Commercial Vehicle Group, Inc.
Form 10-Q
May 05, 2006

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

Form 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from __________ to __________

Commission file number 000-50890

COMMERCIAL VEHICLE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**41-1990662**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6530 West Campus Oval **New Albany, Ohio**	**43054**
(Address of principal executive offices)	(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 þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The number of shares outstanding of the Registrant s common stock, par value $.01 per share, at March 31, 2006 was 21,069,512 shares.

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

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ITEM 1 FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 6,551	$ 2,074
Cash paid for income taxes, net	$ 1,170	$ 1,513

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

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COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Basis of Presentation

Commercial Vehicle Group, Inc. and its subsidiaries (CVG or the Company) design and manufacture suspension seat systems, interior trim systems (including instrument and door panels, headliners, cabinetry, molded products and floor systems), cab structures and components, mirrors, wiper systems, electronic wiring harness assemblies and controls and switches for the global commercial vehicle market, including the heavy-duty truck market, the construction and agriculture market and the specialty and military transportation markets. The Company has operations located in the United States in Arizona, Indiana, Illinois, Iowa, North Carolina, Ohio, Oregon, Tennessee, Texas, Virginia, Washington and Wisconsin and outside of the United States in Australia, Belgium, China, Mexico, Sweden and the United Kingdom.

The Company has prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations and statements of financial position for the interim periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading when read in conjunction with its fiscal 2005 consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K as filed with the SEC. Unless otherwise indicated, all amounts are in thousands except per share amounts.

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

2. Recently Issued Accounting Pronouncements

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

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

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

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

3. Stock-Based Compensation

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

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

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

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

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

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

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Stock Options and Restricted Stock Grants

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

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

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

In November 2005, 168,700 shares of restricted stock with a grant date fair value of $19.50 were awarded by our compensation committee under our Amended and Restated Equity Incentive Plan. Restricted stock is a grant of shares of common stock that may not be sold, encumbered or disposed of, and that may be forfeited in the event of certain terminations of employment prior to the end of a restricted period set by the compensation committee. The shares of restricted stock granted in November 2005 vest in three equal annual installments commencing on October 20, 2006. A participant granted restricted stock generally has all of the rights of a stockholder, unless the compensation committee determines otherwise. As of March 31, 2006, there was approximately $2.6 million of unearned compensation related to non-vested share-based compensation arrangements granted under this plan. This expense is subject to future adjustments for sales and forfeitures and will be recognized on a straight-line basis over the remaining period of 31 months.

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

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

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

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

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

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

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

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

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

4. Inventories

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

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

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

5. Stockholders Investment

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

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

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

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

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

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

6. Debt

Debt consisted of the following (in thousands):

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

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

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

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

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

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

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

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

7. Goodwill and Intangible Assets

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

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

8. Comprehensive Income

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

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

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

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

9. Commitments and Contingencies

Warranty The Company is subject to warranty claims for products that fail to perform as expected due to design or manufacturing deficiencies. Customers continue to require their outside suppliers to guarantee or warrant their products and bear the cost of repair or replacement of such products. Depending on the terms under which the Company supplies products to its customers, a customer may hold the Company responsible for some or all of the repair or replacement costs of defective products when the product supplied did not perform as represented. The Company s policy is to reserve for estimated future customer warranty costs based on historical trends and current economic factors. The following represents a summary of the warranty provision for the three months ended March 31, 2006 (in thousands):

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

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

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

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

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

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

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

10. Defined Benefit Plan and Postretirement Benefits

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

The components of net periodic benefit cost related to the defined benefit plans are as follows (in thousands):

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

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

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

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

11. Related Party Transactions

On May 1, 2004, we entered into a Product Sourcing Assistance Agreement with Baird Asia Limited (BAL), an affiliate of Baird Capital Partners III L.P. Pursuant to the Agreement, BAL assisted us in procuring materials and parts from Asia, including the countries of China, Malaysia, Hong Kong and Taiwan. BAL received as compensation a percentage of the price of the materials and parts supplied to us, of at least 2% of the price but not exceeding 10% of the price, to be determined on a case by case basis. We incurred expenses of approximately $0.7 million during the three months ended March 31, 2005 for the value of goods and services purchased under this agreement. In connection with the sale of stock during 2005, BAL was no longer a related party as of December 31, 2005.

12. Subsequent Events

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

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

13. Consolidating Guarantor and Non-Guarantor Financial Information

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

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

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

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

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

	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidated
			(In thousands)		
			ASSETS		
CURRENT ASSETS:					
Cash and cash equivalents	$	$ 24,978	$ 1,490	$	$ 26,468
Accounts receivable, net		174,183	30,241	(58,863)	145,561
Inventories, net		52,332	18,539	(85)	70,786
Prepaid expenses and other current assets		4,132	2,645		6,777
Deferred income taxes		13,641	(971)		12,670
Total current assets		269,266	51,944	(58,948)	262,262
PROPERTY, PLANT AND EQUIPMENT, net		75,987	5,654		81,641
INVESTMENT IN SUBSIDIARIES	343,922	1,201	1,715	(346,838)	
GOODWILL		103,756	22,044		125,800
INTANGIBLE ASSETS		84,478			84,478
OTHER ASSETS, net		18,409	6,055	(12,655)	11,809
TOTAL ASSETS	$ 343,922	$ 553,097	$ 87,412	$ (418,441)	$ 565,990
		LIABILITIES AND STOCKHOLDERS INVESTMENT			
CURRENT LIABILITIES:					
Current maturities of long-term debt	$	$ 5,574	$	$	$ 5,574
Accounts payable		123,192	16,455	(58,863)	80,784
Accrued liabilities		40,876	3,970		44,846
Total current liabilities		169,642	20,425	(58,863)	131,204
LONG-TERM DEBT, net of current maturities		170,451	14,184		184,635
DEFERRED TAX LIABILITIES		22,273	(816)	(12,655)	8,802
OTHER LONG-TERM LIABILITIES		18,915	5,372		24,287
Total liabilities		381,281	39,165	(71,518)	348,928
STOCKHOLDERS INVESTMENT	343,922	171,816	48,247	(346,923)	217,062

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

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

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

Net cash (used in) provided by financing activities										
EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				(19)		(256)				(275)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS				(14,175)		2				(14,173)
CASH AND CASH EQUIVALENTS:										
Beginning of period				39,153		1,488				40,641
End of period	$		$	24,978	$	1,490	$		$	26,468

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

	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidated
			(In thousands)		
			ASSETS		
CURRENT ASSETS:					
Cash and cash equivalents	$	$ 39,153	$ 1,488	$	$ 40,641
Accounts receivable, net		144,793	25,657	(56,334)	114,116
Inventories, net		50,953	18,179	(79)	69,053
Prepaid expenses and other current assets		(540)	2,484	2,780	4,724
Deferred income taxes		13,551	(980)		12,571
Total current assets		247,910	46,828	(53,633)	241,105
PROPERTY, PLANT AND EQUIPMENT, net		74,633	5,782		80,415
INVESTMENT IN SUBSIDIARIES	328,815	752	1,715	(331,282)	
GOODWILL		103,758	21,849		125,607
INTANGIBLE ASSETS, net		84,577			84,577
OTHER ASSETS, net		18,529	6,305	(12,655)	12,179
TOTAL ASSETS	$ 328,815	$ 530,159	$ 82,479	$ (397,570)	$ 543,883
		LIABILITIES AND STOCKHOLDERS INVESTMENT			
CURRENT LIABILITIES:					
Current maturities of long-term debt	$	$ 5,309	$	$	$ 5,309
Accounts payable		115,704	14,339	(56,334)	73,709
Accrued liabilities		37,124	3,079	2,780	42,983
Total current liabilities		158,137	17,418	(53,554)	122,001
LONG-TERM DEBT, net of current maturities		171,693	14,007		185,700
DEFERRED TAX LIABILITIES		22,273	(816)	(12,655)	8,802
OTHER LONG-TERM LIABILITIES		19,994	5,309		25,303
Total liabilities		372,097	35,918	(66,209)	341,806

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

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

	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidated
			(In thousands)		
REVENUES	$	$ 122,133	$ 30,829	$ (547)	$ 152,415
COST OF REVENUES		100,982	25,629	(448)	126,163
Gross Profit		21,151	5,200		