

Commercial Vehicle Group, Inc.

Form 10-Q

May 09, 2014

Table of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended March 31, 2014**

**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)**

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

**7800 Walton Parkway**

**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 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 May 9, 2014 was 29,717,553 shares.



**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**

**QUARTERLY REPORT ON FORM 10-Q**

**PART I FINANCIAL INFORMATION**

|  |           |
|--|-----------|
| <b><u>ITEM 1 FINANCIAL STATEMENTS</u></b>  | 1         |
| <u>CONDENSED CONSOLIDATED BALANCE SHEETS</u>   | 1         |
| <u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS</u>   | 2         |
| <u>CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS</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         |
| <b><u>ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b> | 16        |
| <b><u>ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>                            | 23        |
| <b><u>ITEM 4 CONTROLS AND PROCEDURES</u></b>   | 23        |
| <b><u>Part II. OTHER ITEMS</u></b>   | <b>25</b> |
| <u>ITEM 1 Legal Proceedings</u>  | 25        |
| <u>ITEM 1A Risk Factors</u>  | 25        |
| <u>ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>                                  | 25        |
| <u>ITEM 6 Exhibits</u>   | 26        |
| <b><u>SIGNATURE</u></b>  | 27        |

**Table of Contents****ITEM 1 FINANCIAL STATEMENTS****COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

|   | <b>March 31,<br/>2014<br/>(Unaudited)</b>                 | <b>December 31,<br/>2013<br/>(Unaudited)</b> |
|---|---|--|
|   | <b>(In thousands, except share and per share amounts)</b> |  |
| <b>Assets</b>   |   |  |
| Current Assets:   |   |  |
| Cash  | \$ 73,948   | \$ 72,695                                    |
| Accounts receivable, net of reserve for doubtful accounts of \$2,642 and \$2,302, respectively          | 137,773   | 119,069                                      |
| Inventories   | 82,503  | 80,133                                       |
| Deferred income taxes   | 8,173   | 8,180  |
| Other current assets  | 7,783   | 7,536  |
| Total current assets  | 310,180   | 287,613                                      |
| Property, plant and equipment, net of accumulated depreciation of \$120,744 and \$118,410, respectively | 75,402  | 78,876                                       |
| Goodwill  | 8,417   | 8,220  |
| Intangible assets, net  | 20,233  | 20,348                                       |
| Deferred income taxes   | 24,383  | 24,468                                       |
| Other assets, net   | 11,497  | 12,916                                       |
| Total assets  | \$ 450,112  | \$ 432,441                                   |
| <b>Liabilities and Stockholders Equity</b>  |   |  |
| Current Liabilities:  |   |  |
| Accounts payable  | \$ 79,745   | \$ 68,280                                    |
| Accrued liabilities   | 40,769  | 34,285                                       |
| Total current liabilities   | 120,514   | 102,565                                      |
| Long-term debt  | 250,000   | 250,000                                      |
| Pension and other post-retirement benefits  | 16,598  | 17,249                                       |
| Other long-term liabilities   | 2,574   | 2,686  |
| Total liabilities   | 389,686   | 372,500                                      |
| Stockholders Equity:  |   |  |
|   | 296   | 296  |

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

|   |            |            |
|---|------------|------------|
| 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; 28,860,843 and 28,860,143 shares issued and outstanding, respectively |            |            |
| Treasury stock purchased from employees; 689,248 shares, respectively   | (6,095)    | (6,095)    |
| Additional paid-in capital  | 229,643    | 229,137    |
| Retained loss   | (137,628)  | (137,122)  |
| Accumulated other comprehensive loss  | (25,821)   | (26,308)   |
| <br>  |            |            |
| Total CVG stockholders equity   | 60,395     | 59,908     |
| Non-controlling interest  | 31         | 33         |
| <br>  |            |            |
| Total stockholders equity   | 60,426     | 59,941     |
| <br>  |            |            |
| Total liabilities and stockholders equity   | \$ 450,112 | \$ 432,441 |

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

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | <b>Three Months Ended March 31,</b>         |                    |
|---|---|--------------------|
|   | <b>2014</b>                                 | <b>2013</b>        |
|   | <b>(Unaudited)</b>                          | <b>(Unaudited)</b> |
|   | <b>(In</b>                                  |                    |
|   | <b>thousands, except per share amounts)</b> |                    |
| Revenues  | \$ 198,071                                  | \$ 177,822         |
| Cost of Revenues  | 173,767                                     | 159,737            |
| Gross Profit  | 24,304                                      | 18,085             |
| Selling, General and Administrative Expenses              | 18,472                                      | 17,949             |
| Amortization Expense                                      | 384   | 409                |
| Operating Income (Loss)                                   | 5,448                                       | (273)              |
| Interest and Other Expense                                | 5,108                                       | 5,354              |
| Income (Loss) Before Provision (Benefit) for Income Taxes | 340   | (5,627)            |
| Provision (Benefit) for Income Taxes                      | 848   | (1,011)            |
| Net Loss  | (508)                                       | (4,616)            |
| Less: Non-controlling interest in subsidiary's loss       | (2)   | (2)                |
| Net Loss Attributable to CVG Stockholders                 | \$ (506)                                    | \$ (4,614)         |
| Loss per Common Share:                                    |   |                    |
| Basic   | \$ (0.02)                                   | \$ (0.16)          |
| Diluted   | \$ (0.02)                                   | \$ (0.16)          |
| Weighted Average Shares Outstanding:                      |   |                    |
| Basic   | 28,860                                      | 28,463             |
| Diluted   | 28,860                                      | 28,463             |

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

Table of Contents

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

|   | <b>Three Months Ended March 31,</b> |                    |
|---|-------------------------------------|--------------------|
|   | <b>2014</b>                         | <b>2013</b>        |
|   | <b>(Unaudited)</b>                  | <b>(Unaudited)</b> |
|   | <b>(In thousands)</b>               |                    |
| Net loss  | \$ (508)                            | \$ (4,616)         |
| Other comprehensive income:                                     |                                     |                    |
| Foreign currency translation adjustments                        | 487                                 | 646                |
|   | 487                                 | 646                |
| Comprehensive loss  | \$ (21)                             | \$ (3,970)         |
| Less: Comprehensive loss attributed to noncontrolling interests | (2)                                 | (2)                |
| Comprehensive loss attributable to CVG stockholders             | \$ (19)                             | \$ (3,968)         |

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



Table of Contents

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

|                                  | Common Stock                      |            | Additional     |                | Accum.           |                 | CVG           | Non-        |               |
|----------------------------------|-----------------------------------|------------|----------------|----------------|------------------|-----------------|---------------|-------------|---------------|
|                                  | Shares                            | Amount     | Treasury       | Paid-In        | Retained         | Other           | Stockholders' | controlling | Total         |
|                                  |                                   |            | Stock          | Capital        | Loss             | (Loss)          | Equity        | Interests   |               |
|                                  | (Unaudited)                       |            |                |                |                  |                 |               |             |               |
|                                  | (In thousands, except share data) |            |                |                |                  |                 |               |             |               |
| <b>BALANCE</b>                   |                                   |            |                |                |                  |                 |               |             |               |
| <b>December 31, 2013</b>         | <b>28,860,143</b>                 | <b>296</b> | <b>(6,095)</b> | <b>229,137</b> | <b>(137,122)</b> | <b>(26,308)</b> | <b>59,908</b> | <b>33</b>   | <b>59,941</b> |
| Vesting of Restricted Stock      | 700                               |            |                |                |                  |                 |               |             |               |
| Share-based compensation expense |                                   |            |                | 506            |                  |                 | 506           |             | 506           |
| Comprehensive income (loss)      |                                   |            |                |                | (506)            | 487             | (19)          | (2)         | (21)          |
| <b>BALANCE</b>                   |                                   |            |                |                |                  |                 |               |             |               |
| <b>March 31, 2014</b>            | <b>28,860,843</b>                 | <b>296</b> | <b>(6,095)</b> | <b>229,643</b> | <b>(137,628)</b> | <b>(25,821)</b> | <b>60,395</b> | <b>31</b>   | <b>60,426</b> |

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

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | <b>Three Months Ended March 31,</b> |                    |
|---|-------------------------------------|--------------------|
|   | <b>2014</b>                         | <b>2013</b>        |
|   | <b>(Unaudited)</b>                  | <b>(Unaudited)</b> |
|   | <b>(In thousands)</b>               |                    |
| <b>Cash Flows from Operating Activities:</b>  |                                     |                    |
| Net Loss  | \$ (508)                            | \$ (4,616)         |
| Adjustments to reconcile net loss to cash provided by (used in) operating activities: |                                     |                    |
| Depreciation and amortization   | 4,337                               | 4,318              |
| Provision for doubtful accounts   | 1,507                               | 385                |
| Noncash amortization of debt financing costs  | 223                                 | 283                |
| Impairment of property, plant and equipment   | 738                                 |                    |
| Shared-based compensation expense   | 501                                 | 1,223              |
| Loss on sale of assets  | 17                                  | 20                 |
| Deferred income taxes   | 120                                 | (1,016)            |
| Noncash gain on forward exchange contracts  | (82)                                | (259)              |
| Change in other operating items   | (5,558)                             | (3,133)            |
| <b>Net cash provided by (used in) operating activities</b>                            | <b>1,295</b>                        | <b>(2,795)</b>     |
| <b>Cash Flows from Investing Activities:</b>  |                                     |                    |
| Purchases of property, plant and equipment  | (1,475)                             | (2,294)            |
| Proceeds from disposal/sale of property, plant and equipment                          | 11                                  | 1                  |
| Premium payments for deferred compensation  |                                     | (251)              |
| <b>Net cash used in investing activities</b>  | <b>(1,464)</b>                      | <b>(2,544)</b>     |
| <b>Cash Flows from Financing Activities:</b>  |                                     |                    |
| Proceeds from borrowings against life insurance policies                              | 1,041                               |                    |
| <b>Net cash provided by financing activities</b>                                      | <b>1,041</b>                        |                    |
| Effect of Currency Exchange Rate Changes on Cash                                      | 381                                 | 2,245              |
| <b>Net Increase (Decrease) in Cash</b>  | <b>1,253</b>                        | <b>(3,094)</b>     |
| <b>Cash:</b>  |                                     |                    |
| Beginning of period   | 72,695                              | 68,369             |
| End of period   | \$ 73,948                           | \$ 65,275          |
| <b>Supplemental Cash Flow Information:</b>  |                                     |                    |
| Cash paid for interest  | \$ 21                               | \$ 63              |

|   |    |     |    |       |
|---|----|-----|----|-------|
| Cash paid for income taxes, net   | \$ | 328 | \$ | 1,036 |
| Unpaid purchases of property and equipment included in accounts payable | \$ | 680 | \$ | 2,232 |

The accompanying notes are an integral part of these unaudited 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, , the Company, or we ) is a leading supplier of a full range of cab related products and systems for the global commercial vehicle market, including the heavy-duty truck market, the medium/ and heavy-construction vehicle markets, military, bus, automotive and agriculture markets, the specialty transportation markets and recreational markets. Our products include static and suspension seat systems, electronic wire harness assemblies, controls and switches, cab structures and components, interior trim systems (including instrument panels, door panels, headliners, cabinetry and floor systems), interior and exterior finishes and mirrors and wiper systems specifically designed for applications in commercial vehicles. We have facilities located in the U.S. in Alabama, Arizona, Georgia, Indiana, Iowa, Michigan, North Carolina, Ohio, Oregon, Tennessee and Virginia and outside of the U.S. in Australia, China, Czech Republic, India, 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 2013 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 17, 2014. Unless otherwise indicated, all amounts are in thousands except per share amounts.

**2. Recently Issued Accounting Pronouncements**

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-08 *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in this Update require a public business entity to provide disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, including pretax profit or loss attributable to the component and the non-controlling interest profit or loss attributable to the parent. The Update also requires entities to expand disclosures about an entity's continuing involvement with a discontinued operation, including the amount of any cash inflows and outflows from or to the discontinued operation and entity about a discontinued operation in which an entity retains an equity method investment in the discontinued operation. Those disclosures are required until the results of operations of the discontinued operation in which an entity retains significant continuing involvement are no longer presented separately as discontinued operations in the statement where net income is reported. The amendments of this Update should be applied prospectively for annual periods beginning on or after December 15, 2014, and interim periods within those years. We do not expect the adoption of this ASU to have a material impact on our financial statements or disclosures.

**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.

**Table of Contents**

The fair values of our derivative assets and liabilities are categorized as follows (in thousands):

|                                     | March 31, 2014 |         |         |         | December 31, 2013 |         |         |         |
|-------------------------------------|----------------|---------|---------|---------|-------------------|---------|---------|---------|
|                                     | Total          | Level 1 | Level 2 | Level 3 | Total             | Level 1 | Level 2 | Level 3 |
| Derivative assets <sup>1</sup>      | \$ 277         | \$      | \$ 277  | \$      | \$ 259            | \$      | \$ 259  | \$      |
| Derivative liabilities <sup>1</sup> | \$ 41          | \$      | \$ 41   | \$      | \$ 105            | \$      | \$ 105  | \$      |

<sup>1</sup> 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, 2014  |            | December 31, 2013 |            |
|----------------|-----------------|------------|-------------------|------------|
|                | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| Long-term debt | \$ 250,000      | \$ 255,625 | \$ 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 but are infrequently traded. 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, 2014, except for an impairment of \$0.8 million recognized for Norwalk land and building assets based on the selling price of \$0.6 million in the executed sales agreement. The impairment was recorded in cost of sales on the income statement. The assets are classified as Level 2.

#### 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 28,860,843 shares issued and outstanding as of March 31, 2014.

*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, 2014.



**Table of Contents**

*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 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, 2014 and 2013 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):

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2014</b>                         | <b>2013</b> |
| Net loss attributable to common stockholders basic and diluted  | \$ (506)                            | \$ (4,614)  |
| Weighted average number of common shares outstanding  | 28,860                              | 28,463      |
| Dilutive effect of outstanding stock options and restricted stock grants after application of the treasury stock method |                                     |             |
| Dilutive shares outstanding   | 28,860                              | 28,463      |
| Basic loss per share attributable to common stockholders  | \$ (0.02)                           | \$ (0.16)   |
| Diluted loss per share attributable to common stockholders  | \$ (0.02)                           | \$ (0.16)   |

For the three months ended March 31, 2014, diluted earnings per share did not include 141 thousand of outstanding stock options and 857 thousand of outstanding restricted stock as the effect would have been antidilutive. For the three months ended March 31, 2013, diluted earnings per share did not include 469 thousand of outstanding stock options and 127 thousand of outstanding restricted stock 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 awards are 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, 2014:



| <b>Grant</b>  | <b>Shares</b> | <b>Estimated<br/>Forfeiture<br/>Rate</b> | <b>Vesting Schedule</b>                                    |
|---------------|---------------|--|--|
| November 2011 | 443,250       | 8.2%                                     | 3 equal annual installments commencing on October 20, 2012 |
| November 2012 | 494,151       | 8.2%                                     | 3 equal annual installments commencing on October 20, 2013 |
| August 2013   | 100,000       | 8.2%                                     | 3 equal annual installments commencing on October 20, 2014 |
| November 2013 | 470,997       | 8.2%                                     | 3 equal annual installments commencing on October 20, 2014 |
| January 2014  | 4,100         | 8.2%                                     | 3 equal annual installments commencing on October 20, 2014 |
| March 2014    | 18,802        | 8.2%                                     | 3 equal annual installments commencing on October 20, 2014 |

As of March 31, 2014, there was approximately \$5.1 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 2011 awards, 19 months for the November 2012 awards and 31 months for the November 2013 awards.

**Table of Contents**

The following table summarizes information about the non-vested restricted stock grants as of March 31, 2014:

|                                | <b>Shares<br/>(000 s)</b> | <b>Nonvested Restricted Stock<br/>Weighted-<br/>Average<br/>Grant-Date<br/>Fair<br/>Value</b> |
|--------------------------------|---------------------------|---|
| Nonvested at December 31, 2013 | 855                       | \$ 7.59   |
| Granted                        | 23                        | 8.56  |
| Vested                         | (1)                       | 11.49   |
| Forfeited                      | (20)                      | 7.78  |
| Nonvested at March 31, 2014    | 857                       | \$ 7.61   |

As of March 31, 2014, 688 thousand 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. Performance Based Awards**

Cash awards granted under our Fourth Amended and Restated Equity Incentive Plan in 2013 vesting in October 2016 total \$1.4 million based on planned performance in relation to our Peer Group, as defined in the 2013 Form 10-K, footnote 13. Compensation expense was recognized for these awards totaling \$0.1 million for the three months ended March 31, 2014. Cash awards granted under our Fourth Amended and Restated Equity Incentive Plan in 2012 vesting in October 2015 total \$0.7 million, net of forfeitures of \$1.2 million based on planned performance in relation to our Peer Group, as defined in the 2013 Form 10-K, footnote 13. Compensation expense was recognized for these awards totaling \$0.1 million and \$0.2 million for the three months ended March 31, 2014 and 2013, respectively. The expense to be recorded in future periods totals \$1.4 million for the unvested portion of the 2013 and 2012 awards.

**7. 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.

**8. 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):

|                 | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-----------------|---------------------------|------------------------------|
| Raw materials   | \$ 53,460                 | \$ 52,455                    |
| Work in process | 12,494                    | 11,895                       |
| Finished goods  | 16,549                    | 15,783                       |
|                 | \$ 82,503                 | \$ 80,133                    |

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.

**Table of Contents****9. Goodwill and Intangible Assets**

Goodwill represents the excess of acquisition purchase price over the fair value of net assets acquired. We review goodwill for impairment annually, utilizing the one-step qualitative assessment, in the second fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable. In conducting the qualitative assessment, we consider relevant events and circumstances that affect the fair value or carrying amount of the reporting unit. Such events and circumstances could include macroeconomic conditions, industry and market considerations, overall financial performance, entity and reporting unit specific events, cost factors and capital markets pricing. We consider the extent to which each of the adverse events and circumstances identified affect the comparison of the reporting unit's fair value with its carrying amount. We place more weight on the events and circumstances that most affect the reporting unit's fair value or the carrying amount of its net assets. We consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. These factors are all considered by management in reaching its conclusion about whether to perform the first step of the impairment test.

If the reporting unit's fair value is determined to be more likely than not impaired based on the one-step qualitative approach, we then perform a quantitative valuation to estimate the fair value of our reporting unit. Implied fair value of goodwill is determined by considering both the income and market approach. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. 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):

|                                      | Amortization<br>Period | March 31, 2014              |                             |                           | December 31, 2013           |                             |                           |           |
|--------------------------------------|------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|-----------|
|                                      |                        | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |           |
| Definite-lived intangible<br>assets: |                        |                             |                             |                           |                             |                             |                           |           |
| Trademarks/Tradenames                | 23 years               | \$ 9,739                    | \$ (3,241)                  | \$ 6,498                  | 23 years                    | \$ 9,680                    | \$ (3,090)                | \$ 6,590  |
| Customer relationships               | 15 years               | 15,074                      | (1,339)                     | 13,735                    | 15 years                    | 14,828                      | (1,069)                   | 13,759    |
|                                      |                        | \$ 24,813                   | \$ (4,580)                  | \$ 20,233                 |                             | \$ 24,508                   | \$ (4,159)                | \$ 20,349 |

The aggregate intangible asset amortization expense was approximately \$0.4 million for the three months ended March 31, 2014 and 2013, respectively.

The estimated intangible asset amortization expense for the fiscal year ending December 31, 2014, and for the five succeeding years is as follows (in thousands):

**Fiscal Year Ended**

| <b>December 31,</b> | <b>Estimated<br/>Amortization<br/>Expense</b> |
|---------------------|---|
| 2014                | \$ 1,513                                      |
| 2015                | \$ 1,357                                      |
| 2016                | \$ 1,357                                      |
| 2017                | \$ 1,357                                      |
| 2018                | \$ 1,357                                      |
| 2019                | \$ 1,357                                      |

The changes in the carrying amounts of goodwill are as follows (in thousands):

|                                   | <b>For the three months<br/>ended</b> |                              |
|-----------------------------------|---------------------------------------|------------------------------|
|                                   | <b>March 31,<br/>2014</b>             | <b>December 31,<br/>2013</b> |
| Balance - Beginning of the period | \$ 8,220                              | \$ 8,124                     |
| Currency translation adjustment   | 197                                   | 96                           |
| Balance - End of the period       | \$ 8,417                              | \$ 8,220                     |

**Table of Contents****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, 2014 (in thousands):

|   | <b>2013</b> |
|---|-------------|
| Balance December 31, 2013                       | \$ 4,529    |
| Provisions for new warranties issued            | 722         |
| Changes in provision for preexisting warranties | 3           |
| Deduction for payments made                     | (1,219)     |
| Currency translation adjustment                 | 1           |
| Balance March 31, 2014                          | \$ 4,036    |

*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, 2014, 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. As of March 31, 2014, 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):

|   | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|---|---------------------------|------------------------------|
| <u>7.875% senior secured notes due April 15, 2019</u> | \$ 250,000                | \$ 250,000                   |

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 7.875% Notes Indenture contains restrictive covenants and events of default (subject to certain customary grace periods). We were in compliance with these covenants and were not in default as of March 31, 2014.

**Table of Contents**

We had the option but did not to redeem any part of the 7.875% notes as of 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 evaluated the make-whole premium under ASC 815-15 and determined that the premium is not required to be bifurcated from the 7.875% notes and accounted for as a separate derivative instrument. We may redeem the 7.875% notes, in whole or in part, at any time on or after April 15, 2014 at the optional redemption prices set forth in the 7.875% Notes Indenture, 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.

**Revolving Credit Facility** On November 15, 2013, the Company and certain of the Company's subsidiaries, as borrowers (together with the Company, the borrowers) entered into a Second ARLS Agreement (as so amended and restated, the Second ARLS Agreement) with Bank of America, N.A. as agent and lender, which amended and restated the Amended and Restated Loan and Security Agreement, dated as of April 26, 2011, by and among the Company, the borrowers and Bank of America, N.A., as agent and lender, as amended, governing the Company's revolving credit facility.

Among other things, the Second ARLS Agreement extended the maturity of the revolving credit facility to November 15, 2018 and amended the applicable margin, as described below. The Second ARLS Agreement included amendments to certain covenants to provide additional flexibility, including amendments to (i) eliminate the aggregate cap on permitted distributions and instead condition such distributions on minimum availability, fixed charge coverage ratio and other requirements, (ii) eliminate the aggregate cap on permitted foreign investments and instead condition such foreign investments on minimum availability, fixed charge coverage ratio and other requirements, (iii) eliminate the aggregate cap on purchase consideration for permitted acquisitions and instead condition such acquisitions on minimum availability, fixed charge coverage ratio and other requirements and (iv) permitting certain sale-leaseback transactions. In addition, the covenant restricting payment of certain debt was amended to permit repurchases of the Company's 7.875% senior secured notes due 2019 if certain conditions are met. The Second ARLS Agreement also amended the financial covenant to reduce the fixed charge coverage ratio maintenance requirement to 1.0:1.0 and reduced the availability threshold for triggering compliance with the fixed charge coverage ratio, as described below.

The size of the revolving credit facility was unchanged by the Second ARLS Agreement and remains at \$40 million, but the borrowers may request an increase in revolver commitments from time to time in an aggregate amount of up to \$35 million, as long as the requested increase does not breach any subordinated debt agreement of the borrowers or the indenture governing the Company's 7.875% senior secured notes due 2019. Availability under the revolving credit facility is subject to borrowing base limitations and an availability block equal to the amount of debt and foreign cash management services 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 a result of the Second ARLS Agreement, the applicable margin is based on average daily availability under the revolving credit facility as follows:

|              | <b>Average Daily</b> | <b>Base</b>  | <b>LIBOR</b>    |
|--------------|----------------------|--------------|-----------------|
| <b>Level</b> | <b>Availability</b>  | <b>Rate</b>  | <b>Revolver</b> |
|              |                      | <b>Loans</b> | <b>Loans</b>    |



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

|     |                                   |       |       |
|-----|-----------------------------------|-------|-------|
| III | <sup>3</sup> \$20,000,000         | 0.50% | 1.50% |
| II  | > \$10,000,000 but < \$20,000,000 | 0.75% | 1.75% |
| I   | £ \$10,000,000                    | 1.00% | 2.00% |

Until December 31, 2013, the applicable margin was set at Level III. Thereafter, the applicable margin will be subject to increase or decrease by the agent on the first day of the calendar month following each fiscal quarter end. If the agent is unable to calculate average daily availability for a fiscal quarter due to borrower's failure to deliver a borrowing base certificate when required, the applicable margin will be set at Level I until the first day of the calendar month following receipt of a borrowing base certificate. As of March 31, 2014, the applicable margin was set at Level III.

The Company pays a commitment fee to the lenders equal to 0.25% per annum of the unused amounts under the revolving credit facility. As of March 31, 2014, approximately \$4.5 million in deferred fees relating to the revolving credit facility and our 7.875% notes were being amortized over the remaining life of the agreements.

As of March 31, 2014, we did not have borrowings under the revolving credit facility. In addition, as of March 31, 2014, we had outstanding letters of credit of approximately \$2.9 million and borrowing availability of \$37.1 million under the revolving credit facility.

## **Table of Contents**

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.

*Terms, Covenants and Compliance Status* The Second ARLS 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 the Company's fiscal quarters. The borrowers are not required to comply with the fixed charge coverage ratio requirement for as long as the borrowers maintain at least \$7.5 million of borrowing availability under the revolving credit facility. If borrowing availability is less than \$7.5 million at any time, the borrowers would be required to comply with a fixed charge coverage ratio of 1.0:1.0 as of the end of any fiscal quarter, and would be required to continue to comply with these requirements until the borrowers have borrowing availability of \$7.5 million or greater for 60 consecutive days. Because the Company had borrowing availability in excess of \$7.5 million from December 31, 2013 through March 31, 2014, the Company was not required to comply with the minimum fixed charge coverage ratio covenant during the quarter ended March 31, 2014.

The Loan and Security Agreement contains customary restrictive covenants and events of default. We were in compliance with these covenants and not in default as of March 31, 2014.

## **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 2009. There are currently no income tax examinations in process.

As of March 31, 2014, we have provided a liability of approximately \$0.2 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 \$0.1 million accrued for the payment of interest and penalties at March 31, 2014, which was substantially accrued as of December 31, 2013. Accrued interest and penalties are included in the \$0.2 million of unrecognized tax benefits.

During the fiscal quarter ended March 31, 2014, 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 \$0.1 million of unrecognized tax benefits relate to items that are affected by expiring statutes of limitation within the next 12 months.

At March 31, 2014, due to cumulative losses and other negative evidence, we continue to carry valuation allowances against the net deferred assets primarily in the following foreign jurisdictions: United Kingdom, China, India, Luxemburg and Czech Republic. We continue to evaluate the need for valuation allowances in each of our jurisdictions.

## **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, 2014, 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. Our forward foreign exchange contracts are subject to a master netting agreement. We record assets and liabilities relating to our forward foreign exchange contracts on a gross basis in our consolidated balance sheets.

**Table of Contents**

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

|                                       | <b>March 31, 2014</b>  |                   | <b>December 31, 2013</b> |                   |
|---------------------------------------|------------------------|-------------------|--------------------------|-------------------|
|                                       | <b>U.S. Equivalent</b> |                   | <b>U.S. Equivalent</b>   |                   |
|                                       | <b>U.S. \$</b>         | <b>Fair Value</b> | <b>U.S. \$</b>           | <b>Fair Value</b> |
|                                       | <b>Equivalent</b>      | <b>Value</b>      | <b>Equivalent</b>        | <b>Value</b>      |
| <b>Commitments to buy currencies:</b> |                        |                   |                          |                   |
| Mexican peso                          | \$ 8,303               | \$ 8,538          | \$ 11,157                | \$ 11,311         |

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

|                            | <b>Asset Derivatives</b> |                   |                          |                   |
|----------------------------|--------------------------|-------------------|--------------------------|-------------------|
|                            | <b>March 31, 2014</b>    |                   | <b>December 31, 2013</b> |                   |
|                            | <b>Balance Sheet</b>     |                   | <b>Balance Sheet</b>     |                   |
|                            | <b>Location</b>          | <b>Fair Value</b> | <b>Location</b>          | <b>Fair Value</b> |
| Foreign exchange contracts | Other current assets     | \$ 277            | Other current assets     | \$ 259            |

|                            | <b>Liability Derivatives</b> |                   |                          |                   |
|----------------------------|------------------------------|-------------------|--------------------------|-------------------|
|                            | <b>March 31, 2014</b>        |                   | <b>December 31, 2013</b> |                   |
|                            | <b>Balance Sheet</b>         |                   | <b>Balance Sheet</b>     |                   |
|                            | <b>Location</b>              | <b>Fair Value</b> | <b>Location</b>          | <b>Fair Value</b> |
| Foreign exchange contracts | Accrued liabilities          | \$ 41             | Accrued liabilities      | \$ 105            |

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

|                            |  | <b>Three Months Ended March 31,</b>                              |             |
|----------------------------|--|--|-------------|
|                            |  | <b>2014</b>  | <b>2013</b> |
|                            | <b>Location of (Loss) Gain Recognized in Income on Derivatives</b> | <b>Amount of (Loss) Gain Recognized in Income on Derivatives</b> |             |
| Foreign exchange contracts | Cost of Revenues   | \$ 82  | \$ 259      |

**Table of Contents****14. Other Comprehensive Income (Loss)**

The after-tax changes in accumulated other comprehensive loss in thousands of dollars follow:

|                                   | Foreign<br>currency items | Pension and<br>postretirement<br>benefit<br>plans | Accumulated other<br>comprehensive<br>income (loss) |
|-----------------------------------|---------------------------|---|---|
| Ending balance, December 31, 2013 | \$ (11,907)               | \$ (14,401)                                       | \$ (26,308)   |
| Net current period change         | 487                       |   | 487   |
| Ending balance, March 31, 2014    | \$ (11,420)               | \$ (14,401)                                       | \$ (25,821)   |

The related tax effects allocated to each component of other comprehensive loss are as follows:

| <b>Three Months Ended March 31, 2014</b> | <b>Before Tax<br/>Amount</b> | <b>Tax (Expense)<br/>Benefit</b> | <b>After Tax<br/>Amount</b> |
|--|------------------------------|----------------------------------|-----------------------------|
| Cumulative translation adjustment        | 487                          |                                  | 487                         |
| Total other comprehensive income (loss)  | \$ 487                       | \$                               | \$ 487                      |

  

| <b>Three Months Ended March 31, 2013</b> | <b>Before<br/>Tax<br/>Amount</b> | <b>Tax<br/>(Expense)<br/>Benefit</b> | <b>After Tax<br/>Amount</b> |
|--|----------------------------------|--------------------------------------|-----------------------------|
| Cumulative translation adjustment        | 646                              |                                      | 646                         |
| Total other comprehensive income (loss)  | \$ 646                           | \$                                   | \$ 646                      |

**15. 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<br>Benefit Plans |
|--------------------|------------------------|--|
|--------------------|------------------------|--|

|                                | <b>Three Months Ended<br/>March 31,</b> |             | <b>Three Months Ended<br/>March 31,</b> |             | <b>Three Months Ended<br/>March 31,</b> |             |
|--------------------------------|---|-------------|---|-------------|---|-------------|
|                                | <b>2014</b>                             | <b>2013</b> | <b>2014</b>                             | <b>2013</b> | <b>2014</b>                             | <b>2013</b> |
| Service cost                   | \$ 24                                   | \$ 27       | \$                                      | \$          | \$                                      | \$          |
| Interest cost                  | 472                                     | 426         | 478                                     | 410         | (33)                                    | (63)        |
| Expected return on plan assets | (592)                                   | (445)       | (442)                                   | (367)       |   |             |
| Net periodic benefit cost      | \$ (96)                                 | \$ 8        | \$ 36                                   | \$ 43       | \$ (33)                                 | \$ (63)     |

We previously disclosed in our financial statements for the year ended December 31, 2013, that we expect to contribute approximately \$2.7 million to our pension plans and our other post-retirement benefit plans in 2014. As of March 31, 2014, approximately \$0.7 million of contributions have been made to our pension plans.

**Table of Contents**

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

The discussion and analysis presented below is concerned with material changes in financial condition and results of operations for our condensed consolidated balance sheets at March 31, 2014, and for our condensed consolidated statements of earnings for the three months ended March 31, 2014 and 2013. This discussion and analysis should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K for the fiscal year ended December 31, 2013 (the 2013 Form 10-K).

**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 truck market, the medium and heavy-construction vehicle markets, military, bus, automotive and agriculture markets, the specialty transportation markets and recreational markets. Our products include static and suspension seat systems, electronic wire harness assemblies, controls and switches, cab structures and components, interior trim systems (including instrument panels, door panels, headliners, cabinetry and floor systems), interior and exterior finishes and mirrors and wiper systems specifically designed for applications in commercial vehicles.

We are differentiated from automotive industry suppliers 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 a leading position in several of our major markets and that we are a leading supplier in the North American commercial vehicle market offering 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 OEMs, which we believe creates an opportunity to cross-sell our products and offer a full range of cab related products and systems.

**Business Overview**

Demand for our heavy truck products is generally dependent on the number of new heavy truck commercial vehicles manufactured in North America, which is heavily influenced by the financial health and business outlook of the fleet owners that purchase trucks from the OEMs. This is generally a function of economic conditions, interest rates, changes in governmental regulations, consumer spending, fuel costs, and freight costs. 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. The North American Class 8 market showed a modest decrease in 2013 as production levels decreased approximately 12% over 2012. According to an April 2014 report by ACT Research, a publisher of industry market research, North American Class 8 production levels are expected to increase from 245,000 in 2013, peak at 296,000 in 2015, decline to 265,000 in 2017 and increase to 277,000 in 2019. We believe the demand for new heavy duty vehicles will be driven by several factors, including growth in freight volumes and the replacement of aging vehicles. ACT forecasts that the total U.S. freight composite will increase from 12.3 trillion in 2012 to 15.0 trillion in 2017. ACT estimates that the average age of active U.S. Class 8 trucks was 6.6 years in 2012, down slightly from 6.7 years in 2011, which was the highest average vehicle age over the previous 13 years. As vehicles age, their maintenance costs typically increase. ACT forecasts that the vehicle age will decline as aging fleets are replaced.

In 2013, approximately 46% of our revenue was generated from sales to North American heavy-duty truck OEMs. Our remaining revenue in 2013 was primarily derived from sales to OEMs in the global construction equipment market, aftermarket, OE service organizations, military market and other commercial vehicle specialty markets. This

sales mix trend continued into the first quarter of 2014. Demand for our products is driven to a significant degree by preferences of the end-user of the commercial vehicle, particularly with respect to heavy-duty trucks. Unlike the automotive industry, commercial vehicle OEMs generally afford the end-user the ability to specify many of the component parts that will be used to manufacture the commercial vehicle, including a wide variety of cab interior styles and colors, the brand and type of seats, type of seat fabric and color and specific mirror styling. In addition, certain of our products are only utilized in heavy-duty trucks, such as our storage systems, sleeper boxes, sleeper bunks and privacy curtains, and, as a result, changes in demand for heavy-duty trucks or the mix of options on a vehicle can have a greater impact on our business than changes in the overall demand for commercial vehicles. To the extent that demand for higher content vehicles increases or decreases, our revenues and gross profit will be impacted positively or negatively.

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



**Table of Contents**

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. OEM demand for our products is directly correlated with new vehicle production. 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.

During 2013, we conducted an in-depth evaluation of the Company. That evaluation led to the identification of key initiatives intended to enhance the Company's growth prospects and profitability. As a part of this process, the Company undertook a spans and layers analysis, resulting in a reduction in force; all of which are expected to result in ongoing efficiencies and cost savings. As we move into 2014 and for the quarter ended March 31, 2014, our selling, general, and administrative spending returned to levels comparable to the first quarter of 2013. This increase in selling, general, and administrative, especially as compared to the fourth quarter of 2013, was largely due to the re-investment of savings from our cost reduction efforts in the second half of last year. These new investments include enhancements in the manner to which we go to market, including the development of a product line management infrastructure; actions to institutionalize our operational excellence efforts; and the development of a centrally led procurement organization. Management anticipates it will continue to explore new initiatives throughout 2014 and is working to create a more performance-based culture that is concentrated on becoming more efficient, more global, better centered on product development and more engaged with customers. The primary goals of the plan are expected to center on delivering increased organic growth, more fully developed sales and marketing efforts and deeper penetration of the Chinese, North American and other world markets.

As we continue to formulate plans to grow our business globally, we recognize customer expectations in markets outside the U.S. will be different in terms of technology, features and price point. We believe the enhancements in the manner to which we go to market referenced above will help grow our business globally.

We intend to continue examining acquisition candidates that meet our strategic growth criteria including the addition of new customers, diversified global expansion opportunities or technology acquisition and development opportunities. However, we currently anticipate more focus will be placed on our organic growth opportunities and global expansion plans than merger and acquisition activities.

Revenues and operating results for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected in future operating quarters.

**Results of Operations**

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

|                  | <b>Three Months Ended March 31,</b> |        |             |        |
|------------------|-------------------------------------|--------|-------------|--------|
|                  | <b>(in thousands)</b>               |        |             |        |
|                  | <b>2014</b>                         |        | <b>2013</b> |        |
| Revenues         | \$ 198,071                          | 100.0% | \$ 177,822  | 100.0% |
| Cost of revenues | 173,767                             | 87.7   | 159,737     | 89.8   |

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

|   |          |        |            |        |
|---|----------|--------|------------|--------|
| Gross profit  | 24,304   | 12.3   | 18,085     | 10.2   |
| Selling, general and administrative expenses        | 18,472   | 9.3    | 17,949     | 10.1   |
| Amortization expense                                | 384      | 0.2    | 409        | 0.2    |
| Operating income (loss)                             | 5,448    | 2.8    | (273)      | (0.1)  |
| Interest and Other expense                          | 5,108    | 2.6    | 5,354      | 3.0    |
| Income before provision (benefit) for income taxes  | 340      | 0.2    | (5,627)    | (3.1)  |
| Provision (benefit) for income taxes                | 848      | 0.4    | (1,011)    | (0.6)  |
| Net loss  | (508)    | (0.2)  | (4,616)    | (2.5)  |
| Less: Non-controlling interest in subsidiary s loss | (2)      |        | (2)        | (0.0)  |
| Net loss attributable to CVG stockholders           | \$ (506) | (0.2)% | \$ (4,614) | (2.5)% |

**Table of Contents**

***Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013***

*Revenues.* Revenues increased approximately \$20.2 million, or 11.4%, to \$198.1 million in the three months ended March 31, 2014 from \$177.8 million in the three months ended March 31, 2013 reflecting the impact of higher build rates in our heavy-truck and global construction end markets, the return of inventory to more normal levels in global construction markets and economic growth forecasts in North America and China, and the increase in global automotive, agriculture and other industry production levels as discussed below,:

an 11.4% increase in our North American heavy-duty production and fluctuations in production levels for other global OEM truck markets resulting in approximately \$9.3 million of increased revenues;

a 22.4% increase in our global construction production levels resulting in approximately \$8.4 million of increased revenues; and

a 31.1% increase in our global automotive, agriculture and other industry production levels resulting in approximately \$2.5 million of increased revenues.

*Cost of Revenues.* Cost of revenues consists primarily of raw materials and purchased components for our products, wages and benefits for our employees and other overhead expenses such as manufacturing supplies, rent and utilities costs related to our operations. Cost of revenues increased approximately \$14.0 million, or 8.8%, to \$173.8 million for the three months ended March 31, 2014 from \$159.7 million for the three months ended March 31, 2013. This increase was primarily driven by an increase in raw material and purchased components costs of approximately \$12.0 million, increase in wages and benefits costs of approximately \$0.7 million and an increase in other overhead costs of approximately \$1.3 million, which included \$0.5 million in severance costs related to the pending closure of our Tigard, Oregon facility and an impairment charge of \$0.8 million recorded resulting from the sale of our Norwalk, Ohio facility.

*Gross Profit.* Gross profit was approximately \$24.3 million for the three months ended March 31, 2014 compared to \$18.1 million in the three months ended March 31, 2013, an increase of approximately \$6.2 million. As a percentage of revenues, gross profit was 12.3% for the three months ended March 31, 2014 compared to 10.2% for the three months ended March 31, 2013. Conversion of revenue into gross profit exceeded our historical norm primarily as a consequence of the operating leverage from cost structure discipline in a rising market.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses consist primarily of wages and benefits and other overhead expenses such as marketing, travel, legal, audit, rent and utilities costs which are not directly or indirectly associated with the manufacturing of our products. Selling, general and administrative expenses increased approximately \$0.5 million, or 2.9%, to \$18.5 million in the three months ended March 31, 2014 from \$18.0 million in the three months ended March 31, 2013. Expressed as a percent of sales, selling, general and administrative costs improved from 10.1% for the three months ended March 31, 2013 to 9.3% for the three months ended March 31, 2014 primarily a result of increased sales.

*Amortization Expense.* Amortization expense on our definite-lived intangible assets, including trademarks, tradenames and customer relationships from our acquisitions of Vijayjyot and Daltek, was approximately \$0.4 million for each of the three months ended March 31, 2014 and 2013, respectively.

*Interest and Other Expense.* Interest, associated with our long-term debt, and other expense was approximately \$5.1 million and \$5.4 million in the three months ended March 31, 2014 and 2013, respectively.

*Provision (Benefit) for Income Taxes.* An income tax provision of approximately \$0.8 million was recorded for the three months ended March 31, 2014 compared to a tax benefit of approximately \$1.0 million for the three months ended March 31, 2013. The year over year change in the quarterly tax provision was primarily driven by the mix of income between our U.S. and non-U.S. locations. Additional items impacting the tax provision included international locations subject to valuation allowances currently in place primarily in the U.K., China, India and Czech Republic, and U.S. laws that have not been extended.

*Net Loss.* Net loss was \$0.5 million in the three months ended March 31, 2014, compared to net loss of \$4.6 million in the three months ended March 31, 2013. The decrease in net loss was primarily a result of the increased revenues for the three months ended March 31, 2014 discussed above.

*Non-controlling Interest in Subsidiaries Loss.* Included in net loss is approximately a \$2 thousand loss for each of the three months ended March 31, 2014 and 2013, respectively, representing the non-controlling interest of our India joint venture.

## **Table of Contents**

*Net Loss Attributable to CVG Stockholders.* Net loss attributable to CVG stockholders was \$0.5 million in the three months ended March 31, 2014, compared to net loss of \$4.6 million in the three months ended March 31, 2013. The decrease in net loss attributable to CVG stockholders was primarily a result of the increased revenues for the three months ended March 31, 2014 discussed above.

## **Liquidity and Capital Resources**

### ***Cash Flows***

Our primary sources of liquidity during the three months ended March 31, 2014 were cash generated from the sale of our various products to our customers. We believe that cash from operations, existing cash reserves, and availability under our revolving credit facility will provide adequate funds for our working capital needs, planned capital expenditures and cash interest payments through the remainder of 2014. However, no assurance can be given that this will be the case. We did not borrow under our revolving credit facility during the three months ended March 31, 2014.

For the three months ended March 31, 2014, net cash provided by operations was approximately \$1.3 million compared to net cash used in operations of approximately \$2.8 million for the three months ended March 31, 2013. The net cash provided by operations for the three months ended March 31, 2014 was primarily a result of higher sales volumes, offset by an increase in working capital as a result of the production volume increase. The net cash used in operations for the three months ended March 31, 2013 was primarily a result of lower working capital requirements as a result of low production volumes and payments for the annual renewal of insurance policies.

For the three months ended March 31, 2014, we used \$1.5 million of cash for investing activities compared to net cash used for investing activities of \$2.5 million for the three months ended March 31, 2013. The cash used for investing activities for the three months ended March 31, 2014 primarily reflect capital expenditures made during the quarter. The amounts used for investing activities for the three months ended March 31, 2013 primarily reflect capital expenditures and life insurance premium payments made during that period.

For the three months ended March 31, 2014, net cash provided by financing activities was approximately \$1.0 million. There was no cash provided by financing activities for the three months ended March 31, 2013. The net cash provided by financing activities for the three months ended March 31, 2014 was driven by proceeds from loans taken against our life insurance policies to fund deferred compensation payments.

As of March 31, 2014, cash held by foreign subsidiaries was approximately \$20.1 million. If we were to repatriate any portion of these funds back to the U.S., we would accrue and pay the appropriate withholding and income taxes on amounts repatriated. We do not intend to repatriate funds held by our foreign affiliates, but intend to use the cash to fund the growth of our foreign operations.

### ***Debt and Credit Facilities***

As of March 31, 2014, our outstanding indebtedness consisted of an aggregate of \$250.0 million of 7.875% notes due 2019 (the 7.875% notes). As of March 31, 2014, we did not have any borrowings under our revolving credit facility. In addition, as of March 31, 2014, we had outstanding letters of credit of approximately \$2.9 million and borrowing availability of \$37.1 million under the revolving credit facility, which is subject to an availability block under certain circumstances.

### **Revolving Credit Facility**

On November 15, 2013, the Company and some of our subsidiaries, as borrowers (collectively, the borrowers ) entered into a Second Amended and Restated Loan and Security Agreement ( the Second ARLS Agreement ) with Bank of America, N.A. as agent and lender, which amended and restated the Amended and Restated Loan and Security Agreement, dated as of April 26, 2011.

The material terms of the Second ARLS Agreement include the following:

A facility in the amount of \$40.0 million with the ability to increase to up to an additional \$35.0 million under certain conditions;

Availability is subject to borrowing base limitations and an availability block equal to the amount of debt Bank of America, N.A. or its affiliates makes available to the Company s foreign subsidiaries;

Availability of up to an aggregate amount of \$10.0 million for the issuance of letters of credit, which reduces the total amount available;

Extension of the maturity date to November 15, 2018;

**Table of Contents**

Amendments to certain covenants to provide additional flexibility, including (i) conditioning permitted distributions on minimum availability, fixed charge coverage ratio and other requirements, (ii) conditioning permitted foreign investments on minimum availability, fixed charge coverage ratio and other requirements, (iii) conditioning permitted acquisitions on minimum availability, fixed charge coverage ratio and other requirements and (iv) permitting certain sale-leaseback transactions;

Permitting repurchase of the Company's 7.875% notes due 2019 under certain circumstances; and

Reduction of the fixed charge coverage ratio maintenance requirement to 1.0:1.0 and reduction of the availability threshold for triggering compliance with the fixed charge coverage ratio, as described below.

With the Second ARLS Agreement, the applicable margin is based on average daily availability under the revolving credit facility as follows:

| Level | Average Daily Availability        | Base Rate Loans | LIBOR Revolver Loans |
|-------|-----------------------------------|-----------------|----------------------|
| III   | <sup>3</sup> \$20,000,000         | 0.50%           | 1.50%                |
| II    | > \$10,000,000 but < \$20,000,000 | 0.75%           | 1.75%                |
| I     | £ \$10,000,000                    | 1.00%           | 2.00%                |

As of March 31, 2014, \$4.5 million in deferred fees relating to the revolving credit facility and our 7.875% notes were being amortized over the remaining life of the agreements.

The borrowers' obligations under the revolving credit facility are secured by a first-priority lien (subject to certain permitted liens) on substantially all of our tangible and intangible assets, 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. The borrowers are jointly and severally liable for the obligations under the revolving credit facility and unconditionally guarantees the prompt payment and performance thereof.

At March 31, 2014, the applicable margin level was Level III. The applicable margin will be subject to increase or decrease by the agent on the first day of the calendar month following each fiscal quarter end. If the agent is unable to calculate average daily availability for a fiscal quarter because of our failure to deliver a borrowing base certificate when required, the applicable margin will be set at Level I until the first day of the calendar month following receipt of a borrowing base 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. The unused commitment fee is 0.25% per annum at all times.

*Terms, Covenants and Compliance Status*

The Second ARLS Agreement requires the maintenance of a minimum fixed charge coverage ratio calculated based upon consolidated EBITDA (as defined in the Second ARLS Agreement) as of the last day of each of the Company's fiscal quarters. The borrowers are not required to comply with the fixed charge coverage ratio requirement for as long

as the borrowers maintain at least \$7.5 million of borrowing availability under the revolving credit facility. If borrowing availability is less than \$7.5 million at any time, we would be required to comply with a fixed charge coverage ratio of 1.0:1.0 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 \$7.5 million or greater for 60 consecutive days. If required, we would be in compliance with this covenant as of March 31, 2014.

The Second ARLS Agreement contains other customary restrictive covenants, customary events of default, customary reporting and other affirmative covenants, as described in our 2013 Form 10-K. See also Note 11 to our consolidated financial statements in this Form 10-Q for information on the covenants. The Company was in compliance with these covenants as of March 31, 2014.

Certain of the defaults are subject to exceptions, materiality qualifiers, grace periods and baskets customary for credit facilities of this type.



## Table of Contents

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

The Second ARLS Agreement requires the borrowers to make mandatory prepayments with the proceeds of certain asset dispositions and upon the receipt of insurance or condemnation proceeds to the extent the borrowers do not use the proceeds for the purchase of assets useful in the borrowers' businesses.

### 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 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, 2014.

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 interest.

## **Table of Contents**

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 had the option but did not redeem any part of the 7.875% notes as of April 15, 2014 at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, plus the make-whole premium in the 7.875% Notes Indenture. We evaluated the make-whole premium under ASC 815-15 and determined that the premium is not required to be bifurcated from the 7.875% notes and accounted for as a separate derivative instrument. We may redeem the 7.875% notes, in whole or in part, at any time on or after April 15, 2014 at the optional redemption prices set forth in the 7.875% Notes Indenture, 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 Second ARLS Agreement may be affected in the future by economic or business conditions beyond our control. Based on our current forecast, we believe that we would be able to maintain compliance with the fixed charge coverage ratio covenant, if applicable. We believe we would be in compliance with other covenants in the Second ARLS 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 Second ARLS Agreement, and we are unable to obtain necessary waivers or amendments from the lender, we would be precluded from borrowing under the Second ARLS Agreement, which could have a material adverse effect on our business, financial condition and liquidity. If we are unable to borrow under the Second ARLS 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 Second ARLS Agreement, the lender could declare an event of default under the Second ARLS 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.

## **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 which speak only as of the date the statements were made. When used in this Form 10-Q, the words believes, anticipates, plans, expects, intend, will, should, could, would, likely, 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 2013 Form 10-K. 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.

**Table of Contents**

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We believe there are no material changes in the quantitative and qualitative market risks since our 2013 Form 10-K.

**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 upon the disclosure controls evaluation and because the material weakness in our internal control over financial reporting identified at December 31, 2013, and discussed below under *Changes in Internal Control over Financial Reporting*, has not been remediated, our CEO and CFO have concluded that as of March 31, 2014, our internal controls over financial reporting were not effective.

*Changes in Internal Control over Financial Reporting.* As previously disclosed in our 2013 10-K, management identified a material weakness in system access controls resulting in inadequate segregation of duties. Specifically, management failed to effectively operate controls designed to:

(1) timely remove terminated users' system access; and

(2) timely prepare and review system access reports for inappropriate user access.

Additionally, management failed to design a process to review system access by users that transferred between departments.

As a result of this material weakness, a material misstatement of the Company's annual or interim financial statements could occur and not be prevented or detected on a timely basis. Therefore, management determined that, as of December 31, 2013, our internal control over financial reporting was not effective.

In the first quarter of 2014, management began implementing its remediation plan, which is as follows:

(1) Review and revise our policies and procedures to enhance oversight of our system access controls, and improve communication between departments in order to:

- a. timely remove system access for terminated employees;
- b. timely prepare and review system access reports for inappropriate user access; and
- c. timely review system access by users that transfer between departments.

- (2) Clearly communicate a strong tone by the Company's management setting a commitment to fully implement and administer the remediation steps listed above with accountability. Management may determine to take additional measures or determine to modify the remediation plan described above.

Management will continue to implement its remediation plan in 2014.

There were no other changes in our internal control over financial reporting during the three months ended March 31, 2014 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

**Table of Contents**

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.

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings:**

We become involved from time-to-time in litigation incidental to our business, including, but not limited to, customer and supplier disputes, product liability claims, product warranty claims, employment-related claims, environmental claims and examinations by the Internal Revenue Service. Although the ultimate resolution of these litigation matters is inherently unpredictable and cannot be forecast with certainty, we intend to vigorously defend ourselves and do not currently believe that the outcome of any pending litigation will have a material adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors:**

There have been no material changes to our risk factors as disclosed in Item 1A. Risk Factors in our 2013 Form 10-K.

**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, 2014 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.



---

**Table of Contents**

Item 6. Exhibits:

- 2.01\*\* Asset Purchase Agreement, dated as of January 28, 2011, by and among CVG Alabama LLC and Bostrom Seating, Inc., (incorporated by reference to the Company's annual report on Form 10-K (File No. 000-34365), filed on March 15, 2011).
- 3.1 Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's quarterly report on Form 10-Q (File No. 000-50890), filed on September 17, 2004).
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company, dated as of May 12, 2011 (incorporated by reference to the Company's current report on Form 8-K (File No. 001-34365), filed on May 13, 2011).
- 3.3 Amended and Restated By-laws of the Company (incorporated by reference to the Company's quarterly report on Form 10-Q (File No. 000-50890), filed on September 17, 2004).
- 10.1\* Change in Control & Non-Competition Agreement dated January 23, 2014 with C. Timothy Trenary (incorporated by reference to the Company's current report on Form 8-K (File No. 001-34365), filed on January 24, 2014).
- 10.2\* Commercial Vehicle Group, Inc. 2014 Bonus Plan.
- 31.1 302 Certification by Richard P. Lavin, President and Chief Executive Officer.
- 31.2 302 Certification by C. Timothy Trenary, 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

\* Management contract or compensatory plan or arrangement.

\*\* The schedules and exhibits to the Asset Purchase Agreement have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S - K. The Company will furnish supplementally a copy of any such omitted schedules or exhibits to the SEC upon request.

**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 9, 2014

By: /s/ C. Timothy Trenary  
C. Timothy Trenary  
Chief Financial Officer  
(Principal financial and accounting officer and duly  
authorized officer)