

Commercial Vehicle Group, Inc.  
Form 10-Q  
August 04, 2006

**Table of Contents**

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

**Form 10-Q**

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

For the quarterly period ended June 30, 2006

**OR**

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

For the transition period from \_\_\_ to \_\_\_

Commission file number 000-50890

**COMMERCIAL VEHICLE GROUP, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-1990662**

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

**6530 West Campus Oval  
New Albany, Ohio**

(Address of principal executive offices)

**43054**

(Zip Code)

**(614) 289-5360**

(Registrant's telephone number, including area code)

**Not Applicable**

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ○

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

Large accelerated filer ○ Accelerated filer ☐ Non-accelerated filer ○

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

Yes ○ No ☐

The number of shares outstanding of the Registrant's common stock, par value \$.01 per share, at June 30, 2006 was 21,152,461 shares.

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

<u>PART I</u>	<u>FINANCIAL INFORMATION</u>	
<u>ITEM 1</u>	<u>FINANCIAL STATEMENTS</u>	1
	<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)</u>	1
	<u>CONDENSED CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005 (UNAUDITED)</u>	2
	<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)</u>	3
	<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>	4
<u>ITEM 2</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	23
<u>ITEM 3</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	28
<u>ITEM 4</u>	<u>CONTROLS AND PROCEDURES</u>	28
<u>PART II</u>	<u>OTHER INFORMATION</u>	29
<u>SIGNATURES</u>		31
	<u>Certification by Mervin Dunn, President and Chief Executive Officer</u>	
	<u>Certification by Chad M. Utrup, Chief Financial Officer</u>	
	<u>Certification Pursuant to Section 906</u>	
	<u>Certification Pursuant to Section 906</u>	

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES	\$ 234,787	\$ 196,091	\$ 464,132	\$ 348,506
COST OF REVENUES	194,590	159,949	385,201	286,112
Gross Profit	40,197	36,142	78,931	62,394
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	13,247	10,172	26,399	19,721
AMORTIZATION EXPENSE	103	140	208	164
Operating Income	26,847	25,830	52,324	42,509
OTHER INCOME	(1,308)	(392)	(1,078)	(3,272)
INTEREST EXPENSE	3,849	3,315	7,739	5,482
LOSS ON EARLY EXTINGUISHMENT OF DEBT	318		318	
Income Before Provision for Income Taxes	23,988	22,907	45,345	40,299
PROVISION FOR INCOME TAXES	8,494	8,722	16,443	15,228
NET INCOME	\$ 15,494	\$ 14,185	\$ 28,902	\$ 25,071
EARNINGS PER COMMON SHARE:				
Basic	\$ 0.73	\$ 0.79	\$ 1.37	\$ 1.39
Diluted	\$ 0.72	\$ 0.78	\$ 1.35	\$ 1.37
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	21,119	17,987	21,070	17,987
Diluted	21,501	18,260	21,486	18,279

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

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(In thousands)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 15,303	\$ 40,641
Accounts receivable, net of reserve for doubtful accounts of \$6,461 and \$6,087, respectively	144,360	114,116
Inventories, net	74,798	69,053
Prepaid expenses and other current assets	7,863	4,724
Deferred income taxes	11,840	12,571
<b>Total current assets</b>	<b>254,164</b>	<b>241,105</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>81,928</b>	<b>80,415</b>
<b>GOODWILL</b>	<b>127,445</b>	<b>125,607</b>
<b>INTANGIBLE ASSETS, net of accumulated amortization of \$646 and \$451, respectively</b>	<b>84,382</b>	<b>84,577</b>
<b>OTHER ASSETS, net</b>	<b>12,723</b>	<b>12,179</b>
<b>TOTAL ASSETS</b>	<b>\$ 560,642</b>	<b>\$ 543,883</b>
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 1,878	\$ 5,309
Accounts payable	85,201	73,709
Accrued liabilities	45,430	42,983
<b>Total current liabilities</b>	<b>132,509</b>	<b>122,001</b>
<b>LONG-TERM DEBT, net of current maturities</b>	<b>161,771</b>	<b>185,700</b>
<b>DEFERRED TAX LIABILITIES</b>	<b>8,802</b>	<b>8,802</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>21,887</b>	<b>25,303</b>
<b>Total liabilities</b>	<b>324,969</b>	<b>341,806</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>STOCKHOLDERS INVESTMENT:</b>		
Common stock \$.01 par value; 30,000,000 shares authorized; 21,152,461 and 21,145,954 shares issued and outstanding, respectively	211	211
Additional paid-in capital	171,728	169,252
Retained earnings	62,859	33,957
Accumulated other comprehensive income (loss)	875	(1,343)

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

Total stockholders' investment	235,673	202,077
TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT	\$ 560,642	\$ 543,883

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

2

---

**Table of Contents**

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 28,902	\$ 25,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,312	5,900
Noncash amortization of debt financing costs	463	372
Loss on early extinguishment of debt	318	
Stock-based compensation expense	965	
(Gain)/loss on sale of assets	(367)	63
Pension and post-retirement curtailment gain	(3,865)	
Deferred income tax provision	787	1,262
Noncash gain on forward exchange contracts	(1,067)	(3,238)
Change in other operating items	(23,390)	(8,522)
 Net cash provided by operating activities	 10,058	 20,908
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(8,501)	(5,513)
Proceeds from disposal/sale of property, plant and equipment	219	
Proceeds from disposal/sale of other assets	1,800	
Post-acquisition and acquisitions payments, net of cash received	(693)	(163,185)
Other assets and liabilities	(270)	
 Net cash used in investing activities	 (7,445)	 (168,698)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock under equity incentive plans	1,059	
Excess tax benefits from equity incentive plans	151	
Repayment of revolving credit facility	(4,925)	(97,804)
Borrowings under revolving credit facility	4,030	163,138
Long-term borrowings		225,733
Repayments of long-term borrowings	(27,375)	(139,248)
Other, net	(53)	21
 Net cash (used in) provided by financing activities	 (27,113)	 151,840
 <b>EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	 (838)	 (1,507)
 <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	 (25,338)	 2,543
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	40,641	1,396

End of period	\$ 15,303	\$ 3,939
---------------	-----------	----------

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest	\$ 7,126	\$ 4,910
------------------------	----------	----------

Cash paid for income taxes, net	\$ 11,254	\$ 9,710
---------------------------------	-----------	----------

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

3

---

**Table of Contents**

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Description of Business and Basis of Presentation**

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

The Company has prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the 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 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 and six months ended June 30, 2006 are not necessarily indicative of the results to be expected in future operating quarters.

**2. Recently Issued Accounting Pronouncements**

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition requirements for uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of determining the impact of the adoption of this authoritative guidance on our financial statements.

**3. Share-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 share-based compensation arrangements. SFAS No. 123(R) also revises the fair value-based method of accounting for share-based payment liabilities, forfeitures and modifications of share-based compensation arrangements 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. Prior to our adoption of SFAS No. 123(R), benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. SFAS No. 123(R) amends SFAS No. 95, *Statement of Cash Flows*, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid, which is included within operating cash flows.

The Company estimates the adoption of SFAS No. 123(R), using the modified prospective application method, will result in pre-tax compensation expense of approximately \$1.7 million in 2006 based on the Company s current share-based compensation arrangements. The compensation expense that has been charged against income for those plans was approximately \$0.4 million and \$1.0 million for the three and six month periods ended June 30, 2006,



**Table of Contents**

respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was approximately \$0.1 million and \$0.3 million for the three and six month periods ended June 30, 2006, respectively. Because the Company accounted for its share-based compensation arrangements under APB Opinion No. 25 prior to adopting SFAS No. 123(R), the Company's net income for the three and six month periods ended June 30, 2005 does not include any compensation expense related to these arrangements.

For the three and six month periods ended June 30, 2006, the adoption of SFAS No. 123(R) resulted in incremental share-based compensation expense of approximately \$0.1 million and \$0.3 million, respectively. The incremental share-based compensation expense caused income before provision for income taxes to decrease for the three and six month periods ended June 30, 2006 by approximately \$0.1 million and \$0.3 million, respectively, and net income to decrease for the same periods by approximately \$0.1 million and \$0.2 million, respectively. In addition, basic and diluted earnings per share decreased by \$0.01 and \$0.01, respectively, for the three month period ended June 30, 2006 and \$0.01 and \$0.00, respectively, for the six month period ended June 30, 2006. Cash provided by operating activities decreased and cash provided by financing activities increased by approximately \$0.1 million and \$0.2 million for the three and six month periods ended June 30, 2006, respectively, related to excess tax benefits from share-based payment arrangements.

The following table illustrates the effect on net income and earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123(R) to awards granted under the Company's Amended and Restated Equity Incentive Plan prior to the adoption of this standard for the three and six month periods ended June 30, 2005 (in thousands, except per share amounts - unaudited):

	<b>Three Months Ended June 30, 2005</b>	<b>Six Months Ended June 30, 2005</b>
Net income, as reported	\$ 14,185	\$ 25,071
(Less): Stock-based compensation expense determined under the the fair-value-based method for all awards, net of related tax effects	(166)	(334)
Pro forma net income	\$ 14,019	\$ 24,737
Basic net earnings per share:		
As reported	\$ 0.79	\$ 1.39
Pro forma	\$ 0.78	\$ 1.38
Diluted net earnings per share:		
As reported	\$ 0.78	\$ 1.37
Pro forma	\$ 0.77	\$ 1.35

*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 and the original terms provided for 50% of such options becoming exercisable ratably on June 30, 2005 and June 30, 2006. During June 2004, the Company modified the terms of these options such that they

became 100% vested immediately.

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 ratably in three equal annual installments commencing on October 20, 2005. As of June 30, 2006, there was approximately \$1.0 million of unearned compensation related to nonvested 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 16 months.

In November 2005, 168,700 shares of restricted stock 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

**Table of Contents**

November 2005 vest ratably 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 June 30, 2006, there was approximately \$2.6 million of unearned compensation related to nonvested 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 28 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:

	<b>2004 Stock Option Grants</b>
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 12.8% and 7.1%, respectively, for all participants of each plan.

A summary of the status of the Company's stock options as of June 30, 2006 and changes during the six month period ending June 30, 2006 is presented below:

<b>Stock Options</b>	<b>Options (000's)</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value (000's)</b>
Outstanding at December 31, 2005	1,219	\$ 10.45		\$
Granted				
Exercised	(174)	6.17		2,355
Forfeited	(23)	15.84		
Outstanding at June 30, 2006	1,022	\$ 11.06	8.0	\$ 9,326
Exercisable at June 30, 2006	666	\$ 8.49	7.8	7,472

The following table summarizes information about the nonvested stock option and restricted stock grants as of June 30, 2006:

	<b>Nonvested Stock Options</b>		<b>Nonvested Restricted Stock</b>
	<b>Options</b>	<b>Weighted- Average Grant-Date Fair Value</b>	<b>Shares</b>
	<b>(000's)</b>	<b>(000's)</b>	<b>(000's)</b>
Nonvested at December 31, 2005	380	\$ 3.34	167
Granted			\$ 19.50

Vested				
Forfeited	(23)	3.34	(1)	19.50
Nonvested at June 30, 2006	357	\$ 3.34	166	\$ 19.50

As of June 30, 2006, a total of 286,550 shares were available from the original 1.0 million shares authorized for award under the Company's Amended and Restated Equity Incentive Plan, including cumulative forfeitures.

**4. Accounts Receivable**

Trade accounts receivable are stated at historical value less allowance for doubtful accounts, which approximates fair value. This estimated allowance is based primarily on management's evaluation of specific balances as the

**Table of Contents**

balances become past due, the financial condition of its customers and the Company's historical experience of write-offs. If not reserved through specific identification procedures, the Company's general policy for uncollectible accounts is to reserve at a certain percentage threshold, based upon the aging categories of accounts receivable. Past due status is based upon the due date of the original amounts outstanding. When items are ultimately deemed to be uncollectible, they are charged off against the reserve previously established in the allowance for doubtful accounts.

**5. 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>June 30, 2006</b>	<b>December 31, 2005</b>
Raw materials	\$ 49,188	\$ 46,218
Work in process	11,865	12,571
Finished goods	17,999	13,655
Less excess and obsolete	(4,254)	(3,391)
	<b>\$ 74,798</b>	<b>\$ 69,053</b>

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.

**6. 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.

*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 June 30, 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 as determined by the Treasury Stock Method, as amended, in SFAS No. 123(R). Potential common shares are included in the diluted earnings per share calculation when dilutive. Diluted earnings per share for the three and six months ended June 30, 2006 and 2005 includes the effects of potential common shares consisting of common stock issuable upon exercise of outstanding stock options and for June 30, 2006, the effect of nonvested restricted stock (in thousands, except per share amounts):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net income applicable to common shareholders - basic and diluted	\$ 15,494	\$ 14,185	\$ 28,902	\$ 25,071
Weighted average number of common shares outstanding	21,119	17,987	21,070	17,987
Dilutive effect of outstanding stock options and restricted stock grants after application of the treasury stock method	382	273	416	292

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

Dilutive shares outstanding	21,501	18,260	21,486	18,279
Basic earnings per share	\$ 0.73	\$ 0.79	\$ 1.37	\$ 1.39
Diluted earning per share	\$ 0.72	\$ 0.78	\$ 1.35	\$ 1.37

*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.

**Table of Contents****7. Debt**

Debt consisted of the following (in thousands):

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Revolving credit facilities bore interest at a weighted average of 6.6% as of June 30, 2006 and 6.6% as of December 31, 2005	\$ 2,772	\$ 3,446
Term loans, with principal and interest payable quarterly, bore interest at a weighted average rate of 6.8% as of June 30, 2006 and 6.3% as of December 31, 2005	10,518	37,152
8.0% senior notes due 2013	150,000	150,000
Other	359	411
	163,649	191,009
Less current maturities	1,878	5,309
	\$ 161,771	\$ 185,700

*Credit Agreement* The Company accounts for its Revolving Credit Facility under the provisions of EITF Issue No. 98-14, *Debtor's Accounting for the Changes in Line-of-Credit or Revolving-Debt Arrangements* (EITF 98-14), and its Term Loan and 8.0% Senior Notes under the provisions of EITF Issue No. 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments* (EITF 96-19). Historically, the Company has periodically amended the terms of its revolving credit facility and term loan to increase or decrease the individual and collective borrowing base of the instruments on an as needed basis. The Company has not modified the terms of its 8.0% Senior Notes subsequent to the original offering date. In connection with an amendment of the Company's revolving credit facility, bank fees incurred are deferred and amortized over the term of the new arrangement and if applicable, any outstanding deferred fees are written off and expensed proportionately or in total, as appropriate per the guidance of EITF 98-14. In connection with an amendment of the Company's term loan, under the terms of EITF 96-19, bank and any third-party fees are either written-off and expensed as an extinguishment of debt or deferred and amortized over the term of the agreement based upon whether or not the old and new debt instruments are substantially different. In connection with our August 2004 initial public offering (IPO), the Company entered into a \$105.0 million senior credit agreement, consisting of a \$40.0 million revolving credit facility and a \$65.0 million term loan. We used borrowings under the term loan, together with proceeds of the IPO to repay all amounts outstanding under our then-existing senior credit agreement and our then-existing subordinated indebtedness. In connection with this senior credit agreement, we recorded a loss on early extinguishment of debt of approximately \$1.6 million, relating to outstanding deferred fees from our prior debt agreements.

In connection with the February 2005 acquisition of Mayflower, the Company amended its senior credit agreement to increase the revolving credit facility from approximately \$40.0 million to \$75.0 million and the term loan from approximately \$65.0 million to \$145.0 million. We used borrowings of approximately \$106.4 million under our amended senior credit agreement to fund substantially all of the purchase price of the Mayflower acquisition. The revolving credit facility is available until January 31, 2010 and the term loan is due and payable on December 31, 2010. In connection with this change in its senior credit agreement, the Company incurred bank fees totaling approximately \$1.7 million that were deferred and are being amortized over the term of the agreement (until 2010). In connection with the June 2005 acquisition of Monona, the Company amended its senior credit agreement to increase the revolving credit facility from approximately \$75.0 million to \$100.0 million. We used borrowings of approximately \$58.0 million under our amended senior credit agreement to fund substantially all of the purchase price

of the Monona acquisition. The revolving credit facility is available until January 31, 2010 and the term loan is due and payable on December 31, 2010. This 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 this change in its senior credit agreement, the Company incurred bank fees totaling approximately \$0.4 million that were deferred and are being amortized over the term of the agreement (until 2010).

In connection with the July 2005 secondary public equity offering and private offering of \$150.0 million aggregate principal amount of 8.0% senior notes due 2013, the Company entered into additional amendments to the senior credit agreement that provided for, among other things, the occurrence of these offerings. The net proceeds of approximately \$190.8 million from these offerings were primarily used to repay indebtedness under the senior credit

**Table of Contents**

agreement. In connection with the July 2005 8.0% Senior Notes offering, the Company incurred third-party fees totaling approximately \$4.3 million that were deferred and are being amortized over the term of the notes (until 2013). In December 2005, the Company amended its senior credit agreement to increase its annual capital expenditure limit from approximately \$25.0 million per annum to \$40.0 million per annum in connection with the Company's growth and development strategy.

On June 30, 2006, the Company repaid approximately \$25.0 million of its U.S. dollar denominated term loan. The repayment of the term loan reduced the overall borrowing capacity on the existing senior credit agreement from approximately \$140 to \$115 million. In connection with this loan repayment, approximately \$0.3 million of deferred fees, representing a proportionate amount of total deferred fees, were expensed as a loss on early extinguishment of debt.

As of June 30, 2006 approximately \$5.3 million in deferred fees relating to previous amendments of the Company's senior credit agreement and fees related to the 8.0% Senior Note offering were outstanding and are being amortized over the life of the agreements.

The senior credit agreement provides the Company with the ability to denominate a portion of its borrowings in foreign currencies. As of June 30, 2006, none of the revolving credit facility borrowings and none of the term loan were denominated in U.S. dollars, and approximately \$2.8 million of the revolving credit facility borrowings and approximately \$10.5 million of the term loan were denominated in British pounds sterling.

*Terms, Covenants and Compliance Status* - The Company's 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 as defined by our senior credit agreement. The Company was in compliance with respect to these covenants as of June 30, 2006. Under this agreement, borrowings bear interest at various rates plus a margin based on certain financial ratios of the Company. Borrowings under the senior credit agreement are secured by specifically identified assets of the Company, comprising in total, substantially all assets of the Company. Additionally, as of June 30, 2006, the Company had outstanding letters of credit of approximately \$1.5 million.

**8. 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, the 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 reviews goodwill and indefinite-lived intangible assets for impairment annually in the second fiscal quarter and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with SFAS No. 142. The Company reviews amortizing intangible assets in accordance with the provisions of SFAS No. 142 and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, the Company compares the fair value of its reporting unit to its carrying value. The Company's reporting unit is consistent with the reportable segment identified in Note 10 of the Notes to the Consolidated Financial Statements contained in the Company's Form 10-K for the year ended December 31, 2005. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the Company would record an impairment loss equal to the difference. With regard to indefinite-lived and amortizing intangible assets, the Company's management considers the following indicators in determining if events or changes in circumstances have occurred indicating that the recoverability of the carrying

amount of such assets should be assessed include, but are not limited to: (1) a

9

---

**Table of Contents**

significant decrease in the market value of an asset; (2) a significant change in the extent or manner in which an asset is used or a significant physical change in an asset; (3) a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator; (4) an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset; and (5) a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue. Our annual goodwill and indefinite-lived (SFAS No. 142) and amortizing intangible asset (SFAS No. 144) impairment analysis, which was performed during the second quarter of fiscal 2006, did not result in an impairment charge.

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. The Company bases its fair value estimates on assumptions it believes to be reasonable but that are unpredictable and inherently uncertain. The valuation approaches the Company uses include the Income Approach (the Discounted Cash Flow Method) and the Market Approach (the Guideline Company and Transaction Methods) to estimate the fair value of the reporting unit; earnings are emphasized in the Discounted Cash Flow, Guideline Company, and the Transaction Methods. In addition, these methods utilize market data in the derivation of a value estimate and are forward-looking in nature. The Discounted Cash Flow Method utilizes a market-derived rate of return to discount anticipated performance, while the Guideline Company Method and the Transaction Method incorporate multiples that are based on the market's assessment of future performance. Actual future results may differ materially from those estimates.

The components of the Company's acquired intangible assets as of June 30, 2006 and December 31, 2005 were as follows (in thousands):

	<b>June 30, 2006</b>			
	<b>Weighted- Average Amortization Period</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Amortizing intangible assets:				
Tradenames/Trademarks	30 years	\$ 9,790	\$ (427)	\$ 9,363
Licenses	7 years	438	(219)	219
		\$ 10,228	\$ (646)	\$ 9,582
Non-amortizing intangible assets:				
Goodwill		\$ 127,445	\$	\$ 127,445
Customer relationship		74,800		74,800
		\$ 202,245	\$	\$ 202,245
Total consolidated goodwill and intangible assets				\$ 211,827

	<b>December 31, 2005</b>	
	<b>Weighted- Average</b>	<b>Gross</b>

	<b>Amortization Period</b>	<b>Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Amortizing intangible assets:				
Tradenames/Trademarks	30 years	\$ 9,790	\$ (263)	\$ 9,527
Licenses	7 years	438	(188)	250
		\$ 10,228	\$ (451)	\$ 9,777
Non-amortizing intangible assets:				
Goodwill		\$ 125,607	\$	\$ 125,607
Customer relationship		74,800		74,800
		\$ 200,407	\$	\$ 200,407
Total consolidated goodwill and intangible assets				\$ 210,184

The aggregate acquired intangible amortization was approximately \$0.1 million and \$0.1 million, respectively, for the three months ended June 30, 2006 and 2005 and approximately \$0.2 million and \$0.1 million, respectively, for the six months ended June 30, 2006 and 2005.

**Table of Contents**

The estimated acquired intangible asset amortization expenses for the fiscal year ending December 31, 2006, and for the five succeeding years is as follows (in thousands):

<b>Fiscal Year Ended December 31,</b>	<b>Estimated Amortization Expense</b>
2006	\$ 389
2007	\$ 389
2008	\$ 389
2009	\$ 389
2010	\$ 326
2011	\$ 326

The changes in the carrying amounts of goodwill for the six months ended June 30, 2006, were as follows (in thousands):

Balance December 31, 2005	\$ 125,607
Post-acquisition adjustments	693
Asset sale	(440)
Currency translation adjustment	1,585
 Balance June 30, 2006	 \$ 127,445

During May 2006, the Company sold certain assets and liabilities of its Livingston, Wisconsin operations for approximately \$2.0 million. As part of this transaction, the Company wrote-off and expensed approximately \$0.4 million of the goodwill that was recorded in connection with its 2005 acquisition of Monona.

**9. 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 represents net income adjusted for foreign currency translation adjustments and minimum pension liability. In accordance with SFAS No. 130, the Company has elected to disclose comprehensive income in stockholders' investment. The components of accumulated other comprehensive income consisted of the following as of June 30, 2006 (in thousands):

Foreign currency translation adjustment	\$ 3,801
Minimum pension liability	(2,926)
	\$ 875

Comprehensive income for the six months ended June 30 was as follows (in thousands):

	<b>2006</b>	<b>2005</b>
Net income	\$ 28,902	\$ 25,071
Other comprehensive income:		
Foreign currency translation adjustment	2,218	(2,900)
Minimum pension liability adjustment		(505)
 Comprehensive income	 \$ 31,120	 \$ 21,666

**10. 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

**Table of Contents**

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 six months ended June 30, 2006 (in thousands):

Balance	Beginning of period	\$ 7,117
	Additional provisions recorded	1,770
	Deduction for payments made	(2,161)
	Currency translation adjustment	26
Balance	End of period	\$ 6,752

*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 June 30, 2006 (in thousands):

	Local Currency	U.S. \$ Equivalent	U.S. \$ Equivalent Fair Value
	Amount	Equivalent	
Comments to sell currencies:			
U.S. dollar	\$ (1,119)	\$ (1,137)	\$ (1,119)
Eurodollar	43,012	56,922	55,826
Swedish krona	15,260	2,110	2,123
Japanese yen	3,300,000	34,638	30,486
Australian dollar	3,620	2,808	2,689

The difference between the U.S. \$ equivalent and U.S. \$ equivalent fair value of approximately \$5.3 million and \$4.3 million is included in other assets in the condensed consolidated balance sheet at June 30, 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.

**11. Defined Benefit and Post-Retirement Benefit Plans**

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.



**Table of Contents**

The components of net periodic benefit cost related to the defined benefit and post-retirement benefit plans for the three months ending June 30, is as follows (in thousands):

	<b>U.S. Defined Benefit Plans</b>		<b>Non U.S. Defined Benefit Plans</b>		<b>Post-Retirement Benefit Plans</b>	
	<b>Three Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Service cost	\$ 119	\$ 389	\$ 13	\$ 241	\$ 10	\$ 69
Interest cost	409	410	541	454	26	109
Expected return on plan assets	(414)	(401)	(514)	(470)		
Amortization of prior service costs				4		
Curtailement (gain)/loss	(500)		142		(2,058)	
Special termination benefits	12				261	
Recognized actuarial loss			41	81		
Net periodic benefit cost	\$ (374)	\$ 398	\$ 223	\$ 310	\$ (1,761)	\$ 178

The components of net periodic benefit cost related to the defined benefit and post-retirement benefit plans for the six months ending June 30, is as follows (in thousands):

	<b>U.S. Defined Benefit Plans</b>		<b>Non U.S. Defined Benefit Plans</b>		<b>Post-Retirement Benefit Plans</b>	
	<b>Three Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Service cost	\$ 401	\$ 611	\$ 218	\$ 512	\$ 40	\$ 96
Interest cost	824	645	1,048	964	78	145
Expected return on plan assets	(829)	(631)	(976)	(999)		
Amortization of prior service costs			5	10		
Curtailement (gain)/loss	(1,949)		142		(2,058)	
Special termination benefits	35				354	
Recognized actuarial loss			154	171		
Net periodic benefit cost	\$ (1,518)	\$ 625	\$ 591	\$ 658	\$ (1,586)	\$ 241

During the three and six month periods ended June 30, 2006, the Company recorded a net curtailment gain of approximately \$2.4 million and \$3.9 million, respectively, relating to the freeze of its salaried pension and other post-retirement benefits plans at its United States and United Kingdom based operations.

The Company previously disclosed in its financial statements for the year ended December 31, 2005, that it expected to contribute approximately \$2.3 million to its pension plans in 2006. As of June 30, 2006, approximately \$0.7 million of contributions have been made to its pension plans. The Company anticipates contributing an additional \$1.5 million to its pension plans in 2006 for total estimated contributions during 2006 of \$2.2 million.

**12. 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. For the six months ended June 30, 2005, the Company incurred expenses of approximately \$0.6 million for the value of goods and services purchased under this agreement. Of this amount, approximately \$0.1 million was retained by Baird Asia Limited as its commission under the Product Sourcing Assistance Agreement. In connection with the sale of stock during 2005, BAL was no longer a related party as of December 31, 2005.

**Table of Contents**

**13. Consolidating Guarantor and Non-Guarantor Financial Information**

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

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

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2006**

	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited)</b>	<b>Elimination</b>	<b>Consolidated</b>
			<b>(In thousands)</b>		
REVENUES	\$	\$ 201,327	\$ 34,935	\$ (1,475)	\$ 234,787
COST OF REVENUES		166,610	29,221	(1,241)	194,590
Gross Profit		34,717	5,714	(234)	40,197
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		10,080	3,331	(164)	13,247
AMORTIZATION EXPENSE		103			103
Operating Income		24,534	2,383	(70)	26,847
OTHER EXPENSE (INCOME)		22	(1,330)		(1,308)
INTEREST EXPENSE		3,507	342		3,849
LOSS ON EARLY EXTINGUISHMENT OF DEBT		282	36		318
Income Before Provision for Income Taxes		20,723	3,335	(70)	23,988
PROVISION FOR INCOME TAXES		7,214	1,280		8,494
NET INCOME	\$	\$ 13,509	\$ 2,055	\$ (70)	\$ 15,494

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006**

	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited)</b>	<b>Elimination</b>	<b>Consolidated</b>
			<b>(In thousands)</b>		
REVENUES	\$	\$ 398,797	\$ 68,292	\$ (2,957)	\$ 464,132
COST OF REVENUES		330,859	56,955	(2,613)	385,201
Gross Profit		67,938	11,337	(344)	78,931
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		19,962	6,705	(268)	26,399
AMORTIZATION EXPENSE		208			208
Operating Income		47,768	4,632	(76)	52,324
OTHER EXPENSE (INCOME)		14	(1,092)		(1,078)
INTEREST EXPENSE		7,124	615		7,739
LOSS ON EARLY EXTINGUISHMENT OF DEBT		282	36		318
Income Before Provision for Income Taxes		40,348	5,073	(76)	45,345
PROVISION FOR INCOME TAXES		14,569	1,874		16,443
NET INCOME	\$	\$ 25,779	\$ 3,199	\$ (76)	\$ 28,902

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2006**

	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited) (In thousands)</b>	<b>Elimination</b>	<b>Consolidated</b>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$	\$ 14,298	\$ 1,005	\$	\$ 15,303
Accounts receivable, net		170,257	30,728	(56,625)	144,360
Inventories, net		54,667	20,286	(155)	74,798
Prepaid expenses and other current assets		5,264	2,599		7,863
Deferred income taxes		13,549	(1,709)		11,840
Total current assets		258,035	52,909	(56,780)	254,164
PROPERTY, PLANT AND EQUIPMENT, net		75,894	6,034		81,928
INVESTMENT IN SUBSIDIARIES	362,032	1,201	1,715	(364,948)	
GOODWILL		104,009	23,436		127,445
INTANGIBLE ASSETS, net		84,382			84,382
OTHER ASSETS, net		18,064	7,314	(12,655)	12,723
<b>TOTAL ASSETS</b>	<b>\$ 362,032</b>	<b>\$ 541,585</b>	<b>\$ 91,408</b>	<b>\$ (434,383)</b>	<b>\$ 560,642</b>

**LIABILITIES AND STOCKHOLDERS INVESTMENT**

<b>CURRENT LIABILITIES:</b>					
Current maturities of long-term debt	\$	\$ 1,878	\$	\$	\$ 1,878
Accounts payable		124,790	17,036	(56,625)	85,201
Accrued liabilities		41,444	3,986		45,430
Total current liabilities		168,112	21,022	(56,625)	132,509
LONG-TERM DEBT, net of current maturities		148,482	13,289		161,771
DEFERRED TAX LIABILITIES		22,273	(816)	(12,655)	8,802
OTHER LONG-TERM LIABILITIES		16,452	5,435		21,887
Total liabilities		355,319	38,930	(69,280)	324,969
STOCKHOLDERS INVESTMENT	362,032	186,266	52,478	(365,103)	235,673

TOTAL LIABILITIES AND  
STOCKHOLDERS  
INVESTMENT

\$ 362,032    \$ 541,585    \$ 91,408    \$ (434,383)    \$ 560,642

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006**

	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited)</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(In thousands)</b>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income (loss)	\$	\$ 25,780	\$ 3,198	\$ (76)	\$ 28,902
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization		6,406	906		7,312
Noncash amortization of debt financing costs		442	21		463
Loss on early extinguishment of debt		282	36		318
Stock-based compensation expense		965			965
(Gain)/loss on sale of assets		(369)	2		(367)
Pension and post-retirement curtailment (gain)/loss		(4,007)	142		(3,865)
Deferred income tax provision			787		787
Noncash gain on forward exchange contracts			(1,067)		(1,067)
Change in other operating items		(21,797)	(1,669)	76	(23,390)
Net cash provided by operating activities		7,702	2,356		10,058
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchases of property, plant and equipment		(7,682)	(819)		(8,501)
Proceeds from disposal/sale of property, plant and equipment		219			219
Proceeds from disposal/sale of other assets		1,800			1,800
Post-acquisition and acquisitions payments, net of cash received		(693)			(693)
Other asset and liabilities		(270)			(270)
Net cash used in investing activities		(6,626)	(819)		(7,445)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
		1,059			1,059

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

Proceeds from issuance of common stock under equity incentive plans					
Excess tax benefits from equity incentive plans	151			151	
Repayment of revolving credit facility		(4,925)		(4,925)	
Borrowings under revolving credit facility		4,030		4,030	
Repayments of long-term borrowings	(26,591)	(784)		(27,375)	
Other, net	(501)	448		(53)	
Net cash used in financing activities	(25,882)	(1,231)		(27,113)	
EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(49)	(789)		(838)	
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,855)	(483)		(25,338)	
CASH AND CASH EQUIVALENTS:					
Beginning of period	39,153	1,488		40,641	
End of period	\$	\$ 14,298	\$	1,005	\$
				\$	15,303

**Table of Contents**

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

	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited) (In thousands)</b>	<b>Elimination</b>	<b>Consolidated</b>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
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
<b>TOTAL ASSETS</b>	<b>\$ 328,815</b>	<b>\$ 530,159</b>	<b>\$ 82,479</b>	<b>\$ (397,570)</b>	<b>\$ 543,883</b>
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>					
<b>CURRENT LIABILITIES:</b>					
Current maturities of long-term debt	\$	\$ 5,309	\$	\$	\$ 5,309
Accounts payable		115,704	14,339	(56,334)	73,709
Accrued liabilities		37,124	3,079	2,780	42,983
Total current liabilities		158,137	17,418	(53,554)	122,001
LONG-TERM DEBT, net of current maturities		171,693	14,007		185,700
DEFERRED TAX LIABILITIES		22,273	(816)	(12,655)	8,802
OTHER LONG-TERM LIABILITIES		19,994	5,309		25,303
Total liabilities		372,097	35,918	(66,209)	341,806
STOCKHOLDERS INVESTMENT	328,815	158,062	46,561	(331,361)	202,077

TOTAL LIABILITIES AND  
STOCKHOLDERS  
INVESTMENT

\$ 328,815      \$ 530,159      \$ 82,479      \$ (397,570)      \$ 543,883

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2005**

	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited) (In thousands)</b>	<b>Elimination</b>	<b>Consolidated</b>
REVENUES	\$	\$ 165,401	\$ 32,492	\$ (1,802)	\$ 196,091
COST OF SALES		134,875	26,785	(1,711)	159,949
Gross Profit		30,526	5,707	(91)	36,142
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		7,235	3,028	(91)	10,172
AMORTIZATION EXPENSE		140			140
Operating Income		23,151	2,679		25,830
OTHER INCOME		(26)	(366)		(392)
INTEREST EXPENSE		2,953	362		3,315
Income Before Provision for Income Taxes		20,224	2,683		22,907
PROVISION FOR INCOME TAXES		7,883	839		8,722
NET INCOME	\$	\$ 12,341	\$ 1,844	\$	\$ 14,185

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005**

	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited)</b>	<b>Elimination</b>	<b>Consolidated</b>
			<b>(In thousands)</b>		
REVENUES	\$	\$ 287,534	\$ 63,321	\$ (2,349)	\$ 348,506
COST OF SALES		235,857	52,414	(2,159)	286,112
Gross Profit		51,677	10,907	(190)	62,394
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		13,783	6,128	(190)	19,721
AMORTIZATION EXPENSE		164			164
Operating Income		37,730	4,779		42,509
OTHER INCOME		(34)	(3,238)		(3,272)
INTEREST EXPENSE		4,780	702		5,482
Income Before Provision for Income Taxes		32,984	7,315		40,299
PROVISION FOR INCOME TAXES		12,724	2,504		15,228
NET INCOME	\$	\$ 20,260	\$ 4,811	\$	\$ 25,071

**Table of Contents**

**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005**

	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited) (In thousands)</b>	<b>Elimination</b>	<b>Consolidated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income	\$	\$ 20,260	\$ 4,811	\$	\$ 25,071
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization		4,854	1,046		5,900
Noncash amortization of debt financing costs		306	66		372
Loss on sale of assets		63			63
Deferred income tax provision			1,262		1,262
Noncash gain on forward exchange contracts			(3,238)		(3,238)
Change in other operating items		(9,159)	637		(8,522)
Net cash provided by operating activities		16,324	4,584		20,908
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchases of property, plant and equipment		(4,795)	(718)		(5,513)
Acquisitions and post-acquisition payments, net of cash received		(163,766)	581		(163,185)
Net cash used in investing activities		(168,561)	(137)		(168,698)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Repayment of revolving credit facility		(89,541)	(8,263)		(97,804)
Borrowings under revolving credit facility		157,068	6,070		163,138
Long-term borrowings		225,733			225,733
Repayments of long-term borrowings		(138,560)	(688)		(139,248)
Other, net		(479)	500		21
		154,221	(2,381)		151,840

Net cash provided by (used in)  
financing activities

EFFECT OF CURRENCY

EXCHANGE RATE

CHANGES ON CASH AND CASH

EQUIVALENTS

2	(1,509)	(1,507)
---	---------	---------

NET INCREASE IN CASH AND

CASH EQUIVALENTS

1,986	557	2,543
-------	-----	-------

CASH AND CASH

EQUIVALENTS:

Beginning of period

394	1,002	1,396
-----	-------	-------

End of period

\$	\$	2,380	\$	1,559	\$	\$	3,939
----	----	-------	----	-------	----	----	-------

**Table of Contents**

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

**Company Overview**

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

We are differentiated from suppliers to the automotive industry by our ability to manufacture low volume customized products on a sequenced basis to meet the requirements of our customers. We believe that we have the number one or two position in most of our major markets and that we are the only supplier in the North American commercial vehicle market that can offer complete cab systems including cab body assemblies, sleeper boxes, seats, interior trim, flooring, wire harnesses, panel assemblies and other structural components. We believe our products are used by virtually every major North American commercial vehicle original equipment manufacturer ( OEM ), which we believe creates an opportunity to cross-sell our products and offer a fully integrated system solution.

Demand for our products is generally dependent on the number of new commercial vehicles manufactured, which in turn is a function of general economic conditions, interest rates, changes in governmental regulations, consumer spending, fuel costs and our customers' inventory levels and production rates. New commercial vehicle demand has historically been cyclical and is particularly sensitive to the industrial sector of the economy, which generates a significant portion of the freight tonnage hauled by commercial vehicles.

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

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

**Table of Contents****Results of Operations**

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenues	100.0%	100.0%	100.0%	100.0
Cost of Revenues	82.9	81.6	83.0	82.1
Gross Profit	17.1	18.4	17.0	17.9
Selling, General and Administrative Expenses	5.7	5.2	5.7	5.7
Amortization Expense				
Operating Income	11.4	13.2	11.3	12.2
Other Expense (Income)	(0.6)	(0.2)	(0.3)	(1.0)
Interest Expense	1.7	1.7	1.7	1.6
Loss on Early Extinguishment of Debt	0.1		0.1	
Income Before Provision for Income Taxes	10.2	11.7	9.8	11.6
Provision for Income Taxes	3.6	4.5	3.6	4.4
Net Income	6.6%	7.2%	6.2%	7.2

**Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005**

**Revenues.** Revenues increased approximately \$38.7 million, or 19.7%, to \$234.8 million in the three months ended June 30, 2006 from \$196.1 million in the three months ended June 30, 2005. This increase resulted primarily from the acquisitions of Monona and Cabarrus which contributed approximately \$22.0 million of increased revenue. Organic growth, product pricing adjustments and changes in product mix and content equated to approximately \$17.0 million of increased revenues. Foreign exchange fluctuations reduced revenues by approximately \$0.3 million from the prior year period.

**Gross Profit.** Gross profit increased approximately \$4.1 million, or 11.2%, to \$40.2 million in the three months ended June 30, 2006 from \$36.1 million in the three months ended June 30, 2005. As a percentage of revenues, gross profit decreased to 17.1% in the three months ended June 30, 2006 from 18.4% in the three months ended June 30, 2005.

This decrease resulted primarily from the continuing pressures on raw material commodities such as steel, copper and petroleum-based products and services as well as increased administrative and operating expenses versus the prior year period, which offset certain pre-tax gains as a result of changes made to certain retiree medical programs during the three months ended June 30, 2006.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased approximately \$3.1 million to \$13.2 million in the three months ended June 30, 2006 from \$10.2 million in the three months ended June 30, 2005. This increase resulted primarily from the Monona and Cabarrus acquisitions and costs related to the adoption of SFAS No. 123(R), *Share-Based Payment*.

**Amortization Expense.** Amortization expense decreased approximately \$37 thousand to \$103 thousand in the three months ended June 30, 2006 from \$140 thousand in the three months ended June 30, 2005. The excess amortization expense recorded in the three months ended June 30, 2005, primarily resulted from the final allocation of acquired intangible assets and the resulting determination of associated periodic amortization.

**Other Expense (Income).** We use forward exchange contracts to hedge foreign currency transaction exposures related primarily to our United Kingdom operations. We estimate our projected revenues and purchases in certain foreign currencies or locations and will hedge a portion of the anticipated long or short position. We have not designated any of our forward exchange contracts as cash flow hedges, electing instead to mark-to-market the contracts and record the

fair value of the contracts in our balance sheets, with the offsetting noncash gain or loss recorded in our consolidated statements of operations. The approximately \$1.3 million gain in the three months ended June 30, 2006 and the approximately \$0.4 million gain in the three months ended June 30, 2005 primarily represent the noncash change in value of the forward exchange contracts in existence at the end of each respective period.

**Table of Contents**

*Interest Expense.* Interest expense increased approximately \$0.5 million to \$3.8 million in the three months ended June 30, 2006 from \$3.3 million in the three months ended June 30, 2005. This increase was primarily due to an increase in average interest rates.

*Loss on Early Extinguishment of Debt.* In connection with the June 30, 2006, repayment of approximately \$25.0 million of our U.S. Dollar denominated term loan, we wrote off a proportionate amount of our debt financing costs of approximately \$0.3 million.

*Provision for Income Taxes.* Our effective tax rate was 35.4% for the three months ended June 30, 2006 and 38.1% for the same period in 2005. An income tax provision of approximately \$8.5 million was made for the three months ended June 30, 2006 compared to an income tax provision of \$8.7 million for the three months ended June 30, 2005. The decrease in effective rate quarter over quarter can be primarily attributed to our tax position in certain geographical regions and changes in federal and state rates from the prior year period in addition to the impact of tax credits and other permanent items during the quarter ended June 30, 2006.

*Net Income.* Net income increased approximately \$1.3 million to \$15.5 million in the three months ended June 30, 2006, compared to \$14.2 million in the three months ended June 30, 2005, primarily as a result of the factors discussed above.

***Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005***

*Revenues.* Revenues increased approximately \$115.6 million, or 33.2%, to \$464.1 million in the six months ended June 30, 2006 from \$348.5 million in the six months ended June 30, 2005. This increase resulted primarily from the acquisitions of Mayflower, Monona and Cabarrus which contributed approximately \$74.0 million of increased revenue. In addition, a 7.0% increase in North American Class 8 heavy truck production, organic growth, product pricing adjustments and changes in product mix and content equated to approximately \$43.1 million of increased revenues while higher OEM sales in the European and Asian seating markets increased revenues approximately \$1.1 million. Foreign exchange fluctuations reduced revenues by approximately \$2.6 million from the prior year period.

*Gross Profit.* Gross profit increased approximately \$16.5 million, or 26.5%, to \$78.9 million in the six months ended June 30, 2006 from \$62.4 million in the six months ended June 30, 2005. As a percentage of revenues, gross profit decreased to 17.0% in the six months ended June 30, 2006 from 17.9% in the six months ended June 30, 2005. This decrease resulted primarily from the continuing pressures on raw material commodities such as steel, copper and petroleum-based products and services and increased administrative and operating expenses versus the prior year period, which offset certain pre-tax gains as a result of changes made to certain retiree medical and salaried pension programs during the six months ended June 30, 2006.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased approximately \$6.7 million to \$26.4 million in the six months ended June 30, 2006 from \$19.7 million in the six months ended June 30, 2005. This increase resulted primarily from the Mayflower, Monona and Cabarrus acquisitions.

*Amortization Expense.* Amortization expense increased approximately \$44 thousand to \$208 thousand in the six months ended June 30, 2006 from \$164 thousand in the six months ended June 30, 2005 primarily resulting from acquired intangible assets from the Mayflower and Monona acquisitions.

*Other Expense (Income).* We use forward exchange contracts to hedge foreign currency transaction exposures related primarily to our United Kingdom operations. We estimate our projected revenues and purchases in certain foreign currencies or locations and will hedge a portion of the anticipated long or short position. We have not designated any of our forward exchange contracts as cash flow hedges, electing instead to mark-to-market the contracts and record the fair value of the contracts in our balance sheets, with the offsetting noncash gain or loss recorded in our consolidated statements of operations. The approximately \$1.1 million gain in the six months ended June 30, 2006 and the \$3.3 million gain in the six months ended June 30, 2005 primarily represent the noncash change in value of the forward exchange contracts in existence at the end of each respective period.

*Interest Expense.* Interest expense increased approximately \$2.2 million to \$7.7 million in the six months ended June 30, 2006 from \$5.5 million in the six months ended June 30, 2005, primarily as a result of higher average interest rates and debt balances due to the acquisitions of Mayflower and Monona.



**Table of Contents**

*Loss on Early Extinguishment of Debt.* In connection with the June 30, 2006, repayment of approximately \$25.0 million of our U.S. dollar denominated term loan, we wrote off a proportionate amount of our debt financing costs of approximately \$0.3 million.

*Provision for Income Taxes.* Our effective tax rate was 36.3% for the six months ended June 30, 2006 and 37.8% for the same period in 2005. An income tax provision of approximately \$16.4 million was made for the six months ended June 30, 2006 compared to an income tax provision of \$15.2 million for the six months ended June 30, 2005. The decrease in effective rate can be primarily attributed to our tax position in certain geographical regions and changes in federal and state rates from the prior year period in addition to the impact of tax credits and other permanent items during the six-month period ended June 30, 2006.

*Net Income.* Net income increased approximately \$3.8 million to \$28.9 million in the six months ended June 30, 2006, compared to \$25.1 million in the six months ended June 30, 2005, primarily as a result of the factors discussed above.

**Liquidity and Capital Resources**

***Cash Flows***

For the six months ended June 30, 2006, net cash provided by operations was approximately \$10.1 million compared to net cash provided by operations of \$20.9 million from the prior year period, primarily as a result of the change in accounts receivable for the six months ended June 30, 2006.

Net cash used in investing activities was approximately \$7.4 million for the six months ended June 30, 2006 and approximately \$168.7 million for the comparable period in 2005. The net cash used in the six months ended June 30, 2006 includes approximately \$2.0 million of cash inflow to account for our receipt of payment for the sale of certain assets and liabilities of our Livingston, Wisconsin operations in May 2006. The net cash used in 2005 reflect both capital expenditure purchases and the acquisitions of Mayflower and Monona.

Net cash used in financing activities was approximately \$27.1 million for the six months ended June 30, 2006, compared to net cash provided of approximately \$151.8 million in the same period of 2005. The net cash used in financing activities for the six months ended June 30, 2006 included a repayment of approximately \$25.0 million of our U.S. denominated term loan on June 30, 2006. The net cash from financing activities in 2005 was principally related to additional borrowings related to the acquisitions of Mayflower and Monona and the amendments to our senior credit amendment.

***Debt and Credit Facilities***

As of June 30, 2006, we had an aggregate of approximately \$163.6 million of outstanding indebtedness excluding approximately \$1.5 million of outstanding letters of credit under various financing arrangements.

On June 30, 2006, we repaid approximately \$25.0 million of our U.S. dollar denominated term loan. The repayment of the term loan reduced the overall borrowing capacity on the existing senior credit agreement from approximately \$140 to \$115 million. In connection with this loan repayment, approximately \$0.3 million of deferred fees, representing a proportionate amount of total deferred fees, were expensed as a loss on early extinguishment of debt.

As of June 30, 2006, none of the revolving credit facility borrowings and none of the term loan were denominated in U.S. dollars, and approximately \$2.8 million of the revolving credit facility borrowings and approximately \$10.5 million of the term loan were denominated in British pounds sterling. The weighted average rate of these borrowings for the six months ended June 30, 2006 was 6.6%.

Based on the provisions of EITF 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, approximately \$5.3 million in deferred fees relating to the credit agreement and senior notes were outstanding at June 30, 2006 and are being amortized over the life of the agreements.

Under the terms of our senior credit agreement, the revolving credit facility is available until January 31, 2010 and the term loans are due and payable on December 31, 2010. Availability under the revolving credit facility is subject to the lesser of (i) a borrowing base that is equal to the sum of (a) 80% of eligible accounts receivable plus (b) 50% of eligible inventory; or (ii) \$100.0 million. Borrowings under the senior credit agreement bear interest at a floating rate which can be either the prime rate or LIBOR plus the applicable margin to the prime rate and LIBOR borrowings based on our leverage ratio. The senior credit agreement contains various financial covenants, including

**Table of Contents**

a minimum fixed charge coverage ratio of not less than 1.30, and a minimum ratio of EBITDA to cash interest expense of not less than 2.50, in each case for the twelve month period ending on December 31 of each year, a limitation on the amount of capital expenditures of not more than \$40.0 million in any fiscal year and a maximum ratio of total indebtedness to EBITDA as of the last day of each fiscal quarter as set forth below:

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

The senior credit agreement also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, dividends, changes of control, incurring indebtedness, making loans and investments and transactions with affiliates. If we do not comply with such covenants or satisfy such ratios, our lenders could declare a default under the senior credit agreement, and our indebtedness thereunder could be declared immediately due and payable. The senior credit agreement is collateralized by substantially all of our assets. The senior credit agreement also contains customary events of default. We were in compliance with all of our respective financial covenants under our debt and credit facilities as of June 30, 2006.

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

**Forward-Looking Statements**

All statements, other than statements of historical fact included in this Form 10-Q, including without limitation the statements under Management's Discussion and Analysis of Financial Condition and Results of Operations are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Form 10-Q, the words anticipate, believe, estimate, expect, intend, and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such forward-looking statements are based on the beliefs of our management as well as on assumptions made by and information currently available to us at the time such statements were made. Various economic and competitive factors could cause actual results to differ materially from those discussed in such forward-looking statements, including factors which are outside of our control, such as risks relating to: (i) our ability to develop or successfully introduce new products; (ii) risks associated with conducting business in foreign countries and currencies; (iii) general economic or business conditions affecting the markets in which we serve; (iv) increased competition in the heavy-duty truck market; and (v) our failure to complete or successfully integrate additional strategic acquisitions. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such cautionary statements.

**Table of Contents**

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

There have been no material changes to our exposure to market risk since December 31, 2005.

**ITEM 4 CONTROLS AND PROCEDURES**

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

During the three months ended June 30, 2006, we completed an implementation of Oracle Financials, an enterprise resource planning software system, at one of our operations. With the implementation, new and modified processes were added to facilitate efficiencies and system-based controls. Apart from this change, there has been no other change in our internal control over financial reporting during the three months ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**

## Item 1. Legal Proceedings:

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

## Item 1A. Risk Factors:

There have been no material changes to our risk factors as disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005.

## Item 4. Submission of Matters to a Vote of Security Holders:

At the annual meeting of stockholders held May 16, 2006:

- a. The following directors were elected for terms expiring at the annual meeting in 2009:

	Votes For	Votes Withheld
Mervin Dunn	19,520,870	879,094
S.A. Johnson	19,153,202	1,246,762

David R. Bovee and Scott D. Rued continue to serve as directors of the Company for terms expiring at the annual meeting in 2008; and Scott C. Arves, Robert C. Griffin and Richard A. Snell continue to serve as directors of the Company for terms expiring at the annual meeting in 2007.

- b. The Board of Directors removed from the ballot a proposed amendment to the Company's Amended and Restated Equity Incentive Plan.
- c. Deloitte & Touche LLP was ratified as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2006:

Shares Voted For Proposal	Shares Voted Against Proposal	Abstain	Broker Non-Votes
19,423,710	971,555	4,669	0

29

---

**Table of Contents**

Item 6. Exhibits:

- 10.1 Change in Control & Non-Competition Agreement dated April 5, 2006 with Mervin Dunn, (incorporated by reference to the Company's current report on Form 8-K (File No. 000-50890) filed on April 7, 2006).
- 10.2 Change in Control & Non-Competition Agreement dated April 5, 2006 with Gerald L. Armstrong, (incorporated by reference to the Company's current report on Form 8-K (File No. 000-50890) filed on April 7, 2006).
- 10.3 Change in Control & Non-Competition Agreement dated April 5, 2006 with Chad M. Utrup, (incorporated by reference to the Company's current report on Form 8-K (File No. 000-50890) filed on April 7, 2006).
- 10.4 Change in Control & Non-Competition Agreement dated April 5, 2006 with James F. Williams, (incorporated by reference to the Company's current report on Form 8-K (File No. 000-50890) filed on April 7, 2006).
- 31.1 Certification by Mervin Dunn, President and Chief Executive Officer.
- 31.2 Certification by Chad M. Utrup, Chief Financial Officer.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURE**

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

COMMERCIAL VEHICLE GROUP, INC.

Date: August 4, 2006

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

31