

Commercial Vehicle Group, Inc.

Form 10-Q

May 04, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended March 31, 2007**

**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 March 31, 2007 was 21,395,331 shares.

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

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Section 906 Certification

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

|                                              | <b>Three Months Ended<br/>March 31,</b>             |                    |
|----------------------------------------------|-----------------------------------------------------|--------------------|
|                                              | <b>2007</b>                                         | <b>2006</b>        |
|                                              | <b>(Unaudited)</b>                                  | <b>(Unaudited)</b> |
|                                              | <b>(In thousands, except per<br/>share amounts)</b> |                    |
| REVENUES                                     | \$ 198,801                                          | \$ 229,345         |
| COST OF REVENUES                             | 172,532                                             | 190,611            |
| Gross Profit                                 | 26,269                                              | 38,734             |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 15,554                                              | 13,152             |
| AMORTIZATION EXPENSE                         | 103                                                 | 105                |
| Operating Income                             | 10,612                                              | 25,477             |
| OTHER EXPENSE                                | 2,320                                               | 230                |
| INTEREST EXPENSE                             | 3,637                                               | 3,890              |
| Income Before Provision for Income Taxes     | 4,655                                               | 21,357             |
| PROVISION FOR INCOME TAXES                   | 1,696                                               | 7,949              |
| NET INCOME                                   | \$ 2,959                                            | \$ 13,408          |
| EARNINGS PER COMMON SHARE:                   |                                                     |                    |
| Basic                                        | \$ 0.14                                             | \$ 0.64            |
| Diluted                                      | \$ 0.14                                             | \$ 0.62            |
| WEIGHTED AVERAGE SHARES OUTSTANDING:         |                                                     |                    |
| Basic                                        | 21,389                                              | 21,021             |
| Diluted                                      | 21,663                                              | 21,471             |

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**

|                                                                                                | <b>March 31,<br/>2007<br/>(Unaudited)<br/>(In thousands except share and<br/>per<br/>share amounts)</b> | <b>December<br/>31,<br/>2006<br/>(Unaudited)</b> |
|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| <b>ASSETS</b>                                                                                  |                                                                                                         |                                                  |
| <b>CURRENT ASSETS:</b>                                                                         |                                                                                                         |                                                  |
| Cash and cash equivalents                                                                      | \$ 16,703                                                                                               | \$ 19,821                                        |
| Accounts receivable, net of reserve for doubtful accounts of \$4,474 and \$5,536, respectively | 117,461                                                                                                 | 123,471                                          |
| Inventories, net                                                                               | 90,888                                                                                                  | 88,723                                           |
| Prepaid expenses                                                                               | 17,904                                                                                                  | 24,272                                           |
| Deferred income taxes                                                                          | 9,572                                                                                                   | 8,819                                            |
| Total current assets                                                                           | 252,528                                                                                                 | 265,106                                          |
| PROPERTY, PLANT AND EQUIPMENT, net                                                             | 89,806                                                                                                  | 90,388                                           |
| GOODWILL                                                                                       | 134,874                                                                                                 | 134,766                                          |
| INTANGIBLE ASSETS, net of accumulated amortization of \$936 and \$840, respectively            | 84,092                                                                                                  | 84,188                                           |
| OTHER ASSETS, net                                                                              | 14,747                                                                                                  | 16,374                                           |
| <b>TOTAL ASSETS</b>                                                                            | <b>\$ 576,047</b>                                                                                       | <b>\$ 590,822</b>                                |
| <b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>                                                 |                                                                                                         |                                                  |
| <b>CURRENT LIABILITIES:</b>                                                                    |                                                                                                         |                                                  |
| Current maturities of long-term debt                                                           | \$ 2,259                                                                                                | \$ 2,158                                         |
| Accounts payable                                                                               | 77,026                                                                                                  | 86,610                                           |
| Accrued liabilities                                                                            | 32,604                                                                                                  | 40,970                                           |
| Total current liabilities                                                                      | 111,889                                                                                                 | 129,738                                          |
| LONG-TERM DEBT, net of current maturities                                                      | 158,871                                                                                                 | 159,956                                          |
| DEFERRED TAX LIABILITIES                                                                       | 10,572                                                                                                  | 10,611                                           |
| PENSION AND OTHER POST-RETIREMENT BENEFITS                                                     | 22,481                                                                                                  | 22,188                                           |
| OTHER LONG-TERM LIABILITIES                                                                    | 3,238                                                                                                   | 3,424                                            |
| Total liabilities                                                                              | 307,051                                                                                                 | 325,917                                          |
| COMMITMENTS AND CONTINGENCIES (Note 10)                                                        |                                                                                                         |                                                  |
| STOCKHOLDERS INVESTMENT:                                                                       | 214                                                                                                     | 214                                              |

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Common stock \$.01 par value; 30,000,000 shares authorized; 21,389,495  
and 21,368,831 shares issued and outstanding, respectively

|                                                       |            |            |
|-------------------------------------------------------|------------|------------|
| Treasury stock purchased from employees; 5,836 shares | (115)      | (115)      |
| Additional paid-in capital                            | 175,043    | 174,044    |
| Retained earnings                                     | 95,028     | 92,007     |
| Accumulated other comprehensive loss                  | (1,174)    | (1,245)    |
| Total stockholders' investment                        | 268,996    | 264,905    |
| TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT        | \$ 576,047 | \$ 590,822 |

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**

|                                                                                   | <b>Three Months Ended<br/>March 31,</b> |                    |
|-----------------------------------------------------------------------------------|-----------------------------------------|--------------------|
|                                                                                   | <b>2007</b>                             | <b>2006</b>        |
|                                                                                   | <b>(Unaudited)</b>                      | <b>(Unaudited)</b> |
|                                                                                   | <b>(In thousands)</b>                   |                    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                         |                    |
| Net income                                                                        | \$ 2,959                                | \$ 13,408          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                         |                    |
| Depreciation and amortization                                                     | 3,729                                   | 3,501              |
| Noncash amortization of debt financing costs                                      | 216                                     | 231                |
| Stock-based compensation expense                                                  | 846                                     | 608                |
| Loss on sale of assets                                                            | 61                                      | 2                  |
| Deferred income tax benefit                                                       | (792)                                   | (91)               |
| Noncash loss on forward exchange contracts                                        | 2,247                                   | 238                |
| Change in other operating items                                                   | (8,423)                                 | (26,778)           |
| Net cash provided by (used in) operating activities                               | 843                                     | (8,881)            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                         |                    |
| Purchases of property, plant and equipment                                        | (3,098)                                 | (4,591)            |
| Proceeds from disposal/sale of property, plant and equipment                      | 24                                      |                    |
| Other assets and liabilities                                                      | (29)                                    | (101)              |
| Net cash used in investing activities                                             | (3,103)                                 | (4,692)            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                         |                    |
| Proceeds from issuance of common stock under equity incentive plans               | 114                                     | 599                |
| Excess tax benefit from equity incentive plans                                    | 39                                      |                    |
| Repayment of revolving credit facility                                            | (51,409)                                | (2,192)            |
| Borrowings under revolving credit facility                                        | 50,918                                  | 2,747              |
| Repayments of long-term debt                                                      | (467)                                   | (1,974)            |
| Borrowings of long-term debt                                                      |                                         | 522                |
| Payments on capital lease obligations                                             | (32)                                    | (26)               |
| Debt issuance costs and other, net                                                |                                         | (1)                |
| Net cash used in financing activities                                             | (837)                                   | (325)              |
| <b>EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>      | (21)                                    | (275)              |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                  | (3,118)                                 | (14,173)           |
| <b>CASH AND CASH EQUIVALENTS:</b>                                                 |                                         |                    |
| Beginning of period                                                               | 19,821                                  | 40,641             |
| End of period                                                                     | \$ 16,703                               | \$ 26,468          |

SUPPLEMENTAL CASH FLOW INFORMATION:

|                                          |            |          |
|------------------------------------------|------------|----------|
| Cash paid for interest                   | \$ 6,486   | \$ 6,551 |
| Cash (refund) paid for income taxes, net | \$ (5,288) | \$ 1,170 |

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 outside of the United States in Australia, Belgium, China, Czech Republic, Mexico 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 2006 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, 2007 are not necessarily indicative of the results to be expected in future operating quarters.

**2. Recently Issued Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board ( 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. The Company adopted the provisions of FIN 48 on January 1, 2007. As a result, the Company recognized approximately \$62 thousand decrease in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

As of January 1, 2007, the Company has provided a liability for \$3.9 million of unrecognized tax benefits related to various federal and state income tax positions. Of this amount, the amount that would impact the Company s effective tax rate, if recognized, is \$1.3 million. The remaining \$2.6 million of unrecognized tax benefits consists of items that are offset by deferred tax assets subject to valuation allowances, and thus could further impact the effective tax rate. The Company accrues penalties and interest related to unrecognized tax benefits through income tax expense which is consistent with the recognition of these items in prior reporting periods. The Company had approximately \$1.1 million accrued for the payment of interest and penalties at January 1, 2007. The liability for the payment of interest and penalties did not materially change as of March 31, 2007.

The Company anticipates events could occur within the next twelve months that would have an impact on the amount of unrecognized tax benefits that would be required. Approximately \$1.9 million of unrecognized tax benefits relate to items that are affected by expiring statutes of limitation within the next 12 months.

The Company or one of its subsidiaries files federal income tax returns in the United States and income tax returns in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to income tax

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examinations by any of the taxing authorities for years before 2003. There is currently no income tax examinations in process related to any of the taxing jurisdictions.

In September 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159, which amends SFAS No. 115, allows certain financial assets and liabilities to be recognized, at the Company's election, at fair market value, with any gains or losses for the period recorded in the statement of income. SFAS No. 159 included available-for-sales securities in the assets eligible for this treatment. Currently, the Company records the gains or losses for the period in the statement of comprehensive income and in the equity section of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, and interim periods in those fiscal years. The Company has not determined the impact, if any, of the adoption of SFAS No. 159.

### **3. Share-Based Compensation**

#### *Stock Option Grants and Restricted Stock Awards*

In 1998, the Company granted 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 the 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 March 31, 2007, there was approximately \$0.4 million of unearned compensation related to nonvested share-based compensation arrangements granted under this plan. This expense is subject to future adjustments for vesting and forfeitures and will be recognized on a straight-line basis over the remaining period of seven months.

In November 2005, 168,700 shares of restricted stock and in November 2006, 207,700 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 November 2005 vest ratably in three equal annual installments commencing on October 20, 2006. The shares of restricted stock granted in November 2006 vest ratably in three equal annual installments commencing on October 20, 2007. A participant granted restricted stock generally has all of the rights of a stockholder, unless the compensation committee determines otherwise.

In February 2007, 10,000 shares of restricted stock and in March 2007, 10,000 shares of restricted stock were awarded by our compensation committee under our Amended and Restated Equity Incentive Plan. The shares of restricted stock granted in February 2007 and March 2007 vest ratably in three equal annual installments commencing on October 20, 2007.

As of March 31, 2007, there was approximately \$5.9 million of unearned compensation related to nonvested share-based compensation arrangements granted under our Amended and Restated Equity Incentive Plan. This expense is subject to future adjustments for vesting and forfeitures and will be recognized on a straight-line basis over the remaining period of 19 months for the November 2005 awards and 31 months for the November 2006, February 2007 and March 2007 awards, respectively.

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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<br/>Stock<br/>Option<br/>Grants</b> |
|---------------------------------------|---------------------------------------------|
| Weighted-average fair value of option | \$ 3.34                                     |
| Risk-free interest rate               | 4.50%                                       |
| Expected volatility                   | 23.12%                                      |
| Expected life in months               | 36                                          |

The Company currently estimates the forfeiture rate for its stock option and restricted stock grants at 7.5%, respectively, for all participants of each plan.

A summary of the status of the Company's stock options as of March 31, 2007 and changes during the three-month period ending March 31, 2007 is presented below:

|                                                  | <b>Options</b>  | <b>Weighted-Average Exercise Price</b> | <b>Weighted-Average Remaining Contractual Life (Years)</b> | <b>Aggregate Intrinsic Value (000 \$)</b> |
|--------------------------------------------------|-----------------|----------------------------------------|------------------------------------------------------------|-------------------------------------------|
| <b>Stock Options</b>                             | <b>(000 \$)</b> | <b>Price</b>                           |                                                            |                                           |
| Outstanding at December 31, 2006                 | 848             | \$ 11.94                               | 7.5                                                        | \$ 8,588                                  |
| Granted                                          |                 |                                        |                                                            |                                           |
| Exercised                                        | (21)            | 5.54                                   |                                                            |                                           |
| Forfeited                                        |                 |                                        |                                                            |                                           |
| Outstanding at March 31, 2007                    | 827             | \$ 12.10                               | 7.5                                                        | \$ 6,595                                  |
| Exercisable at March 31, 2007                    | 653             | \$ 11.09                               | 7.4                                                        | \$ 5,851                                  |
| Nonvested, expected to vest at December 31, 2007 | 162             | \$ 15.84                               | 1.0                                                        | \$ 683                                    |

The following table summarizes information about the nonvested stock option and restricted stock grants as of March 31, 2007:

|                                | <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>Weighted-Average Grant-Date Fair Value</b> |
|                                | <b>(000 \$)</b>                | <b>Value</b>                                  | <b>(000 \$)</b>                   | <b>Value</b>                                  |
| Nonvested at December 31, 2006 | 175                            | \$ 3.34                                       | 309                               | \$ 20.21                                      |
| Granted                        |                                |                                               | 20                                | 20.10                                         |
| Vested                         |                                |                                               |                                   |                                               |
| Forfeited                      |                                |                                               |                                   |                                               |
| Nonvested at March 31, 2007    | 175                            | \$ 3.34                                       | 329                               | \$ 20.21                                      |

As of March 31, 2007, a total of 84,549 shares were available from the original 1.0 million shares authorized for issuance 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 an allowance for doubtful accounts, which approximates fair value. This estimated allowance is based primarily on management's evaluation of specific balances as the balances become past due, the financial condition of 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 uncollectible, they are charged off against the reserve previously established in the allowance for doubtful accounts.

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

|                          | <b>March 31,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|--------------------------|---------------------------|----------------------------------|
| Raw materials            | \$ 62,347                 | \$ 61,617                        |
| Work in process          | 14,737                    | 14,436                           |
| Finished goods           | 18,466                    | 17,314                           |
| Less excess and obsolete | (4,662)                   | (4,644)                          |
|                          | <b>\$ 90,888</b>          | <b>\$ 88,723</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 March 31, 2007.

**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), *Share Based Payment*. Potential common shares are included in the diluted earnings per share calculation when dilutive. Diluted earnings per share for the three months ended March 31, 2007 and 2006 includes the effects of potential common shares consisting of common stock issuable upon exercise of outstanding stock options and for March 31, 2007, the effect of nonvested restricted stock (in thousands, except per share amounts):

|                                                                                                                         | <b>Three Months Ended<br/>March 31,<br/>2007</b> | <b>2006</b> |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|-------------|
| Net income applicable to common shareholders - basic and diluted                                                        | \$ 2,959                                         | \$ 13,408   |
| Weighted average number of common shares outstanding                                                                    | 21,389                                           | 21,021      |
| Dilutive effect of outstanding stock options and restricted stock grants after application of the treasury stock method | 274                                              | 450         |
| Dilutive shares outstanding                                                                                             | 21,663                                           | 21,471      |
| Basic earnings per share                                                                                                | \$ 0.14                                          | \$ 0.64     |
| Diluted earnings per share                                                                                              | \$ 0.14                                          | \$ 0.62     |

*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.

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Debt consisted of the following (in thousands):

|                                                                                                                                                                  | <b>March 31,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|----------------------------------|
| Revolving credit facilities bore interest at a weighted average of 7.7% as of March 31, 2007 and 7.1% as of December 31, 2006                                    | \$ 984                    | \$ 1,469                         |
| Term loan, with principal and interest payable quarterly, bore interest at a weighted average rate of 7.2% as of March 31, 2007 and 6.8% as of December 31, 2006 | 9,828                     | 10,295                           |
| 8.0% senior notes due 2013                                                                                                                                       | 150,000                   | 150,000                          |
| Other                                                                                                                                                            | 318                       | 350                              |
|                                                                                                                                                                  | 161,130                   | 162,114                          |
| Less current maturities                                                                                                                                          | 2,259                     | 2,158                            |
|                                                                                                                                                                  | \$ 158,871                | \$ 159,956                       |

*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 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 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 agreement.

Concurrent with the repayment of the outstanding debt, the Company's total borrowing base under the

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amended senior credit agreement was reduced to approximately \$140.0 million. Accordingly, the Company expensed \$1.5 million of unamortized deferred financing fees as a loss on early extinguishment of debt. 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 March 31, 2007, approximately \$4.6 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 March 31, 2007, none of the revolving credit facility borrowings and none of the term loan were denominated in U.S. dollars, and approximately \$1.0 million of the revolving credit facility borrowings and approximately \$9.8 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 March 31, 2007.

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 March 31, 2007, the Company had outstanding letters of credit of approximately \$1.8 million.

### **8. Goodwill and Intangible Assets**

Goodwill represents the excess of acquisition purchase price over the fair value of net assets acquired. 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 definite-lived 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, 2006. 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. SFAS No. 142 also requires that the fair value of the purchased intangible assets with indefinite lives be estimated and

compared to the carrying value. The Company estimates the fair value of these intangible assets using an income approach. The Company recognizes an impairment loss when the estimated fair value of the intangible

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asset is less than the carrying value. In this regard, 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 indefinite-lived and amortizing intangible assets should be assessed: (1) a 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. The Company's annual goodwill and indefinite-lived (SFAS No. 142) and definite-life intangible asset (SFAS No. 144) impairment analysis, which is performed annually during the second quarter of each fiscal year, did not result in an impairment charge in fiscal 2006.

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 Company's intangible assets as of March 31, 2007 and December 31, 2006 were comprised of the following (in thousands):

|                                                   | <b>March 31, 2007</b>                               |                                      |                                     |                                    |
|---------------------------------------------------|-----------------------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
|                                                   | <b>Weighted-Average<br/>Amortization<br/>Period</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> |
| Definite-lived intangible assets:                 |                                                     |                                      |                                     |                                    |
| Tradenames/Trademarks                             | 30<br>years                                         | \$ 9,790                             | \$ (670)                            | \$ 9,120                           |
| Licenses                                          | 7<br>years                                          | 438                                  | (266)                               | 172                                |
|                                                   |                                                     | \$ 10,228                            | \$ (936)                            | \$ 9,292                           |
| Indefinite-lived intangible assets:               |                                                     |                                      |                                     |                                    |
| Goodwill                                          |                                                     | \$ 134,874                           | \$                                  | \$ 134,874                         |
| Customer relationships                            |                                                     | 74,800                               |                                     | 74,800                             |
|                                                   |                                                     | \$ 209,674                           | \$                                  | \$ 209,674                         |
| Total consolidated goodwill and intangible assets |                                                     |                                      |                                     | \$ 218,966                         |

|                                                   |                                                     | <b>December 31, 2006</b>             |                                     |                                    |
|---------------------------------------------------|-----------------------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
|                                                   | <b>Weighted-Average<br/>Amortization<br/>Period</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> |
| Definite-lived intangible assets:                 |                                                     |                                      |                                     |                                    |
| Tradenames/Trademarks                             | 30<br>years                                         | \$ 9,790                             | \$ (589)                            | \$ 9,201                           |
| Licenses                                          | 7<br>years                                          | 438                                  | (251)                               | 187                                |
|                                                   |                                                     | \$ 10,228                            | \$ (840)                            | \$ 9,388                           |
| Indefinite-lived intangible assets:               |                                                     |                                      |                                     |                                    |
| Goodwill                                          |                                                     | \$ 134,766                           | \$                                  | \$ 134,766                         |
| Customer relationships                            |                                                     | 74,800                               |                                     | 74,800                             |
|                                                   |                                                     | \$ 209,566                           | \$                                  | \$ 209,566                         |
| Total consolidated goodwill and intangible assets |                                                     |                                      |                                     | \$ 218,954                         |

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The aggregate intangible asset amortization expense was approximately \$0.1 million for the three months ended March 31, 2007 and 2006, respectively.

The estimated intangible asset amortization expense for the fiscal year ending December 31, 2007, and for the five succeeding years is as follows (in thousands):

| <b>Fiscal Year<br/>Ended<br/>December 31,</b> | <b>Estimated<br/>Amortization<br/>Expense</b> |
|-----------------------------------------------|-----------------------------------------------|
| 2007                                          | \$ 389                                        |
| 2008                                          | \$ 389                                        |
| 2009                                          | \$ 389                                        |
| 2010                                          | \$ 326                                        |
| 2011                                          | \$ 326                                        |
| 2012                                          | \$ 326                                        |

The changes in the carrying amounts of goodwill for the three months ended March 31, 2007, were comprised of the following (in thousands):

|                                 |            |
|---------------------------------|------------|
| Balance December 31, 2006       | \$ 134,766 |
| Currency translation adjustment | 108        |
| Balance March 31, 2007          | \$ 134,874 |

**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 March 31, 2007 (in thousands):

|                                         |            |
|-----------------------------------------|------------|
| Foreign currency translation adjustment | \$ 5,528   |
| Pension liability                       | (6,702)    |
|                                         | \$ (1,174) |

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

|                                         | <b>2007</b> | <b>2006</b> |
|-----------------------------------------|-------------|-------------|
| Net income                              | \$ 2,959    | \$ 13,408   |
| Other comprehensive income:             |             |             |
| Foreign currency translation adjustment | 71          | 71          |
| Comprehensive income                    | \$ 3,030    | \$ 13,479   |

**Table of Contents****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 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, 2007 (in thousands):

|                                 |          |
|---------------------------------|----------|
| Balance December 31, 2006       | \$ 5,197 |
| Additional provisions recorded  | 709      |
| Deduction for payments made     | (834)    |
| Currency translation adjustment | 3        |
| Balance March 31, 2007          | \$ 5,075 |

**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, 2007 (in thousands):

|                                     | Local<br>Currency<br><br>Amount | U.S. \$<br><br>Equivalent | U.S. \$<br>Equivalent<br>Fair<br>Value |
|-------------------------------------|---------------------------------|---------------------------|----------------------------------------|
| Contracts to (buy) sell currencies: |                                 |                           |                                        |
| U.S. dollar                         | \$ (267)                        | \$ (267)                  | \$ (267)                               |
| Eurodollar                          | 38,192                          | 53,338                    | 52,015                                 |
| Swedish kronor                      | 8,490                           | 1,244                     | 1,221                                  |
| Japanese yen                        | 4,050,000                       | 41,484                    | 36,541                                 |
| Australian dollar                   | 3,250                           | 2,564                     | 2,624                                  |

The difference between the U.S. \$ equivalent and U.S. \$ equivalent fair value of approximately \$6.2 million and \$8.5 million is included in other assets in the condensed consolidated balance sheet at March 31, 2007 and December 31, 2006, 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. Pension and Other Post-Retirement Benefit Plans**

The Company sponsors pension and other post-retirement 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 post-retirement benefit plan for certain U.S. operations, retirees and their dependents.

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The components of net periodic benefit cost related to the pension and other post-retirement benefit plans for the three months ending March 31, is as follows (in thousands):

|                                     | <b>U.S. Pension Plans</b> |             | <b>Non U.S. Pension</b>   |             | <b>Other</b>              |             |
|-------------------------------------|---------------------------|-------------|---------------------------|-------------|---------------------------|-------------|
|                                     | <b>Three Months</b>       |             | <b>Plans</b>              |             | <b>Post-Retirement</b>    |             |
|                                     | <b>Ended</b>              |             | <b>Three Months Ended</b> |             | <b>Three Months Ended</b> |             |
|                                     | <b>March 31,</b>          |             | <b>March 31,</b>          |             | <b>March 31,</b>          |             |
|                                     | <b>2007</b>               | <b>2006</b> | <b>2007</b>               | <b>2006</b> | <b>2007</b>               | <b>2006</b> |
| Service cost                        | \$ 125                    | \$ 282      | \$                        | \$ 205      | \$ 6                      | \$ 30       |
| Interest cost                       | 440                       | 415         | 586                       | 507         | 34                        | 52          |
| Expected return on plan assets      | (381)                     | (415)       | (557)                     | (462)       |                           |             |
| Amortization of prior service costs |                           |             |                           | 5           |                           |             |
| Recognized actuarial loss           | 55                        | 23          | 47                        | 113         | 96                        | 93          |
| Curtailment gain                    |                           | (1,449)     |                           |             |                           |             |
| Net periodic benefit cost           | \$ 239                    | \$ (1,144)  | \$ 76                     | \$ 368      | \$ 136                    | \$ 175      |

The Company previously disclosed in its financial statements for the year ended December 31, 2006, that it expected to contribute approximately \$2.7 million to its pension plans in 2007. As of March 31, 2007, approximately \$0.2 million of contributions have been made to its pension plans. The Company anticipates contributing an additional \$2.6 million to its pension plans in 2007 for total estimated contributions during 2007 of \$2.8 million.

**12. Related Party Transactions**

On January 31, 2005, the Company entered into an advisory agreement with Hidden Creek Partners, LLC ( HCP ), pursuant to which HCP agreed to assist the Company in financing activities, strategic initiatives and acquisitions in exchange for an annual fee. In addition, the Company agreed to pay HCP a transaction fee for services rendered that relate to transactions the Company may enter into from time to time, in an amount that is negotiated between the Company's Chief Executive Officer or Chief Financial Officer and approved by the Company's Board of Directors. All of the principals of HCP are employees and managing directors of Thayer Capital. Scott Rued, the Company's Chairman, is a managing partner of Thayer Capital and Richard Snell, a member of the Company's Board of Directors and its Compensation Committee Chairman, is an operating partner of Thayer Capital. Thayer Capital, Scott Rued or Richard Snell are not a party to, and have no direct or indirect financial interest in the advisory agreement between the Company and HCP. For the three months ended March 31, 2007 and 2006, the Company made payments under these arrangements of approximately \$0.2 million and \$0.1 million, respectively.

**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, 2007**

|                                                 | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Companies</b> | <b>Non-Guarantor<br/>Companies<br/>(Unaudited)<br/>(In thousands)</b> | <b>Elimination</b> | <b>Consolidated</b> |
|-------------------------------------------------|---------------------------|--------------------------------|-----------------------------------------------------------------------|--------------------|---------------------|
| REVENUES                                        | \$                        | \$ 158,399                     | \$ 41,880                                                             | \$ (1,478)         | \$ 198,801          |
| COST OF REVENUES                                |                           | 138,416                        | 35,300                                                                | (1,184)            | 172,532             |
| Gross Profit                                    |                           | 19,983                         | 6,580                                                                 | (294)              | 26,269              |
| SELLING, GENERAL AND<br>ADMINISTRATIVE EXPENSES |                           | 11,963                         | 3,876                                                                 | (285)              | 15,554              |
| AMORTIZATION EXPENSE                            |                           | 103                            |                                                                       |                    | 103                 |
| Operating Income                                |                           | 7,917                          | 2,704                                                                 | (9)                | 10,612              |
| OTHER EXPENSE                                   |                           | 69                             | 2,251                                                                 |                    | 2,320               |
| INTEREST EXPENSE                                |                           | 3,356                          | 281                                                                   |                    | 3,637               |
| Income Before Provision for Income<br>Taxes     |                           | 4,492                          | 172                                                                   | (9)                | 4,655               |
| PROVISION FOR INCOME TAXES                      |                           | 1,827                          | (131)                                                                 |                    | 1,696               |
| NET INCOME                                      | \$                        | \$ 2,665                       | \$ 303                                                                | \$ (9)             | \$ 2,959            |

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**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONDENSED CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2007**

|                                           | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Companies</b> | <b>Non-Guarantor<br/>Companies<br/>(Unaudited)<br/>(In thousands)</b> | <b>Elimination</b>  | <b>Consolidated</b> |
|-------------------------------------------|---------------------------|--------------------------------|-----------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                             |                           |                                |                                                                       |                     |                     |
| <b>CURRENT ASSETS:</b>                    |                           |                                |                                                                       |                     |                     |
| Cash and cash equivalents                 | \$                        | \$ 14,907                      | \$ 1,796                                                              | \$                  | \$ 16,703           |
| Accounts receivable, net                  |                           | 147,857                        | 32,190                                                                | (62,586)            | 117,461             |
| Inventories, net                          |                           | 67,298                         | 23,823                                                                | (233)               | 90,888              |
| Prepaid expenses and other current assets |                           | 8,334                          | 5,803                                                                 | 3,767               | 17,904              |
| Deferred income taxes                     |                           | 13,383                         | (1,940)                                                               | (1,871)             | 9,572               |
| Total current assets                      |                           | 251,779                        | 61,672                                                                | (60,923)            | 252,528             |
| PROPERTY, PLANT AND EQUIPMENT, net        |                           | 81,288                         | 8,518                                                                 |                     | 89,806              |
| INVESTMENT IN SUBSIDIARIES                | 404,945                   | 10,602                         | 11,997                                                                | (427,544)           |                     |
| GOODWILL                                  |                           | 104,033                        | 30,841                                                                |                     | 134,874             |
| INTANGIBLE ASSETS, net                    |                           | 84,092                         |                                                                       |                     | 84,092              |
| OTHER ASSETS, net                         |                           | 17,062                         | 9,671                                                                 | (11,986)            | 14,747              |
| <b>TOTAL ASSETS</b>                       | <b>\$ 404,945</b>         | <b>\$ 548,856</b>              | <b>\$ 122,699</b>                                                     | <b>\$ (500,453)</b> | <b>\$ 576,047</b>   |

**LIABILITIES AND STOCKHOLDERS INVESTMENT**

|                                            |         |          |        |           |          |
|--------------------------------------------|---------|----------|--------|-----------|----------|
| <b>CURRENT LIABILITIES:</b>                |         |          |        |           |          |
| Current maturities of long-term debt       | \$      | \$ 2,259 | \$     | \$        | \$ 2,259 |
| Accounts payable                           |         | 117,813  | 21,799 | (62,586)  | 77,026   |
| Accrued liabilities                        |         | 27,819   | 2,889  | 1,896     | 32,604   |
| Total current liabilities                  |         | 147,891  | 24,688 | (60,690)  | 111,889  |
| LONG-TERM DEBT, net of current maturities  |         | 148,025  | 10,846 |           | 158,871  |
| DEFERRED TAX LIABILITIES                   |         | 23,374   | (816)  | (11,986)  | 10,572   |
| PENSION AND OTHER POST-RETIREMENT BENEFITS |         | 12,383   | 10,098 |           | 22,481   |
| OTHER LONG-TERM LIABILITIES                |         | 3,216    | 22     |           | 3,238    |
| Total liabilities                          |         | 334,889  | 44,838 | (72,676)  | 307,051  |
| STOCKHOLDERS INVESTMENT                    | 404,945 | 213,970  | 77,858 | (427,777) | 268,996  |

|                                                  |            |            |            |              |            |
|--------------------------------------------------|------------|------------|------------|--------------|------------|
| TOTAL LIABILITIES AND<br>STOCKHOLDERS INVESTMENT | \$ 404,945 | \$ 548,859 | \$ 122,696 | \$ (500,453) | \$ 576,047 |
|--------------------------------------------------|------------|------------|------------|--------------|------------|

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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, 2007**

|                                                                                         | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Companies</b> | <b>Non-Guarantor<br/>Companies<br/>(Unaudited)<br/>(In thousands)</b> | <b>Elimination</b> | <b>Consolidated</b> |
|-----------------------------------------------------------------------------------------|---------------------------|--------------------------------|-----------------------------------------------------------------------|--------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING<br/>ACTIVITIES:</b>                                        |                           |                                |                                                                       |                    |                     |
| Net income (loss)                                                                       | \$                        | \$ 2,665                       | \$ 303                                                                | \$ (9)             | \$ 2,959            |
| Adjustments to reconcile net income to<br>net cash provided by operating<br>activities: |                           |                                |                                                                       |                    |                     |
| Depreciation and amortization                                                           |                           | 3,135                          | 594                                                                   |                    | 3,729               |
| Noncash amortization of debt financing<br>costs                                         |                           | 208                            | 8                                                                     |                    | 216                 |
| Stock-based compensation expense                                                        |                           | 846                            |                                                                       |                    | 846                 |
| Loss (gain) on sale of assets                                                           |                           | 63                             | (2)                                                                   |                    | 61                  |
| Deferred income tax provision                                                           |                           | (42)                           | (750)                                                                 |                    | (792)               |
| Noncash gain on forward exchange<br>contracts                                           |                           |                                | 2,247                                                                 |                    | 2,247               |
| Change in other operating items                                                         |                           | (7,874)                        | (557)                                                                 | 8                  | (8,423)             |
| Net cash (used in) provided by<br>operating activities                                  |                           | (999)                          | 1,843                                                                 | (1)                | 843                 |
| <b>CASH FLOWS FROM INVESTING<br/>ACTIVITIES:</b>                                        |                           |                                |                                                                       |                    |                     |
| Purchases of property, plant and<br>equipment                                           |                           | (2,456)                        | (642)                                                                 |                    | (3,098)             |
| Proceeds from disposal/sale of property,<br>plant and equipment                         |                           |                                | 24                                                                    |                    | 24                  |
| Other asset and liabilities                                                             |                           | (29)                           | (1)                                                                   | 1                  | (29)                |
| Net cash (used in) provided by<br>investing activities                                  |                           | (2,485)                        | (619)                                                                 | 1                  | (3,103)             |
| <b>CASH FLOWS FROM FINANCING<br/>ACTIVITIES:</b>                                        |                           |                                |                                                                       |                    |                     |
| Proceeds from issuance of common<br>stock under equity incentive plans                  |                           | 114                            |                                                                       |                    | 114                 |
| Excess tax benefits from equity<br>incentive plans                                      |                           | 39                             |                                                                       |                    | 39                  |
| Repayment of revolving credit facility                                                  |                           | (46,500)                       | (4,909)                                                               |                    | (51,409)            |
|                                                                                         |                           | 46,500                         | 4,418                                                                 |                    | 50,918              |

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|                                                                       |    |         |        |    |       |    |    |         |
|-----------------------------------------------------------------------|----|---------|--------|----|-------|----|----|---------|
| Borrowings under revolving credit facility                            |    |         |        |    |       |    |    |         |
| Repayments of long-term debt                                          |    |         |        |    | (467) |    |    | (467)   |
| Other, net                                                            |    | (30)    |        |    | (2)   |    |    | (32)    |
| Net cash provided by (used in) financing activities                   |    | 123     |        |    | (960) |    |    | (837)   |
| EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS |    |         |        |    | (21)  |    |    | (21)    |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS                  |    | (3,361) |        |    | 243   |    |    | (3,118) |
| CASH AND CASH EQUIVALENTS: Beginning of period                        |    | 18,268  |        |    | 1,553 |    |    | 19,821  |
| End of period                                                         | \$ | \$      | 14,907 | \$ | 1,796 | \$ | \$ | 16,703  |

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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**

|                                                 | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Companies</b> | <b>Non-Guarantor<br/>Companies<br/>(Unaudited)<br/>(In thousands)</b> | <b>Elimination</b> | <b>Consolidated</b> |
|-------------------------------------------------|---------------------------|--------------------------------|-----------------------------------------------------------------------|--------------------|---------------------|
| REVENUES                                        | \$                        | \$ 197,470                     | \$ 33,357                                                             | \$ (1,482)         | \$ 229,345          |
| COST OF SALES                                   |                           | 164,249                        | 27,734                                                                | (1,372)            | 190,611             |
| Gross Profit                                    |                           | 33,221                         | 5,623                                                                 | (110)              | 38,734              |
| SELLING, GENERAL AND<br>ADMINISTRATIVE EXPENSES |                           | 9,882                          | 3,374                                                                 | (104)              | 13,152              |
| AMORTIZATION EXPENSE                            |                           | 105                            |                                                                       |                    | 105                 |
| Operating Income                                |                           | 23,234                         | 2,249                                                                 | (6)                | 25,477              |
| OTHER INCOME                                    |                           | (8)                            | 238                                                                   |                    | 230                 |
| INTEREST EXPENSE                                |                           | 3,617                          | 273                                                                   |                    | 3,890               |
| Income Before Provision for Income<br>Taxes     |                           | 19,625                         | 1,738                                                                 | (6)                | 21,357              |
| PROVISION FOR INCOME TAXES                      |                           | 7,355                          | 594                                                                   |                    | 7,949               |
| NET INCOME                                      | \$                        | \$ 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 DECEMBER 31, 2006**

|                                                | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Companies</b> | <b>Non-Guarantor<br/>Companies<br/>(Unaudited)<br/>(In thousands)</b> | <b>Elimination</b>  | <b>Consolidated</b> |
|------------------------------------------------|---------------------------|--------------------------------|-----------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                  |                           |                                |                                                                       |                     |                     |
| <b>CURRENT ASSETS:</b>                         |                           |                                |                                                                       |                     |                     |
| Cash and cash equivalents                      | \$                        | \$ 18,268                      | \$ 1,553                                                              | \$                  | \$ 19,821           |
| Accounts receivable, net                       |                           | 148,244                        | 31,356                                                                | (56,129)            | 123,471             |
| Inventories, net                               |                           | 66,337                         | 22,610                                                                | (224)               | 88,723              |
| Prepaid expenses                               |                           | 6,984                          | 5,819                                                                 | 11,469              | 24,272              |
| Deferred income taxes                          |                           | 11,570                         | (2,751)                                                               |                     | 8,819               |
| Total current assets                           |                           | 251,403                        | 58,587                                                                | (44,884)            | 265,106             |
| PROPERTY, PLANT AND<br>EQUIPMENT, net          |                           | 81,930                         | 8,458                                                                 |                     | 90,388              |
| INVESTMENT IN<br>SUBSIDIARIES                  | 400,817                   | 10,602                         | 11,987                                                                | (423,406)           |                     |
| GOODWILL                                       |                           | 104,033                        | 30,733                                                                |                     | 134,766             |
| INTANGIBLE ASSETS, net                         |                           | 84,188                         |                                                                       |                     | 84,188              |
| OTHER ASSETS, net                              |                           | 7,761                          | 8,613                                                                 |                     | 16,374              |
| DEFERRED INCOME TAXES                          |                           | 8,624                          | 3,323                                                                 | (11,947)            |                     |
| <b>TOTAL ASSETS</b>                            | <b>\$ 400,817</b>         | <b>\$ 548,541</b>              | <b>\$ 121,701</b>                                                     | <b>\$ (480,237)</b> | <b>\$ 590,822</b>   |
| <b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b> |                           |                                |                                                                       |                     |                     |
| <b>CURRENT LIABILITIES:</b>                    |                           |                                |                                                                       |                     |                     |
| Current maturities of long-term<br>debt        | \$                        | \$ 2,158                       | \$                                                                    | \$                  | \$ 2,158            |
| Accounts payable                               |                           | 123,398                        | 19,341                                                                | (56,129)            | 86,610              |
| Accrued liabilities                            |                           | 25,661                         | 3,840                                                                 | 11,469              | 40,970              |
| Total current liabilities                      |                           | 151,217                        | 23,181                                                                | (44,660)            | 129,738             |
| LONG-TERM DEBT, net                            |                           | 148,156                        | 11,800                                                                |                     | 159,956             |
| DEFERRED TAX LIABILITIES                       |                           | 23,374                         | (816)                                                                 | (11,947)            | 10,611              |
| OTHER LONG-TERM<br>LIABILITIES                 |                           | 15,556                         | 10,056                                                                |                     | 25,612              |
| Total liabilities                              |                           | 338,303                        | 44,221                                                                | (56,607)            | 325,917             |
| STOCKHOLDERS<br>INVESTMENT                     | 400,817                   | 210,238                        | 77,480                                                                | (423,630)           | 264,905             |
|                                                | <b>\$ 400,817</b>         | <b>\$ 548,541</b>              | <b>\$ 121,701</b>                                                     | <b>\$ (480,237)</b> | <b>\$ 590,822</b>   |

TOTAL LIABILITIES AND  
STOCKHOLDERS  
INVESTMENT

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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**

|                                                                                                | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Companies</b> | <b>Non-<br/>Guarantor<br/>Companies<br/>(Unaudited)<br/>(In thousands)</b> | <b>Elimination</b> | <b>Consolidated</b> |
|------------------------------------------------------------------------------------------------|---------------------------|--------------------------------|----------------------------------------------------------------------------|--------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING<br/>ACTIVITIES:</b>                                               |                           |                                |                                                                            |                    |                     |
| Net income                                                                                     | \$                        | \$ 12,270                      | \$ 1,144                                                                   | \$ (6)             | \$ 13,408           |
| Adjustments to reconcile net income to net cash<br>(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)             |
| <b>CASH FLOWS FROM INVESTING<br/>ACTIVITIES:</b>                                               |                           |                                |                                                                            |                    |                     |
| Purchases of property, plant and equipment                                                     |                           | (4,306)                        | (285)                                                                      |                    | (4,591)             |
| Other assets and liabilities                                                                   |                           | (105)                          | 4                                                                          |                    | (101)               |
| Net cash (used in) investing activities                                                        |                           | (4,411)                        | (281)                                                                      |                    | (4,692)             |
| <b>CASH FLOWS FROM FINANCING<br/>ACTIVITIES:</b>                                               |                           |                                |                                                                            |                    |                     |
| Proceeds from issuance of common stock under<br>equity incentive plans                         |                           | 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)                |
| Net cash (used in) provided by financing activities                                            |                           | (828)                          | 503                                                                        |                    | (325)               |
| <b>EFFECT OF CURRENCY EXCHANGE RATE<br/>CHANGES ON CASH AND CASH<br/>EQUIVALENTS</b>           |                           | (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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**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.

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 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. Production of commercial vehicles in North America peaked in 1999 and experienced a downturn from 2000 to 2003 that was due to a weak economy, an oversupply of new and used vehicle inventory and lower spending on commercial vehicles and equipment. Demand for commercial vehicles improved in 2006 due to broad economic recovery in North America, corresponding growth in the movement of goods, the growing need to replace aging truck fleets and OEMs received larger than expected pre-orders in anticipation of the new EPA emissions standards becoming effective in 2007. We expect that production of Class 8 heavy trucks will decline in 2007 from 2006 levels.

Demand for our products is also driven to a significant degree by preferences of the end-user of the commercial vehicle, particularly with respect to Heavy-duty (Class 8) trucks. Unlike the automotive industry, commercial vehicle OEMs generally afford the ultimate end-user the ability to specify many of the component parts that will be used to manufacture the commercial vehicle, including a wide variety of cab interior styles and colors, the brand and type of seats, type of seat fabric and color and specific mirror styling. In addition, certain of our products are only utilized in Heavy-duty (Class 8) trucks, such as our storage systems, sleeper boxes, sleeper bunks and privacy curtains, and, as a result, changes in demand for Heavy-duty (Class 8) trucks or the mix of options on a vehicle can have a greater impact on our business than changes in the overall demand for commercial vehicles. To the extent that demand increases for higher content vehicles, our revenues and gross profit will be positively impacted.

Along with North America, we have operations in Europe, Australia, Mexico and China. Our operating results are, therefore, impacted by exchange rate fluctuations to the extent we are unable to match revenues received in such currencies with costs incurred in such currencies.

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

- establishing sourcing efforts in China and Europe and other lower cost regions of the world;

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

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

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

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

**Results of Operations**

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

|                                              | <b>Three Months<br/>March 31,</b> |             |
|----------------------------------------------|-----------------------------------|-------------|
|                                              | <b>2007</b>                       | <b>2006</b> |
| Revenues                                     | 100.0%                            | 100.0%      |
| Cost of Revenues                             | 86.8                              | 83.1        |
| Gross Profit                                 | 13.2                              | 16.9        |
| Selling, General and Administrative Expenses | 7.8                               | 5.7         |
| Amortization Expense                         | 0.1                               | 0.1         |
| Operating Income                             | 5.3                               | 11.1        |
| Other Expense                                | 1.2                               | 0.1         |
| Interest Expense                             | 1.8                               | 1.7         |
| Income Before Provision for Income Taxes     | 2.3                               | 9.3         |
| Provision for Income Taxes                   | 0.8                               | 3.5         |
| Net Income                                   | 1.5%                              | 5.8%        |

***Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006***

**Revenues.** Revenues decreased approximately \$30.5 million, or 13.3%, to \$198.8 million in the three months ended March 31, 2007 from \$229.3 million in the three months ended March 31, 2006. This decrease resulted primarily from a 19.1% decrease in North American Heavy-duty (Class 8) truck production, product pricing adjustments and change in product mix and content equating to approximately \$38.1 million reduction in revenues. The decrease in revenues was partially offset by increased acquisition related revenues of approximately \$2.6 million related to the acquisition of C.I.E.B. Kahovec, spol. s.r.o. ( CIEB ), an increase in production levels and net new business awards for our

European, Australian and Asian markets of approximately \$1.4 million and favorable foreign exchange fluctuations and adjustments of approximately \$3.6 million.

*Gross Profit.* Gross profit decreased approximately \$12.4 million, or 32.2%, to \$26.3 million in the three months ended March 31, 2007 from \$38.7 million in the three months ended March 31, 2006. As a percentage of revenues, gross profit decreased to 13.2% in the three months ended March 31, 2007 from 16.9% in the three months ended

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March 31, 2006. This decrease resulted primarily from the reduction in revenues and the reduction in product mix and content of our products over the prior year period. In addition, gross profit in the three months ended March 31, 2006 included a benefit of approximately \$0.5 million due to the curtailment of one of our pension plans.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased approximately \$2.4 million, or 18.2%, to \$15.6 million in the three months ended March 31, 2007 from \$13.2 million in the three months ended March 31, 2006. Selling, general and administrative expenses in the three months ended March 31, 2006 were reduced by approximately \$0.9 million due to the curtailment of one of our pension plans. The remaining increase compared to the prior year was driven primarily from higher wages and benefits required to support the growth strategy as well as the increased stock compensation expense under FAS123(r).

*Other Expense.* 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 loss of approximately \$2.3 million in the three months ended March 31, 2007 and the loss of approximately \$0.2 million in the three months ended March 31, 2006 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 decreased approximately \$0.3 million to \$3.6 million in the three months ended March 31, 2007 from \$3.9 million in the three months ended March 31, 2006. This decrease was primarily due to lower average outstanding indebtedness.

*Provision for Income Taxes.* Our effective tax rate was 36.4% for the three months ended March 31, 2007 and 37.2% for the same period in 2006. An income tax provision of approximately \$1.7 million was made for the three months ended March 31, 2007 compared to an income tax provision of \$7.9 million for the three months ended March 31, 2006. The decrease in effective rate from the prior year quarter can be primarily attributed to our tax position in certain geographical regions and changes in federally enacted tax credits and deductions for manufacturing activities along with other permanent items during the quarter ended March 31, 2007.

*Net Income.* Net income decreased approximately \$10.4 million to \$3.0 million in the three months ended March 31, 2007, compared to \$13.4 million in the three months ended March 31, 2006, primarily as a result of the factors discussed above.

## **Liquidity and Capital Resources**

### ***Cash Flows***

For the three months ended March 31, 2007, net cash provided by operations was approximately \$0.8 million compared to net cash used in operations of \$8.9 million from the prior year period. This increase is primarily a result of the change in accounts receivable for the three months ended March 31, 2007.

Net cash used in investing activities was approximately \$3.1 million for the three months ended March 31, 2007 and approximately \$4.7 million for the comparable period in 2006. The net cash used primarily reflects ongoing capital expenditure purchases in each of the respective periods.

Net cash used in financing activities was approximately \$0.8 million for the three months ended March 31, 2007, compared to net cash used in financing activities of approximately \$0.3 million in the same period of 2006. The net cash used in financing activities was principally related to funding ongoing operational activities.

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

As of March 31, 2007, we had an aggregate of approximately \$161.1 million of outstanding indebtedness excluding approximately \$1.8 million of outstanding letters of credit under various financing arrangements.

As of March 31, 2007, none of the revolving credit facility borrowings and none of the term loan were denominated in U.S. dollars, and approximately \$1.0 million of the revolving credit facility borrowings and approximately \$9.8 million of the term loan were denominated in British pounds sterling. The weighted average rate of these

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borrowings for the three months ended March 31, 2007 was approximately 7.7% for the revolving credit facility and 7.2% for the term loan borrowings.

Based on the provisions of EITF 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, approximately \$4.6 million in deferred fees relating to the credit agreement and senior notes were outstanding at March 31, 2007 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 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<br>Leverage Ratio |
|---------------------------------------------|---------------------------------|
| 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 March 31, 2007.

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.

**Update on Contractual Obligations**

We adopted FIN 48, *Accounting for Uncertainty in Income Taxes*, as of January 1, 2007. As of adoption, the Company has provided a liability for \$3.9 million of unrecognized tax benefits related to various income tax positions. However, the net obligation to taxing authorities under FIN 48 was \$3.1 million. The difference relates primarily to receivables based on future amended returns. We do not expect a significant tax payment related to these obligations within the next year. The liability at March 31, 2007 was not materially different from the liability at the date of adoption.

**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, plan 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 CVG serves;

(iv) increased competition in the heavy-duty truck market; (v) CVG's failure to complete or successfully integrate additional strategic acquisitions; (vi) the impact of changes made by governmental regulations on our customers or on our business; (vii) the loss of business from a major customer or the discontinuation of particular commercial vehicle platforms; and (viii) various other risks as outlined in CVG's SEC filings. 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.

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

There have been no material changes to our exposure to market risk since December 31, 2006.

**ITEM 4 CONTROLS AND PROCEDURES**

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

We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2007.

There was no change in our internal control over financial reporting during the three months ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**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, 2006.

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Item 6. Exhibits:

- 10.1 Commercial Vehicle Group, Inc. 2007 Bonus Plan (incorporated by reference to the Company's current report on Form 8-K (File No. 000-50890), filed on March 9, 2007).
- 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.

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**SIGNATURE**

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

COMMERCIAL VEHICLE GROUP, INC.

Date: May 4, 2007

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

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