Commercial Vehicle Group, Inc.
Form 10-Q
November 06, 2009

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

Form 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from __________ to __________

Commission file number 001-34365

COMMERCIAL VEHICLE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**41-1990662**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7800 Walton Parkway New Albany, Ohio	**43054**
(Address of principal executive offices)	(Zip Code)

(614) 289-5360

(Registrant s telephone number, including area code)

Not Applicable

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

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

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

Yes o No þ

The number of shares outstanding of the Registrant s common stock, par value $.01 per share, at September 30, 2009 was 22,746,616 shares.

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

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ITEM 1 FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)
	(In thousands, except per share data)			
REVENUES	$ 110,811	$ 192,860	$ 322,844	$ 599,104
COST OF REVENUES	107,199	175,952	323,570	538,023
Gross Profit (Loss)	3,612	16,908	(726)	61,081
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	11,298	15,983	35,007	47,761
AMORTIZATION EXPENSE	98	379	292	1,065
GAIN ON SALE OF LONG LIVED ASSET				(6,075)
INTANGIBLE ASSET IMPAIRMENT			7,000	
LONG-LIVED ASSET IMPAIRMENT			3,445	
RESTRUCTURING COSTS			1,947	
Operating (Loss) Income	(7,784)	546	(48,417)	18,330
OTHER EXPENSE (INCOME)	1,211	(72)	(7,186)	5,840
INTEREST EXPENSE	3,989	3,708	11,299	11,407
LOSS ON EARLY EXTINGUISHMENT OF DEBT	459		1,254	
EXPENSE RELATING TO DEBT EXCHANGE	2,902		2,902	
(Loss) Income Before (Benefit) Provision for Income Taxes	(16,345)	(3,090)	(56,686)	1,083
(BENEFIT) PROVISION FOR INCOME TAXES	(463)	(487)	1,113	131
Net (Loss) Income	$ (15,882)	$ (2,603)	$ (57,799)	$ 952

(LOSS) EARNINGS PER COMMON SHARE:				
Basic	$ (0.73)	$ (0.12)	$ (2.66)	$ 0.04
Diluted	$ (0.73)	$ (0.12)	$ (2.66)	$ 0.04
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	21,747	21,537	21,747	21,537
Diluted	21,747	21,537	21,747	21,700

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

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

	September 30, 2009 (unaudited)	December 31, 2008 (unaudited)
	(In thousands, except per share data)	
ASSETS		
CURRENT ASSETS:		
Cash	$ 10,176	$ 7,310
Accounts receivable, net of reserve for doubtful accounts of $2,244 and $3,419, respectfully	75,385	100,898
Inventories, net	57,985	90,782
Other current assets	8,292	20,428
Total current assets	151,838	219,418
PROPERTY, PLANT AND EQUIPMENT, net	78,729	90,392
INTANGIBLE ASSETS, net	27,320	34,610
OTHER ASSETS, net	17,465	10,341
TOTAL ASSETS	$ 275,352	$ 354,761
LIABILITIES AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$	$ 14,881
Accounts payable	59,642	73,451
Accrued liabilities, other	35,468	43,417
Total current liabilities	95,110	131,749
LONG-TERM DEBT, net of current maturities	160,859	150,014
PENSION AND OTHER POST-RETIREMENT BENEFITS	19,680	19,885
OTHER LONG-TERM LIABILITIES	5,809	9,171
Total liabilities	281,458	310,819
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS (DEFICIT) INVESTMENT :		
Common stock, $0.01 par value per share; 30,000,000 shares authorized; 21,746,681 and 21,746,415 shares issued and outstanding	217	217
Treasury stock purchased from employees; 46,474 shares	(455)	(455)
Additional paid-in capital	185,548	180,848
Retained loss	(176,110)	(118,311)
Accumulated other comprehensive loss	(15,306)	(18,357)

Total stockholders (deficit) investment	(6,106)	43,942
TOTAL LIABILITIES AND STOCKHOLDERS INVESTMENT	$ 275,352	$ 354,761

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

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

	Nine Months Ended September 30,	
	2009 (Unaudited)	2008 (Unaudited)
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (57,799)	$ 952
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	12,932	14,165
Noncash amortization of debt financing costs	1,069	685
Loss on early extinguishment of debt	1,254	
Share-based compensation expense	2,139	2,900
Loss (gain) on sale of assets	977	(5,945)
Deferred income tax benefit		(3,951)
Noncash (gain) loss on forward exchange contracts	(7,122)	5,786
Intangible asset impairment	7,000	
Long-lived asset impairment	3,445	
Change in other operating items	50,057	(7,588)
Net cash provided by operating activities	13,952	7,004
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(4,799)	(10,978)
Proceeds from disposal/sale of property, plant and equipment	20	7,470
Other investing activities	(1,969)	(3,039)
Net cash used in investing activities	(6,748)	(6,547)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of revolving credit facility	(237,290)	(146,500)
Borrowings under revolving credit facility	222,490	146,500
Borrowing of long-term debt	13,120	
Payments on capital lease obligations	(90)	(96)
Debt issuance costs and other	(3,244)	(251)
Net cash used in financing activities	(5,014)	(347)
EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH	676	(2,055)
NET INCREASE (DECREASE) IN CASH	2,866	(1,945)
Beginning of period	7,310	9,867
End of period	$ 10,176	$ 7,922
SUPPLEMENTAL CASH FLOW INFORMATION:		

Cash paid for interest	$ 12,741	$ 12,651
Cash refund for income taxes, net	$ (4,069)	$ (4,031)

The accompanying notes are an integral part of these unaudited 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 , Company or we) design and manufacture 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, military, bus, agriculture and specialty transportation market. We have facilities located in the United States in Arizona, Indiana, Illinois, Iowa, North Carolina, Ohio, Oregon, Tennessee, Virginia and Washington and outside of the United States in Australia, Belgium, China, Czech Republic, Mexico, Ukraine and the United Kingdom.

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations and statements of financial position for the interim periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with our fiscal 2008 consolidated financial statements and the notes thereto included in Part II, Item 8 of our Annual Report on Form 10-K as filed with the SEC. Unless otherwise indicated, all amounts are in thousands except per share amounts.

Revenues and operating results for the three months ended September 30, 2009 are not necessarily indicative of the results to be expected in future operating quarters.

We have evaluated subsequent events through the issuance of our condensed consolidated financial statements on November 6, 2009.

Subsequent to the issuance of our Annual Report on Form 10-K for the year ended December 31, 2008, an error in the presentation of our borrowings under our revolving credit facility (prior revolving credit facility) was identified as of December 31, 2008. The borrowings under our prior revolving credit facility should have been classified as a current liability as a result of our use of the proceeds obtained from the new Loan and Security Agreement entered into on January 7, 2009, which was required to be classified as a current liability, to extinguish the prior revolving credit facility. As a result, the December 31, 2008 balance sheet presented in these condensed consolidated financial statements has been corrected to properly classify approximately $14.8 million borrowed under our prior revolving credit facility as a current liability. This amount was previously presented as a component of long-term debt, net of current maturities. After considering both the quantitative effect of the correction and qualitative considerations, we have concluded that the error was not material to our previously filed financial statements and, therefore will be corrected the next time our fiscal 2008 consolidated financial statements are issued.

Subsequent to the issuance of our Annual Report on Form 10-K for the year ended December 31, 2008, we identified an error in the presentation of our consolidating guarantor and non-guarantor financial information (see Note 17. Consolidating Guarantor and Non-Guarantor Financial Statements). This error had no impact to the consolidated statement of operations, balance sheets and statement of cash flows.

2. Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, also known as FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles* (ASC 105) (the Codification). ASC 105 establishes the exclusive authoritative reference for U.S. GAAP for use in financial statements, except for SEC rules and interpretive releases, which are also authoritative GAAP for SEC registrants. The Codification supersedes all existing non-grandfathered, non-SEC accounting and reporting standards. Going forward, the FASB will not issue new standards in the form of Statements, FASB Staff Positions (FSP) or Emerging Issues Task Force (EITF) Abstracts. Instead, it will issue Accounting Standards Updates (ASU), which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

In September 2009, the FASB issued ASU 2009-12 to provide guidance on measuring the fair value of certain alternative investments. The ASU offers investors a practical means for measuring the fair value of investments in certain entities that calculate net asset value per share. The ASU is effective for the first reporting period (including interim periods) ending after December 15, 2009. We do not expect this standard to have a material impact on our consolidated financial position and results of operations.

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In December 2007, the FASB issued new accounting guidance on business combinations and non-controlling interests in consolidated financial statements. The new guidance changes how business acquisitions are accounted for and impacts financial statements both on the acquisition date and in subsequent periods. The new guidance changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. Early adoption is prohibited for both standards. The new guidance is effective for our 2009 fiscal year beginning January 1, 2009, and is to be applied prospectively.

On January 1, 2009, we adopted new accounting guidance on disclosures about derivative instruments and hedging activity. The new guidance is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity s derivative instruments and hedging activities and their effects on the entity s financial position, financial performance and cash flows. The adoption did not impact our consolidated financial position and results of operations.

In June 2009, the FASB issued new accounting guidance on consolidation of non-controlling interests. The new guidance amends the consolidation guidance applicable to variable interest entities and is effective for fiscal years beginning after November 15, 2009. Early adoption is prohibited. We do not expect this standard to have a material impact on our consolidated financial condition or results of operations.

3. Fair Value Measurement

Accounting guidance on fair value measurement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3 Unobservable inputs reflecting management s own assumptions about the inputs used in pricing the asset or liability.

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

	September 30, 2009				December 31, 2008			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivative assets [1]	$ 3	$	$ 3	$	$ 32	$	$ 32	$
Deferred compensation [2]	1,500	1,500			1,223	1,223		
Total assets	$ 1,503	$ 1,500	$ 3	$	$ 1,255	$ 1,223	$ 32	$
Derivative liabilities [1]	$ 8,180	$	$ 8,180	$	$ 15,331	$	$ 15,331	$

[1] Based on observable market transactions of spot and forward rates.

[2] Deferred compensation

includes mutual funds and cash equivalents for payment of certain non-qualified benefits for employees.

Our derivative assets and liabilities represent foreign exchange contracts that are measured at fair value using observable market inputs such as forward rates, interest rates, our own credit risk and our counterparties credit risks. Based on these inputs, the derivative assets and liabilities are classified as Level 2.

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The carrying amounts and fair values of financial instruments at September 30, 2009 and December 31, 2008 are as follows (in thousands):

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current maturities of long-term debt	$	$	$ 14,881	$ 14,881
Long-term debt and capital leases	$160,859	$ 121,735	$150,014	$ 72,014

The following methods were used to estimate the fair value of each class of financial instruments:

Current maturities of long-term debt. The fair value of current maturities approximates the carrying value due to the short-term maturities of these instruments.

Long-term debt and capital leases. The fair value of long-term debt and capital lease obligations is based on quoted market prices or on rates available on debt with similar terms and maturities.

The following table summarizes the fair value measurement of our long-lived assets and indefinite-lived intangible assets measured on a non-recurring basis as of September 30, 2009 (in thousands):

	Fair Value Measurements Using				
	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Property, plant and equipment, net	$ 78,729	$	$	$ 78,729	$ (3,445)
Indefinite-lived intangible asset	$ 19,000	$	$	$ 19,000	(7,000)
					$ (10,445)

We review indefinite-lived intangible assets for impairment annually in the second fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable in accordance with intangibles-goodwill and other accounting guidance.

Determining the fair value of our indefinite-lived intangible assets is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are inherently uncertain. The valuation approaches we use for our indefinite-lived intangible assets include the Income Approach (the Discounted Cash Flow Method) and the Market Approach (the Guideline Company and Transaction Methods). The Discounted Cash Flow Method utilizes a market-derived rate of return to discount anticipated performance, while the Guideline Company and Transaction Methods incorporates multiples based on the market s assessment of future performance. Actual future results may differ materially from those estimates.

In accordance with the provisions of intangibles-goodwill and other accounting guidance, indefinite-lived intangible assets with a carrying amount of approximately $26.0 million were written down to their fair value of approximately $19.0 million, resulting in an impairment charge of approximately $7.0 million recorded in the second fiscal quarter of 2009.

We review long-lived assets in accordance with the provisions of property, plant and equipment accounting guidance for recoverability whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Based upon the decline in the North American Class 8 build rate from the prior year and lower demand in our construction, OEM bus, aftermarket, military, service and other specialty product markets, which negatively impacted our revenues, we determined that an impairment indicator existed. As a result, we performed additional analysis to determine the fair value of our long-lived assets.

Management reviewed the sum of expected future undiscounted cash flows from operating activities to determine if the estimated net cash flows were less than the carrying amount of such assets. Based upon an independent appraisal, long-lived assets with a carrying amount of approximately $7.6 million as of June 30, 2009 were written down to their fair value of approximately $4.2 million, resulting in an impairment charge of approximately $3.4 million recorded in the second fiscal quarter of 2009.

4. Restructuring Activities

On February 10, 2009, we announced a restructuring plan that includes a reduction in workforce and the closure of certain manufacturing, warehousing and assembly facilities. The facilities to be closed include an assembly and sequencing facility in Kent, Washington; seat sequencing and assembly facility in Statesville, North Carolina; manufacturing facility in Lake Oswego, Oregon; inventory and product warehouse in Concord, North Carolina; and seat assembly and distribution facility in Seneffs, Belgium. In addition, on March 18, 2009, we announced the closure of our Vancouver, Washington manufacturing facility. The decision to reduce our workforce and to close the facilities was the result of the extended downturn of the global economy and, in particular, the commercial vehicle markets. In accordance with accounting guidance for exit or disposal cost obligations, we estimate that we will record total charges of approximately $2.5 million, consisting of approximately $1.7 million of severance costs and $0.8 million of facility closure costs. We estimate that all of the restructuring charges will be incurred as cash expenditures, of which approximately $2.1 million is expected to be incurred in 2009 and approximately $0.4 million is expected to be incurred in 2010. For the three months ended September 30, 2009, we did not incur any facility closure costs. For the nine months ended September 30, 2009, we have incurred charges of approximately $1.7 million in employee related costs and $0.2 million in facility closure costs. The following table summarizes the restructuring liability as of September 30, 2009 (in thousands):

	Employee Costs	Facility Exit and Other Contractual Costs	Total
Balance December 31, 2008	$	$	$
Provision	1,712		1,712
Deductions for payments made	(1,624)		(1,624)
Balance September 30, 2009	$ 88	$	$ 88

5. Share-Based Compensation

Stock Option Grants and Restricted Stock Awards

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.

In October 2007, 328,900 shares of restricted stock were awarded by our compensation committee under our Second Amended and Restated Equity Incentive Plan. The shares of restricted stock granted in October 2007 vest ratably in three equal annual installments commencing on October 20, 2008.

In November 2008, 798,450 shares of restricted stock were awarded by our compensation committee under our Second Amended and Restated Equity Incentive Plan. The shares of restricted stock granted in November 2008 vest in three equal annual installments commencing on October 20, 2009.

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At the 2009 Annual Meeting of Stockholders held on May 14, 2009, the stockholders approved our Third Amended and Restated Equity Incentive Plan (the Plan). The Plan was amended to increase the number of shares of common stock that may be issued under the Plan from 2,000,000 shares to 3,200,000 shares.

As of September 30, 2009, there was approximately $2.0 million of unearned compensation expense related to non-vested share-based compensation arrangements granted under the 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 one month for the November 2006, February 2007 and March 2007 awards, 13 months for the October 2007 awards and 25 months for the November 2008 awards, respectively.

We currently estimate the forfeiture rates for the November 2006, February/March 2007, October 2007 and November 2008 restricted stock awards at 11.2%, 0%, 6.9% and 5.0%, respectively, for all participants in the plan.

The following table summarizes information about the non-vested restricted stock grants as of September 30, 2009:

	Shares (in thousands)	Weighted-Average Grant-Date Fair