTHER LONG-TERM LIABILITIES | 24,287 | 25,303 |
| Total liabilities | 348,928 | 341,806 |
| COMMITMENTS AND CONTINGENCIES (Note 9) | | |
| STOCKHOLDERS INVESTMENT: | | |
| Common stock \$.01 par value; 30,000,000 shares authorized; 21,069,512 and 21,145,954 shares issued and outstanding, respectively | 211 | 211 |
| Additional paid-in capital | 170,758 | 169,252 |
| Retained earnings | 47,365 | 33,957 |

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

| | | |
|---|-------------------|-------------------|
| Accumulated other comprehensive loss | (1,272) | (1,343) |
| Total stockholders' investment | 217,062 | 202,077 |
| TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT | \$ 565,990 | \$ 543,883 |

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

2

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2006 | 2005 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 13,408 | \$ 10,886 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 3,501 | 2,762 |
| Noncash amortization of debt financing costs | 231 | 173 |
| Stock-based compensation expense | 608 | |
| Loss on sale of assets | 2 | 22 |
| Deferred income tax (benefit) provision | (91) | 1,120 |
| Noncash loss (gain) on forward exchange contracts | 238 | (2,872) |
| Change in other operating items | (26,778) | (2,033) |
| Net cash (used in) provided by operating activities | (8,881) | 10,058 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (4,591) | (2,883) |
| Acquisitions, net of cash received | | (106,358) |
| Other assets and liabilities | (101) | |
| Net cash (used in) investing activities | (4,692) | (109,241) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock under stock option and equity incentive plans | 599 | |
| Repayment of revolving credit facility | (2,192) | (26,165) |
| Borrowings under revolving credit facility | 2,747 | 27,551 |
| Repayments of long-term borrowings | (1,974) | (3,877) |
| Borrowings of long-term debt | 522 | 102,458 |
| Other, net | (27) | (2) |
| Net cash (used in) provided by financing activities | (325) | 99,965 |
| EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (275) | (651) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (14,173) | 131 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 40,641 | 1,396 |
| End of period | \$ 26,468 | \$ 1,527 |

SUPPLEMENTAL CASH FLOW INFORMATION:

| | | |
|---------------------------------|----------|----------|
| Cash paid for interest | \$ 6,551 | \$ 2,074 |
| Cash paid for income taxes, net | \$ 1,170 | \$ 1,513 |

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

Table of Contents

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 suspension 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 and agriculture market and the specialty and military transportation markets. The Company has operations located in the United States in Arizona, Indiana, Illinois, Iowa, North Carolina, Ohio, Oregon, Tennessee, Texas, Virginia, Washington and Wisconsin and outside of the United States in Australia, Belgium, China, Mexico, Sweden and the United Kingdom.

The Company has prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the 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 have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading when read in conjunction with its fiscal 2005 consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K as filed with the SEC. Unless otherwise indicated, all amounts are in thousands except per share amounts.

Revenues and operating results for the three months ended March 31, 2006 are not necessarily indicative of the results to be expected in future operating quarters.

2. Recently Issued Accounting Pronouncements

In September 2005, the Financial Accounting Standards Board (FASB) issued a proposed Statement of Financial Accounting Standards (SFAS) which amends SFAS No. 128, *Earnings per Share*. The proposed statement would be effective in the second quarter of 2006 and is intended to clarify guidance on the computation of earnings per share for certain items such as mandatorily convertible instruments, the treasury stock method, and contingently issuable shares. We have evaluated the proposed statement as presently drafted and have determined that if adopted in its current form it would not have a significant impact on the computation of our earnings per share.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments - an amendment of SFAS No. 133 and No. 140* which is effective for fiscal years beginning after September 15, 2006. The statement was issued to clarify the application of SFAS No. 133 to beneficial interests in securitized financial assets and to improve the consistency of accounting for similar financial instruments, regardless of the form of the instruments. We have evaluated the new statement and have determined that it will not have a significant impact on the determination or reporting of our financial results.

In February 2006, the FASB issued FASB Staff Position (FSP) FAS 123(R)-4, *Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event* that is effective upon the date of initial adoption of SFAS No. 123(R). FSP FAS 123(R)-4 addresses the classification of options and similar instruments issued as employee compensation that allow for cash settlement upon the occurrence of a contingent event. The adoption of this FSP did not have a material effect on the Company s consolidated financial statements.

Table of Contents

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets – an amendment of SFAS No. 140*, which is effective for fiscal years beginning after September 15, 2006. This statement was issued to simplify the accounting for servicing rights and to reduce the volatility that results from using different measurement attributes. We have evaluated the new statement and have determined that it will not have a significant impact on the determination or reporting of our financial results.

3. Stock-Based Compensation

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment*, using the modified prospective application transition method. SFAS No. 123(R) eliminates the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25 as an alternative method of accounting for stock-based awards. SFAS No. 123(R) also revises the fair value-based method of accounting for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarifies the guidance of SFAS No. 123, *Accounting for Stock-Based Compensation*, in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods.

The Company estimates the adoption of SFAS No. 123(R), using the modified prospective application method, will result in pre-tax expense of approximately \$1.8 million in 2006 based on the Company's current share-based compensation plans. Our pre-tax net income for the three months ended March 31, 2006 includes approximately \$0.6 million of compensation expense. Our net income for the three months ended March 31, 2005 does not include any compensation expense related to our stock-based compensation arrangements.

As a result of adopting SFAS No. 123(R) on January 1, 2006, net income for the three months ended March 31, 2006, was approximately \$0.1 million lower than if the Company had continued to account for stock-based compensation under APB Opinion No. 25. The change to earnings per share for the same period would have been immaterial.

The following table illustrates the effect on net income and earnings per share had the Company accounted for stock-based compensation in accordance with SFAS No. 123(R) for the three months ended March 31, 2005 (in thousands, except per share amounts – unaudited):

| | |
|--|-----------|
| Net income, as reported | \$ 10,886 |
| (Less): Stock-based compensation expense determined under the the fair-value-based method for all awards, net of related tax | (167) |
| Pro forma net income | \$ 10,719 |
| | |
| Basic net earnings per share: | |
| As reported | \$ 0.61 |
| Pro forma | \$ 0.60 |
| | |
| Diluted net earnings per share: | |
| As reported | \$ 0.59 |
| Pro forma | \$ 0.59 |

The pro forma amounts shown above are not indicative of the pro forma effect in future periods since the fair value of options is amortized to expense over the vesting period and the number of options granted varies from period to period.

Table of Contents*Stock Options and Restricted Stock Grants*

In 1998, the Company issued options to purchase 57,902 shares of common stock at \$9.43 per share, which are exercisable through December 2008. The options were granted at exercise prices determined to be at or above fair value on the date of grant.

In May 2004, the Company granted options to purchase 910,869 shares of common stock at \$5.54 per share. These options have a ten year term, with 50% of such options being immediately exercisable and the remaining 50% becoming exercisable ratably on June 30, 2005 and June 30, 2006. During June 2004, the Company modified the terms of these options to be 100% vested immediately. The Company recorded a noncash compensation charge of \$10.1 million, equal to the difference between \$5.54 and the estimated fair market value.

In October 2004, the Company granted options to purchase 598,950 shares of common stock at \$15.84 per share. These options have a ten year term and vest in three equal annual installments commencing on October 20, 2005. As of March 31, 2006, there was approximately \$0.8 million of unearned compensation related to non-vested share-based compensation arrangements granted under this plan. This expense is subject to future adjustments for sales and forfeitures and will be recognized on a straight-line basis over the remaining period of 19 months.

In November 2005, 168,700 shares of restricted stock with a grant date fair value of \$19.50 were awarded by our compensation committee under our Amended and Restated Equity Incentive Plan. 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. The shares of restricted stock granted in November 2005 vest in three equal annual installments commencing on October 20, 2006. A participant granted restricted stock generally has all of the rights of a stockholder, unless the compensation committee determines otherwise. As of March 31, 2006, there was approximately \$2.6 million of unearned compensation related to non-vested share-based compensation arrangements granted under this plan. This expense is subject to future adjustments for sales and forfeitures and will be recognized on a straight-line basis over the remaining period of 31 months.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of equity-based grants with the following weighted-average assumptions:

| | 2004 Stock Option Grants |
|---|---|
| Weighted-average fair value of option and restricted stock grants | \$ 3.34 |
| Risk-free interest rate | 4.50% |
| Expected volatility | 23.12% |
| Expected life in months | 36 |

The Company estimates the forfeiture rate for its stock option and restricted stock grants at 12.0% and 6.0%, respectively, for all participants of each plan.

Table of Contents

A summary of the status of the Company's stock options as of March 31, 2006 and changes during the period ending on March 31, 2006 is presented below:

| Share Options | Shares (000 s) | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value (000 s) |
|------------------------------------|--------------------------|--|--|---|
| Outstanding at beginning of period | 1,219 | \$ 10.45 | | \$ |
| Granted | | | | |
| Exercised | (91) | 6.75 | | 1,118 |
| Forfeited | (21) | 15.84 | | |
| Outstanding at March 31, 2006 | 1,107 | \$ 10.65 | 8.2 | \$ 9,931 |
| Exercisable at March 31, 2006 | 748 | \$ 8.16 | 8.1 | \$ 8,145 |

The following table summarizes information about the nonvested stock option grants as of March 31, 2006:

| Nonvested Stock Options | Shares (000 s) | Weighted-Average Grant-Date Fair Value |
|--------------------------------|--------------------------|---|
| Nonvested at January 1, 2006 | 380 | \$ 3.34 |
| Granted | | |
| Vested | | |
| Forfeited | (21) | 3.34 |
| Nonvested at March 31, 2006 | 359 | \$ 3.34 |

As of March 31, 2006, 167,300 shares of the restricted stock grants were outstanding and nonvested. There were no additional grants or forfeitures of restricted stock during the three month period ending March 31, 2006.

As of March 31, 2006, a total of 284,249 shares were available for grant under the Company's Amended and Restated Equity Incentive Plan.

4. 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, 2006 | December 31, 2005 |
|--------------------------|-----------------------|--------------------------|
| Raw materials | \$ 49,843 | \$ 46,218 |
| Work in process | 10,884 | 12,571 |
| Finished good | 14,775 | 13,655 |
| Less excess and obsolete | (4,716) | (3,391) |
| | \$ 70,786 | \$ 69,053 |

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

5. Stockholders Investment

Common Stock The authorized capital stock of the Company consists of 30,000,000 shares of common stock with a par value of \$0.01 per share. In August 2004, the Company reclassified all of its existing classes of common stock, which effectively resulted in a 38.991-to-one stock split. The stock split has been reflected as of the beginning of all periods presented.

Table of Contents

Preferred Stock The authorized capital stock of the Company consists of 5,000,000 shares of preferred stock with a par value of \$0.01 per share, with no shares outstanding as of March 31, 2006.

Earnings Per Share In accordance with SFAS No. 128, *Earnings per Share*, as amended, 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 common shares outstanding during the period. Potential common shares are included in the diluted earnings per share calculation when dilutive. Diluted earnings per share for March 31, 2006 and 2005 includes the effects of potential common shares consisting of common stock issuable upon exercise of outstanding stock options and for March 31, 2006, the effect of nonvested restricted stock computed using the treasury stock method (in thousands, except per share amounts):

| | March 31, | |
|---|------------------|-------------|
| | 2006 | 2005 |
| Net income applicable to common shareholders basic and diluted | \$ 13,408 | \$ 10,886 |
| Weighted average number of common shares outstanding | 21,021 | 17,987 |
| Dilutive effect of outstanding stock options and restricted stock grants after application of the treasury stock method | 450 | 309 |
| Dilutive shares outstanding | 21,471 | 18,296 |
| Basic earnings per share | \$ 0.64 | \$ 0.61 |
| Diluted earning per share | \$ 0.62 | \$ 0.59 |

Repurchase of Common Stock During the three months ended March 31, 2006 and the year ended December 31, 2005, the Company did not repurchase any shares of common stock.

Dividends The Company has not declared or paid any cash dividends in the past. The terms of the Company's credit agreement restricts the payment or distribution of the Company's cash or other assets, including cash dividend payments.

6. Debt

Debt consisted of the following (in thousands):

| | March 31, | December |
|---|------------------|-----------------|
| | 2006 | 31, |
| | | 2005 |
| Revolving credit facilities bore interest at a weighted average of 6.6% as of March 31, 2006 and 6.6% as of December 31, 2005 | \$ 3,910 | \$ 3,446 |
| Term loans, with principal and interest payable quarterly, bore interest at a weighted average rate of 6.6% as of March 31, 2006 and 6.3% as of December 31, 2005 | 35,913 | 37,152 |
| 8.0% senior notes due 2013 | 150,000 | 150,000 |
| Other | 386 | 411 |
| | 190,209 | 191,009 |
| Less current maturities | 5,574 | 5,309 |
| | \$ 184,635 | \$ 185,700 |

Credit Agreement In connection with the February 7, 2005 acquisition of Mayflower, the Company amended its senior credit facility to increase the revolving credit facility from \$40.0 million to \$75.0 million and the term loans from \$65.0 million to \$145.0 million. The revolving credit facility is available until January 31, 2010 and the term loans are due and payable on December 31, 2010. Borrowings bear interest at various rates plus a margin based on certain financial ratios of the Company. The senior credit agreement contain various restrictive covenants, including limiting indebtedness, rental obligations, investments and cash dividends, and also requires the maintenance of certain financial ratios, including fixed charge coverage and funded debt to EBITDA.

Table of Contents

In connection with the June 3, 2005 acquisition of Monona, the Company amended its senior credit facility to increase the revolving credit facility from \$75.0 million to \$100.0 million. The revolving credit facility is available until January 31, 2010 and the term loans are due and payable on December 31, 2010. Borrowings bear interest at various rates plus a margin based on certain financial ratios of the Company. In addition, the amendment increased certain baskets in the lien, investments and asset disposition covenants to reflect the Company's increased size as a result of the Mayflower and Monona acquisitions.

In connection with the July 2005 stock and senior notes offerings, the Company entered into additional amendments to the senior credit facility which provided for, among other things, the occurrence of these offerings. In connection with these offerings, net proceeds of approximately \$190.8 million were primarily used to repay indebtedness under the senior credit facility.

The senior credit agreement contains various restrictive covenants, including limiting indebtedness, rental obligations, investments and cash dividends, and also requires the maintenance of certain financial ratios, including fixed charge coverage and funded debt to EBITDA. The Company was in compliance with respect to these covenants as of March 31, 2006. Borrowings under the senior credit facility are secured by specifically identified assets of the Company, comprising, in total, substantially all assets of the Company. In addition, at March 31, 2006, the Company had outstanding letters of credit of approximately \$1.5 million.

The credit facility provides the Company with the ability to denominate a portion of its borrowings in foreign currencies. As of March 31, 2006, none of the revolving credit facility borrowings and \$25.6 million of the term loans were denominated in U.S. dollars and \$3.9 million of the revolving credit facility borrowings and \$10.3 million of the term loans were denominated in British pounds sterling.

On July 6, 2005, the Company completed a private offering of \$150.0 million aggregate principal amount of 8.0% senior notes due 2013. The Company used the proceeds to reduce outstanding indebtedness under the senior credit facility and for general corporate purposes.

On December 30, 2005, the Company amended its credit agreement to increase its annual capital expenditure limit from \$25 million per annum to \$40 million per annum in connection with the Company's growth and development strategy.

7. Goodwill and Intangible Assets

Goodwill represents the excess of acquisition purchase price over the fair value of net assets acquired, which prior to the adoption on January 1, 2002, of SFAS No. 142, *Goodwill and Intangible Assets*, was being amortized on a straight-line basis over 40 years. In July 2001, FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Intangible Assets*. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed annually or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives, but with no maximum life.

The Company performs impairment tests annually during the second quarter and whenever events or circumstances occur indicating that goodwill might be impaired. During the three months ended March 31, 2006, the Company increased goodwill by approximately \$0.2 million due to foreign currency translation adjustments.

8. Comprehensive Income

The Company follows the provisions of SFAS No. 130, *Reporting Comprehensive Income*, which established standards for reporting and display of comprehensive income and its components. Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. For the Company, comprehensive income (loss) represents net income (loss) adjusted for foreign currency translation adjustments and minimum pension liability. In accordance with SFAS No. 130, the Company has elected to disclose comprehensive income (loss) in stockholders' investment. The components of accumulated other comprehensive income consisted of the following as of March 31, 2006 (in thousands):

Table of Contents

| | |
|---|------------|
| Foreign currency translation adjustment | \$ 1,654 |
| Minimum pension liability | (2,926) |
| | \$ (1,272) |

Comprehensive income for the three months ended March 31 was as follows (in thousands):

| | 2006 | 2005 |
|---|-------------|-------------|
| Net income | \$ 13,408 | \$ 10,886 |
| Other comprehensive income: | | |
| Foreign currency translation adjustment | 71 | (1,057) |
| Minimum pension liability adjustment | | (505) |
| Comprehensive income | \$ 13,479 | \$ 9,324 |

9. Commitments and Contingencies

Warranty The Company is 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 the Company supplies products to its customers, a customer may hold the Company responsible for some or all of the repair or replacement costs of defective products when the product supplied did not perform as represented. The Company's 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, 2006 (in thousands):

| | |
|---------------------------------|----------|
| Balance Beginning of period | \$ 7,117 |
| Additional provisions recorded | 1,143 |
| Deduction for payments made | (1,088) |
| Currency translation adjustment | 2 |
| Balance End of period | \$ 7,174 |

Foreign Currency Forward Exchange Contracts The Company uses forward exchange contracts to hedge certain of the foreign currency transaction exposures primarily related to its United Kingdom operations. The Company estimates its projected revenues and purchases in certain foreign currencies or locations, and will hedge a portion or all of the anticipated long or short position. The contracts typically run from three months up to three years. These contracts are marked-to-market and the fair value is included in assets (liabilities) in the consolidated balance sheet, with the offsetting noncash gain or loss included in the consolidated statements of operations. The Company does not hold or issue foreign exchange options or forward contracts for trading purposes.

The following table summarizes the notional amount of the Company's open foreign exchange contracts at March 31, 2006 (in thousands):

| | Local Currency Amount | U.S. \$ Equivalent | U.S. \$ Equivalent Fair Value |
|------------------------------|--------------------------------------|-------------------------------|--|
| Comments to sell currencies: | | | |
| U.S. dollar | \$ (325) | \$ (322) | \$ (325) |
| Euro dollar | 42,946 | 53,502 | 52,865 |

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

| | | | |
|-------------------|-----------|--------|--------|
| Swedish krona | 9,925 | 1,282 | 1,284 |
| Japanese yen | 3,825,000 | 37,590 | 34,278 |
| Australian dollar | 4,650 | 3,378 | 3,298 |

10

Table of Contents

The difference between the U.S. \$ equivalent and U.S. \$ equivalent fair value of approximately \$4.0 million and \$4.3 million is included in other assets in the condensed consolidated balance sheet at March 31, 2006 and December 31, 2005, respectively.

Litigation The Company is subject to various legal actions and claims incidental to its business, including those arising out of alleged defects, product warranties, employment-related matters and environmental matters. Management believes that the Company maintains adequate insurance to cover these claims. The Company has established reserves for issues that are probable and estimatable 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 the Company's business will not have a material adverse impact on the consolidated financial position, results of operations or cash flows of the Company; however, such matters are subject to many uncertainties, and the outcomes of individual matters are not predictable with assurance.

10. Defined Benefit Plan and Postretirement Benefits

The Company sponsors defined benefit plans that cover certain hourly and salaried employees in the United States and United Kingdom. The Company's policy is to make annual contributions to the plans to fund the normal cost as required by local regulations. In addition, the Company has a postretirement medical benefit plan for certain U.S. operations' retirees and their dependents, and has recorded a liability for its estimated obligation under this plan. The components of net periodic benefit cost related to the defined benefit plans are as follows (in thousands):

| | U.S. Defined Benefit Plans | | Non U.S. Defined Benefit Plans | | Post-Retirement Benefit Plans | |
|-------------------------------------|------------------------------|--------|--------------------------------|--------|-------------------------------|-------|
| | Three Months Ended March 31, | | Three Months Ended March 31, | | Three Months Ended March 31, | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Service cost | \$ 282 | \$ 222 | \$ 205 | \$ 271 | \$ 30 | \$ 27 |
| Interest cost | 415 | 235 | 507 | 510 | 52 | 36 |
| Expected return on plan assets | (415) | (230) | (462) | (529) | | |
| Amortization of prior service costs | | | 5 | 6 | | |
| Recognized actuarial loss | | | 113 | 90 | | |
| Curtailment gain | (1,449) | | | | | |
| Special termination benefits | 23 | | | | 93 | |
| Net periodic (benefit) cost | \$ (1,144) | \$ 227 | \$ 368 | \$ 348 | \$ 175 | \$ 63 |

During the three months ended March 31, 2006, the Company elected to freeze its salaried pension plan at its Mayflower operations and recorded approximately \$1.4 million curtailment gain in its consolidated statements of operations.

The Company also elected to freeze its salaried pension plan at its UK operations during the three months ended March 31, 2006.

The Company previously disclosed in its financial statements for the year ended December 31, 2005, that it expected to contribute \$2.3 million to its pension plans in 2006. As of March 31, 2006, \$0.4 million of contributions have been made to its pension plans. The Company anticipates contributing an additional \$1.8 million to its pension plans in 2006 for total estimated contributions during 2006 of \$2.2 million.

11. Related Party Transactions

On May 1, 2004, we entered into a Product Sourcing Assistance Agreement with Baird Asia Limited ("BAL"), an affiliate of Baird Capital Partners III L.P. Pursuant to the Agreement, BAL assisted us in procuring materials and parts

from Asia, including the countries of China, Malaysia, Hong Kong and Taiwan. BAL received as compensation a percentage of the price of the materials and parts supplied to us, of at least 2% of the price but not exceeding 10% of the price, to be determined on a case by case basis. We incurred expenses of approximately \$0.7 million during the three months ended March 31, 2005 for the value of goods and services purchased under this agreement. In connection with the sale of stock during 2005, BAL was no longer a related party as of December 31, 2005.

12. Subsequent Events

On May 3, 2006, the Company completed the sale of a portion of its non-commercial vehicle business located in Livingston, Wisconsin. Total cash consideration for the transaction was \$2.0 million with a future maximum \$1.0 million earn out payment if certain operating targets are achieved. The business was sold as part of the Company's long-term strategy to concentrate on core business activities. The Livingston,

Table of Contents

Wisconsin facility manufactures wire harnesses and control panels primarily for various medical equipment manufacturers and became part of CVG in June 2005 when the Company acquired all of the stock of Monona Corporation. The non-commercial vehicle business had 2005 revenues of approximately \$3.5 million and operating profit of approximately \$0.7 million. As a result of the transaction, 2006 revenues are expected to be reduced by approximately \$2.2 million and diluted EPS is expected to be reduced by approximately \$0.02 for the balance of the year.

13. Consolidating Guarantor and Non-Guarantor Financial Information

The following consolidating financial information presents balance sheets, statements of operations and cash flow information related to the Company's business. Each Guarantor, as defined, is a direct or indirect wholly owned subsidiary of the Company and has fully and unconditionally guaranteed the Subordinated Notes issued by the Company, on a joint and several basis. Separate financial statements and other disclosures concerning the Guarantors have not been presented because management believes that such information is not material to investors.

The Parent Company includes all of the wholly owned subsidiaries accounted for under the equity method. The guarantor and non-guarantor companies include the consolidated financial results of their wholly owned subsidiaries accounted for under the equity method. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries.

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2006
(unaudited)

| | Parent Company | Guarantor Companies | Non- Guarantor Companies (In thousands) | Elimination | Consolidated |
|---|---------------------------|--------------------------------|--|--------------------|---------------------|
| REVENUES | \$ | \$ 197,470 | \$ 33,357 | \$ (1,482) | \$ 229,345 |
| COST OF REVENUES | | 164,249 | 27,734 | (1,372) | 190,611 |
| Gross Profit | | 33,221 | 5,623 | (110) | 38,734 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | | 9,882 | 3,374 | (104) | 13,152 |
| AMORTIZATION EXPENSE | | 105 | | | 105 |
| Operating Income | | 23,234 | 2,249 | (6) | 25,477 |
| OTHER (INCOME) EXPENSE | | (8) | 238 | | 230 |
| INTEREST EXPENSE | | 3,617 | 273 | | 3,890 |
| Income Before Provision for Income Taxes | | 19,625 | 1,738 | (6) | 21,357 |
| PROVISION FOR INCOME TAXES | | 7,355 | 594 | | 7,949 |
| NET INCOME (LOSS) | \$ | \$ 12,270 | \$ 1,144 | \$ (6) | \$ 13,408 |

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2006
(unaudited)

| | Parent Company | Guarantor Companies | Non- Guarantor Companies (In thousands) | Elimination | Consolidated |
|---|---------------------------|--------------------------------|--|---------------------|---------------------|
| | | | ASSETS | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | \$ | \$ 24,978 | \$ 1,490 | \$ | \$ 26,468 |
| Accounts receivable, net | | 174,183 | 30,241 | (58,863) | 145,561 |
| Inventories, net | | 52,332 | 18,539 | (85) | 70,786 |
| Prepaid expenses and other current assets | | 4,132 | 2,645 | | 6,777 |
| Deferred income taxes | | 13,641 | (971) | | 12,670 |
| Total current assets | | 269,266 | 51,944 | (58,948) | 262,262 |
| PROPERTY, PLANT AND EQUIPMENT, net | | | | | |
| | | 75,987 | 5,654 | | 81,641 |
| INVESTMENT IN SUBSIDIARIES | 343,922 | 1,201 | 1,715 | (346,838) | |
| GOODWILL | | 103,756 | 22,044 | | 125,800 |
| INTANGIBLE ASSETS | | 84,478 | | | 84,478 |
| OTHER ASSETS, net | | 18,409 | 6,055 | (12,655) | 11,809 |
| TOTAL ASSETS | \$ 343,922 | \$ 553,097 | \$ 87,412 | \$ (418,441) | \$ 565,990 |

LIABILITIES AND STOCKHOLDERS INVESTMENT

| | | | | | |
|--|---------|----------------|---------------|-----------------|----------------|
| CURRENT LIABILITIES: | | | | | |
| Current maturities of long-term debt | \$ | \$ 5,574 | \$ | \$ | \$ 5,574 |
| Accounts payable | | 123,192 | 16,455 | (58,863) | 80,784 |
| Accrued liabilities | | 40,876 | 3,970 | | 44,846 |
| Total current liabilities | | 169,642 | 20,425 | (58,863) | 131,204 |
| LONG-TERM DEBT, net of current maturities | | | | | |
| | | 170,451 | 14,184 | | 184,635 |
| DEFERRED TAX LIABILITIES | | 22,273 | (816) | (12,655) | 8,802 |
| OTHER LONG-TERM LIABILITIES | | 18,915 | 5,372 | | 24,287 |
| Total liabilities | | 381,281 | 39,165 | (71,518) | 348,928 |
| STOCKHOLDERS INVESTMENT | 343,922 | 171,816 | 48,247 | (346,923) | 217,062 |

| | | | | | |
|--|------------|------------|-----------|--------------|------------|
| TOTAL LIABILITIES AND STOCKHOLDERS INVESTMENT | \$ 343,922 | \$ 553,097 | \$ 87,412 | \$ (418,441) | \$ 565,990 |
|--|------------|------------|-----------|--------------|------------|

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2006
(unaudited)

| | Parent Company | Guarantor Companies | Non- Guarantor Companies | Elimination | Consolidated |
|---|---------------------------|--------------------------------|---|--------------------|---------------------|
| | (In thousands) | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income | \$ | \$ 12,270 | \$ 1,144 | \$ (6) | \$ 13,408 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | | | | |
| Depreciation and amortization | | 3,055 | 446 | | 3,501 |
| Noncash amortization of debt financing costs | | 222 | 9 | | 231 |
| Stock-based compensation expense | | 608 | | | 608 |
| Deferred income tax (benefit) | | (91) | | | (91) |
| Loss on sale of assets | | | 2 | | 2 |
| Noncash loss on forward exchange contracts | | | 238 | | 238 |
| Change in other operating items | | (24,981) | (1,803) | 6 | (26,778) |
| Net cash (used in) provided by operating activities | | (8,917) | 36 | | (8,881) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Capital expenditures | | (4,306) | (285) | | (4,591) |
| Other assets and liabilities | | (105) | 4 | | (101) |
| Net cash (used in) investing activities | | (4,411) | (281) | | (4,692) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Proceeds from issuance of common stock | | 599 | | | 599 |
| Repayments under revolving credit facility | | | (2,192) | | (2,192) |
| Borrowings under revolving credit facility | | 117 | 2,630 | | 2,747 |
| Repayments of long-term debt | | (1,590) | (384) | | (1,974) |
| Borrowings of long-term debt | | 522 | | | 522 |
| Other, net | | (476) | 449 | | (27) |
| | | (828) | 503 | | (325) |

Net cash (used in) provided by financing activities

EFFECT OF CURRENCY

EXCHANGE RATE CHANGES ON
CASH AND CASH EQUIVALENTS

(19) (256) (275)

NET (DECREASE) INCREASE IN
CASH AND CASH EQUIVALENTS
CASH AND CASH EQUIVALENTS:

(14,175) 2 (14,173)

Beginning of period

39,153 1,488 40,641

End of period

\$ \$ 24,978 \$ 1,490 \$ 26,468

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2005
(unaudited)

| | Parent Company | Guarantor Companies | Non- Guarantor Companies (In thousands) ASSETS | Elimination | Consolidated |
|---|---------------------------|--------------------------------|---|---------------------|---------------------|
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | \$ | \$ 39,153 | \$ 1,488 | \$ | \$ 40,641 |
| Accounts receivable, net | | 144,793 | 25,657 | (56,334) | 114,116 |
| Inventories, net | | 50,953 | 18,179 | (79) | 69,053 |
| Prepaid expenses and other current assets | | (540) | 2,484 | 2,780 | 4,724 |
| Deferred income taxes | | 13,551 | (980) | | 12,571 |
| Total current assets | | 247,910 | 46,828 | (53,633) | 241,105 |
| PROPERTY, PLANT AND EQUIPMENT, net | | | | | |
| | | 74,633 | 5,782 | | 80,415 |
| INVESTMENT IN SUBSIDIARIES | 328,815 | 752 | 1,715 | (331,282) | |
| GOODWILL | | 103,758 | 21,849 | | 125,607 |
| INTANGIBLE ASSETS, net | | 84,577 | | | 84,577 |
| OTHER ASSETS, net | | 18,529 | 6,305 | (12,655) | 12,179 |
| TOTAL ASSETS | \$ 328,815 | \$ 530,159 | \$ 82,479 | \$ (397,570) | \$ 543,883 |

LIABILITIES AND STOCKHOLDERS INVESTMENT

| | | | | | |
|--|----|----------------|---------------|-----------------|----------------|
| CURRENT LIABILITIES: | | | | | |
| Current maturities of long-term debt | \$ | \$ 5,309 | \$ | \$ | \$ 5,309 |
| Accounts payable | | 115,704 | 14,339 | (56,334) | 73,709 |
| Accrued liabilities | | 37,124 | 3,079 | 2,780 | 42,983 |
| Total current liabilities | | 158,137 | 17,418 | (53,554) | 122,001 |
| LONG-TERM DEBT, net of current maturities | | | | | |
| | | 171,693 | 14,007 | | 185,700 |
| DEFERRED TAX LIABILITIES | | 22,273 | (816) | (12,655) | 8,802 |
| OTHER LONG-TERM LIABILITIES | | 19,994 | 5,309 | | 25,303 |
| Total liabilities | | 372,097 | 35,918 | (66,209) | 341,806 |

| | | | | | |
|---|------------|------------|-----------|--------------|------------|
| STOCKHOLDERS INVESTMENT | 328,815 | 158,062 | 46,561 | (331,361) | 202,077 |
| TOTAL LIABILITIES AND STOCKHOLDERS INVESTMENT | \$ 328,815 | \$ 530,159 | \$ 82,479 | \$ (397,570) | \$ 543,883 |

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(unaudited)

| | Parent Company | Guarantor Companies | Non- Guarantor Companies (In thousands) | Elimination | Consolidated |
|---|---------------------------|--------------------------------|--|--------------------|---------------------|
| REVENUES | \$ | \$ 122,133 | \$ 30,829 | \$ (547) | \$ 152,415 |
| COST OF REVENUES | | 100,982 | 25,629 | (448) | 126,163 |
| Gross Profit | | 21,151 | 5,200 | (99) | 26,252 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | | 6,548 | 3,100 | (99) | 9,549 |
| AMORTIZATION EXPENSE | | 24 | | | 24 |
| Operating Income | | 14,579 | 2,100 | | 16,679 |
| OTHER INCOME | | (9) | (2,872) | | (2,881) |
| INTEREST EXPENSE | | 1,828 | 340 | | 2,168 |
| Income Before Provision for Income Taxes | | 12,760 | 4,632 | | 17,392 |
| PROVISION FOR INCOME TAXES | | 4,841 | 1,665 | | 6,506 |
| NET INCOME | \$ | \$ 7,919 | \$ 2,967 | \$ | \$ 10,886 |

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(unaudited)

| | Parent Company | Guarantor Companies | Non- Guarantor Companies | Elimination | Consolidated |
|---|---------------------------|--------------------------------|---|--------------------|---------------------|
| | (In thousands) | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income | \$ | \$ 7,919 | \$ 2,967 | | \$ 10,886 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | | 2,226 | 536 | | 2,762 |
| Noncash amortization of debt financing costs | | 139 | 34 | | 173 |
| Loss on sale of assets | | 22 | | | 22 |
| Deferred income tax provision | | | 1,120 | | 1,120 |
| Noncash (gain) on forward exchange contracts | | | (2,872) | | (2,872) |
| Change in other operating items | | (1,917) | (116) | | (2,033) |
| Net cash provided by operating activities | | 8,389 | 1,669 | | 10,058 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Capital expenditures | | (2,542) | (341) | | (2,883) |
| Acquisition, net | | (106,358) | | | (106,358) |
| Net cash (used in) investing activities | | (108,900) | (341) | | (109,241) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Repayments under revolving credit facility | | (22,195) | (3,970) | | (26,165) |
| Borrowings under revolving credit facility | | 24,715 | 2,836 | | 27,551 |
| Repayments of long-term debt | | (3,531) | (346) | | (3,877) |
| Borrowings of long-term debt | | 102,458 | | | 102,458 |
| Other, net | | (2) | | | (2) |
| Net cash provided by (used in) financing activities | | 101,445 | (1,480) | | 99,965 |

| | | | | | | | |
|---|----|-----|-------|-------|-----|-------|-------|
| EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | (651) | | | (651) | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 934 | (803) | | | 131 | |
| CASH AND CASH EQUIVALENTS: | | | | | | | |
| Beginning of period | | 394 | | 1,002 | | 1,396 | |
| End of period | \$ | \$ | 1,328 | \$ | 199 | \$ | 1,527 |

Table of Contents

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

Company Overview

We are a leading supplier of fully integrated system solutions for the global commercial vehicle market, including the Heavy-duty (Class 8) truck market, the construction and agriculture market and the specialty and military transportation markets. As a result of our strong leadership in cab-related products and systems, we are positioned to benefit from the increased focus of our customers on cab design and comfort and convenience features to better serve their end-user, the driver. Our products include suspension seat systems, interior trim systems (including instrument panels, door panels, headliners, cabinetry and floor systems), cab structures and components, mirrors, wiper systems, electronic wire harness assemblies and controls and switches specifically designed for applications in commercial vehicles. CVG is headquartered in New Albany, OH with operations throughout North America, Europe and Asia. Information about CVG and its products is available on the internet at www.cvgrp.com.

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 most of our major markets and that we are the only supplier 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 virtually every major North American commercial vehicle original equipment manufacturer (OEM), which we believe creates an opportunity to cross-sell our products and offer a fully integrated system solution.

Demand for our products is generally dependent on the number of new commercial vehicles manufactured, 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 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.

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.

Basis of Presentation

Onex Corporation, Hidden Creek Industries and certain other investors acquired Trim Systems in 1997 and each of Commercial Vehicle Systems and National/KAB Seating in 2000. Each of these companies was initially owned through separate holding companies. The operations of Commercial Vehicle Systems and National/KAB Seating were formally combined under a single holding company, now known as

Table of Contents

Commercial Vehicle Group, Inc., on March 28, 2003. In connection with our initial public offering, Trim Systems became a wholly owned subsidiary of CVG on August 2, 2004. Because these businesses were under common control since their respective dates of acquisition, their respective historical results of operations have been combined for the periods in which they were under common control based on their respective historical basis of accounting. On February 7, 2005, we acquired substantially all of the assets and liabilities related to Mayflower Vehicle Systems North American Commercial Vehicle Operations (Mayflower) for \$107.5 million, and Mayflower became a wholly-owned subsidiary of CVG. On June 3, 2005, we acquired all of the stock of Monona Corporation, the parent of Monona Wire Corporation (MWC) for \$55.0 million, and MWC became a wholly-owned subsidiary of CVG. On August 8, 2005, we acquired all of the stock of Cabarrus Plastics, Inc. (CPI) for \$12.1 million, and CPI became a wholly-owned subsidiary of CVG. Our results of operations include the results of Mayflower, MWC and CPI since the date of their respective acquisitions.

Results of Operations

The table below sets forth certain operating data expressed as a percentage of revenues for the periods indicated:

| | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2006 | 2005 |
| Revenues | 100.0% | 100.0% |
| Cost of Revenues | 83.1 | 82.8 |
| Gross Profit | 16.9 | 17.2 |
| Selling, General and Administrative Expenses | 5.7 | 6.3 |
| Amortization Expense | 0.1 | 0.0 |
| Operating Income | 11.1 | 10.9 |
| Other Expense (Income) | 0.1 | -1.9 |
| Interest Expense | 1.7 | 1.4 |
| Income Before Income Taxes | 9.3 | 11.4 |
| Provision for Income Taxes | 3.5 | 4.3 |
| Net Income | 5.8% | 7.1% |

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Revenues. Revenues increased \$76.9 million, or 50.5%, to \$229.3 million in the three months ended March 31, 2006 from \$152.4 million in the three months ended March 31, 2005. This increase resulted primarily from the acquisitions of Mayflower, MWC and CPI which equated to approximately \$52.0 million of increased revenue. In addition, a 13.0% increase in North American Class 8 heavy truck production, organic growth, product pricing adjustments and changes in product mix and content equated to approximately \$26.0 million of increased revenues while higher OEM sales in the European and Asian seating markets increased revenues approximately \$1.0 million. Foreign exchange fluctuations reduced approximately \$2.0 million of revenues from the prior year period.

Gross Profit. Gross profit increased \$12.5 million, or 47.5%, to \$38.7 million in the three months ended March 31, 2006 from \$26.3 million in the three months ended March 31, 2005. As a percentage of revenues, gross profit decreased to 16.9% in the three months ended March 31, 2006 from 17.2% in the three months ended March 31, 2005. This decrease resulted primarily from the reduced gross profit margins of the Mayflower, MWC and CPI acquisitions as well as continuing pressures on raw material commodities such as steel and petroleum-based products and services versus the prior year period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$3.6 million to \$13.2 million in the three months ended March 31, 2006 from \$9.5 million in the three months ended March 31, 2005.

This increase resulted primarily from the Mayflower, MWC and CPI acquisitions and costs related to the adoption of SFAS No. 123(R), *Share-Based Payment*. As a percent of revenues, selling, general and administrative expenses have improved from 6.3% to 5.7%.

Table of Contents

Amortization Expense. Amortization expense increased \$81 thousand to \$105 thousand in the three months ended March 31, 2006 from \$24 thousand in the three months ended March 31, 2005 primarily resulting from acquired intangible assets from the Mayflower, MWC and CPI acquisitions.

Other Expense (Income). We use forward exchange contracts to hedge foreign currency transaction exposures related primarily to our United Kingdom operations. We estimate our projected revenues and purchases in certain foreign currencies or locations and will hedge a portion of the anticipated long or short position. We have not designated any of our forward exchange contracts as cash flow hedges, electing instead to mark-to-market the contracts and record the fair value of the contracts in our balance sheets, with the offsetting noncash gain or loss recorded in our consolidated statements of operations. The \$0.2 million loss in the three months ended March 31, 2006 and the \$2.9 million gain in the three months ended March 31, 2005 primarily represent the noncash change in value of the forward exchange contracts in existence at the end of each respective period.

Interest Expense. Interest expense increased \$1.7 million to \$3.9 million in the three months ended March 31, 2006 from \$2.2 million in the three months ended March 31, 2005. This increase primarily reflects an increase in total debt during the respective periods with the addition of debt related to the Mayflower, MWC and CPI acquisitions.

Provision for Income Taxes. Our effective tax rate was 37.2% for the three months ended March 31, 2006 and 37.4% for the same period in 2005. An income tax provision of \$7.9 million was made for the three months ended March 31, 2006 compared to an income tax provision of \$6.5 million for the three months ended March 31, 2005. The decrease in effective rate quarter over quarter can be primarily attributed to our tax position in certain geographical regions and changes in federal and state rates from the prior year period in addition to the impact of tax credits and other permanent items during the quarter ended March 31, 2006.

Net Income. Net income increased approximately \$2.5 million to \$13.4 million in the three months ended March 31, 2006, compared to \$10.9 million in the three months ended March 31, 2005, primarily as a result of the factors discussed above.

Liquidity and Capital Resources***Cash Flows***

For the three months ended March 31, 2006, net cash used in operations of approximately \$8.9 million compared to net cash provided by \$10.1 million from the prior year period, primarily as a result of the change in accounts receivable for the three months ended March 31, 2006.

Net cash used in investing activities was approximately \$4.7 million for the three months ended March 31, 2006 and approximately \$109.2 million for the comparable period in 2005. The amounts used in 2005 reflect both capital expenditure purchases and the acquisition of Mayflower.

Net cash used in financing activities totaled approximately \$0.3 million for the three months ended March 31, 2006, compared to net cash provided of approximately \$100.0 million in the same period of 2005. The net cash from financing activities in 2005 was principally related to additional borrowings related to the acquisition of Mayflower.

Debt and Credit Facilities

As of March 31, 2006, we had an aggregate of \$190.2 million of outstanding indebtedness excluding \$1.5 million of outstanding letters of credit under various financing arrangements. We were in compliance with all of our respective financial covenants under our debt and credit facilities as of March 31, 2006.

In August 2004, in connection with our initial public offering, we entered into a \$105.0 million senior credit facility, consisting of a \$65.0 million term loan and a \$40.0 million revolving line of credit. We used borrowings under the term loan, together with proceeds of the offering to repay all of our existing borrowings under our then existing senior credit facilities and to repay all of our then existing subordinated indebtedness. In connection with this senior credit facility, we recorded a loss in the third quarter of 2004 on the early extinguishment of debt of approximately \$1.6 million related to unamortized deferred financing fees.

Table of Contents

In February 2005, in connection with the acquisition of Mayflower, we amended our senior credit facility to increase the revolving credit facility from \$40.0 million to \$75.0 million and the term loans from \$65.0 million to \$145.0 million. We used borrowings of approximately \$106.4 million under our amended senior credit facility to fund substantially all of the purchase price for the Mayflower acquisition.

On June 3, 2005, in connection with the MWC acquisition, we amended our senior credit facility to increase the revolving credit facility from \$75.0 million to \$100.0 million. In addition, the amendment increased certain baskets in the lien, investments and asset disposition covenants to reflect our increased size as a result of the Mayflower and MWC acquisitions. We used revolving credit borrowings of approximately \$58.0 million under our amended senior credit facility to fund substantially all of the purchase price for the MWC acquisition.

On July 6, 2005, we completed a public stock offering and a private offering of \$150.0 million aggregate principal amount of 8.0% senior notes due 2013. We used the net proceeds of this offering of approximately \$190.8 million to repay a portion of the borrowings under our senior credit facility.

As of March 31, 2006, under our senior credit facility we had borrowings of \$3.9 million under our revolving credit facility and term loans of \$35.9 million. The weighted average rate on these borrowings, for the quarter ended March 31, 2006, was 6.6%.

The revolving credit facility is available until January 31, 2010 and the term loans are due and payable on December 31, 2010. Based on the provisions of EITF 96-19, *Debtors Accounting for a Modification or Exchange of Debt Instruments*, approximately \$5.8 million in third party fees relating to the credit agreement and senior notes were capitalized at March 31, 2006 and are being amortized over the life of the agreements.

Under the terms of our senior credit facility, availability under the revolving credit facility is subject to the lesser of (i) a borrowing base that is equal to the sum of (a) 80% of eligible accounts receivable plus (b) 50% of eligible inventory; or (ii) \$100.0 million. Borrowings under the senior credit facility bear interest at a floating rate which can be either the prime rate or LIBOR plus the applicable margin to the prime rate and LIBOR borrowings based on our leverage ratio. The senior credit facility contains various financial covenants, including a minimum fixed charge coverage ratio of not less than 1.30, and a minimum ratio of EBITDA to cash interest expense of not less than 2.50, in each case for the twelve month period ending on December 31 of each year, a limitation on the amount of capital expenditures of not more than \$40.0 million in any fiscal year and a maximum ratio of total indebtedness to EBITDA as of the last day of each fiscal quarter as set forth below:

| Quarters(s) Ending | Maximum Total Leverage Ratio |
|---|---------------------------------|
| 12/31/05 through 09/30/06 | 2.75 to 1.00 |
| 12/31/06 and each fiscal quarter thereafter | 2.50 to 1.00 |

The senior credit facility also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, dividends, changes of control, incurring indebtedness, making loans and investments and transactions with affiliates. If we do not comply with such covenants or satisfy such ratios, our lenders could declare a default under the senior credit facility, and our indebtedness thereunder could be declared immediately due and payable. The senior credit facility is collateralized by substantially all of our assets. The senior credit facility also contains customary events of default.

We believe that cash flow from operating activities together with available borrowings under our senior credit facility will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for at least the next twelve months. We regularly review acquisition and additional opportunities, which may require additional debt or equity financing.

Table of Contents

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 anticipate, believe, estimate, expect, intend, and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such forward-looking statements 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. 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) our ability to develop or successfully introduce new products; (ii) risks associated with conducting business in foreign countries and currencies; (iii) general economic or business conditions affecting the markets in which we serve; (iv) increased competition in the heavy-duty truck market; and (v) our failure to complete or successfully integrate additional strategic acquisitions. 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, 2005.

ITEM 4 CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on this evaluation, the principal executive officer and principal financial officer had concluded that our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**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, 2005.

Item 6. Exhibits:

10.1 Commercial Vehicle Group, Inc. 2006 Bonus Plan (incorporated by reference to the Company's current report on Form 8-K (File No. 000-50890) filed on March 28, 2006).

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.

Table of Contents

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 5, 2006

By /s/ Chad M. Utrup
Chad M. Utrup
Chief Financial Officer

25