Commercial Vehicle Group, Inc.
Form 10-Q
May 03, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _________ to _________

Commission file number 001-34365

COMMERCIAL VEHICLE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the Registrant s common stock, par value $.01 per share, at March 31, 2013 was 29,365,754 shares.

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COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

PART I FINANCIAL INFORMATION

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ITEM 1 FINANCIAL STATEMENTS

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (Unaudited)	December 31, 2012 (Unaudited)
	(In thousands, except share and per share amounts)	
Assets		
Current Assets:		
Cash	$ 65,275	$ 68,369
Accounts receivable, net of allowances of $2,982 and $3,393, respectively	121,024	114,573
Inventories	86,122	88,481
Deferred income taxes	9,469	8,381
Other current assets	9,169	6,446
Total current assets	291,059	286,250
Property, plant and equipment, net of accumulated depreciation of $119,056 and $117,359, respectively	83,708	83,304
Goodwill	8,983	8,986
Intangible assets, net	22,646	23,001
Deferred income taxes	24,121	23,615
Other assets, net	14,564	14,509
Total assets	$ 445,081	$ 439,665
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 65,698	$ 58,063
Accrued liabilities and other	33,024	32,869
Total current liabilities	98,722	90,932
Long-term debt	250,000	250,000
Pension and other post-retirement benefits	26,664	28,273
Other long-term liabilities	6,134	4,152
Total liabilities	381,520	373,357
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, no shares issued and outstanding; common stock, $0.01 par value per share; 60,000,000 shares authorized; 28,463,479 shares issued and outstanding, respectively	290	290
Treasury stock purchased from employees; 590,154 shares, respectively	(5,264)	(5,264)
Additional paid-in capital	225,045	223,822
Retained deficit	(129,291)	(124,677)
Accumulated other comprehensive loss	(27,239)	(27,885)
Total CVG stockholders equity	63,541	66,286

Non-controlling interest		20		22
Total stockholders equity		63,561		66,308
Total liabilities and stockholders equity	$	445,081	$	439,665

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 OPERATIONS

	Three Months Ended March 31, 2013 (Unaudited)	2012 (Unaudited)
	(In thousands, except per share amounts)	
Revenues	$ 177,822	$ 236,990
Cost of Revenues	159,737	200,212
Gross Profit	18,085	36,778
Selling, General and Administrative Expenses	17,949	18,183
Amortization Expense	409	92
Operating (Loss) Income	(273)	18,503
Interest and Other Expense	5,354	5,307
(Loss) Income Before (Benefit) Provision for Income Taxes	(5,627)	13,196
(Benefit) Provision for Income Taxes	(1,011)	1,204
Net (Loss) Income	(4,616)	11,992
Less: Non-controlling interest in subsidiary s loss	(2)	(13)
Net (Loss) Income Attributable to CVG Stockholders	$ (4,614)	$ 12,005
(Loss) Earnings per Common Share:		
Basic	$ (0.16)	$ 0.43
Diluted	$ (0.16)	$ 0.42
Weighted Average Shares Outstanding:		
Basic	28,463	28,171
Diluted	28,463	28,373

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 COMPREHENSIVE INCOME

	Three Months Ended March 31, 2013 (Unaudited)	Three Months Ended March 31, 2012 (Unaudited)
	(In thousands)	
Net (loss) income	$ (4,616)	$ 11,992
Other comprehensive income:		
Foreign currency translation adjustments	646	1,835
Other comprehensive income	646	1,835
Comprehensive (loss) income	$ (3,970)	$ 13,827
Less: Comprehensive loss attributed to noncontrolling interests	(2)	(13)
Comprehensive (loss) income attributable to CVG stockholders	$ (3,968)	$ 13,840

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 STOCKHOLDERS EQUITY

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Deficit	Accum. Other Comp. Loss	Total CVG Stockholders Equity	Non-Controlling Interest	Total
	(Unaudited) (In thousands, except share data)								
Balance December 31, 2012	28,463,479	$ 290	$ (5,264)	$ 223,822	$ (124,677)	$ (27,885)	$ 66,286	$ 22	$ 66,308
Share-based compensation expense				1,223			1,223		1,223
Comprehensive income:									
Net loss					(4,614)		(4,614)	(2)	(4,616)
Foreign currency translation adjustment						646	646		646
Total comprehensive loss							(3,968)	(2)	(3,970)
Balance March 31, 2013	28,463,479	$ 290	$ (5,264)	$ 225,045	$ (129,291)	$ (27,239)	$ 63,541	$ 20	$ 63,561

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

	Three Months Ended March 31, 2013 (Unaudited)	2012 (Unaudited)
	(In thousands)	
Cash Flows from Operating Activities:		
Net (loss) income	$ (4,616)	$ 11,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,318	3,082
Provision for doubtful accounts	385	87
Noncash amortization of debt financing costs	283	283
Pension plan contributions	(1,089)	(1,020)
Shared-based compensation expense	1,223	1,199
Loss on sale of assets	20	135
Deferred income tax benefit	(1,016)	
Noncash gain on forward exchange contracts	(259)	(865)
Change in other operating items	(2,044)	(9,174)
Net cash (used in) provided by operating activities	(2,795)	5,719
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(2,294)	(2,884)
Proceeds from disposal/sale of property, plant and equipment	1	11
Life insurance premium payments for deferred compensation, other	(251)	(276)
Net cash used in investing activities	(2,544)	(3,149)
Effect of Currency Exchange Rate Changes on Cash	2,245	329
Net (Decrease) Increase in Cash	(3,094)	2,899
Cash:		
Beginning of period	68,369	87,955
End of period	$ 65,275	$ 90,854
Supplemental Cash Flow Information:		
Cash paid for interest	$ 63	$ 66
Cash paid for income taxes, net	$ 1,036	$ 748
Unpaid purchases of property and equipment included in accounts payable	$ 2,232	$ 556

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 or the Company) is a leading supplier of a full range of cab related products and systems for the global commercial vehicle market, including the heavy-duty (Class 8) truck market, the medium- and heavy-construction vehicle markets, military, bus and agriculture markets, the specialty transportation markets and recreational (ATV/UTV) markets. Our products include static and suspension seat systems, electronic wire harness assemblies, controls and switches, cab structures and components, interior trim systems (including instrument panels, door panels, headliners, cabinetry and floor systems), interior and exterior finishes and mirrors and wiper systems specifically designed for applications in commercial vehicles. We have facilities located in the U.S. in Alabama, Arizona, Georgia, Indiana, Illinois, Iowa, Michigan, North Carolina, Ohio, Oregon, Tennessee and Virginia and outside of the U.S. in Australia, China, Czech Republic, India, Mexico, Ukraine and the United Kingdom.

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations and statements of financial position for the interim periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with our fiscal 2012 consolidated financial statements and the notes thereto included in Part II, Item 8 of our Annual Report on Form 10-K as filed with the SEC on March 11, 2013. Unless otherwise indicated, all amounts are in thousands except per share amounts.

Revenues and operating results for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected in future operating quarters.

2. Recently Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income. The ASU requires entities to disclose either in the notes or parenthetically on the face of the statement showing net income the impact to the affected net income line for items reclassified out of accumulated other comprehensive income (AOCI) and into net income in their entirety. Items not reclassified out of AOCI into net income in their entirety must be disclosed in the footnotes and not on the face of the financial statements. Items that may be reclassified out of AOCI and into net income include (1) unrealized gains or losses on available-for-sale securities; (2) deferred gains or losses on cash flow hedges; (3) cumulative translation adjustments on foreign operations; and (4) deferred items relating to pension and non-pension defined benefit postretirement plans. The provisions of this ASU are effective prospectively for public companies with fiscal years beginning after December 15, 2012, including interim periods. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles Goodwill and Other*. The ASU gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If a company determines that it is more likely than not that the fair value of such an asset exceeds its carrying amount, it would not need to calculate the fair value of the asset in that year. However, if a company concludes otherwise, it must calculate the fair value of the asset, compare that value with its carrying amount and record an impairment charge, if any. This guidance is effective beginning in fiscal 2013. The Company intends to evaluate indefinite-lived intangibles annually in the second quarter utilizing the qualitative approach.

In December 2011, the FASB issued ASU No. 2011, Balance Sheet (Topic 210): Disclosures About Offsetting Assets and Liabilities. The ASU requires entities to disclose information about offsetting and related arrangements to enable financial statement users to understand the effects of those arrangements on their financial position. The requirements of this update are effective for periods beginning on or after January 1, 2013, and interim periods within those annual periods. The ASU does not have a material impact on the consolidated financial statements.

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3. Fair Value Measurement

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

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

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

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

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

	March 31, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivative assets [1]	$ 677	$	$ 677	$	$ 419	$	$ 419	$
Derivative liabilities [1]	$	$	$	$	$ 1	$	$ 1	$

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

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

Our financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and our revolving credit facility. The carrying value of these instruments approximates fair value as a result of the short duration of such instruments or due to the variability of interest cost associated with such instruments.

The carrying amounts and fair values of our long-term debt obligations are as follows (in thousands):

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 250,000	$ 254,375	$ 250,000	$ 248,750

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

Long-term debt. The fair value of long-term debt obligations is based on quoted market prices. Based on these inputs, our long-term debt is classified as Level 2.

There were no fair value measurements of our long-lived assets and definite-lived intangible assets measured on a non-recurring basis as of March 31, 2013.

4. Stockholders Equity

Common Stock Our authorized capital stock consists of 60,000,000 shares of common stock with a par value of $0.01 per share, with 28,463,479 shares issued and outstanding as of March 31, 2013.

Preferred Stock Our authorized capital stock consists of 5,000,000 shares of preferred stock with a par value of $0.01 per share, with no preferred shares outstanding as of March 31, 2013.

Earnings Per Share Basic earnings per share is determined by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share, and all other diluted per share amounts presented, is determined by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period as determined by the Treasury Stock Method. Potential common shares are included in the diluted earnings per share calculation when dilutive. Diluted earnings per share for the three months ended March 31, 2013 and 2012 includes the effects of potential common shares consisting of common stock issuable upon exercise of outstanding stock options when dilutive (in thousands, except per share amounts):

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net (loss) income attributable to common stockholders basic and diluted	$ (4,614)	$ 12,005
Weighted average number of common shares outstanding	28,463	28,171
Dilutive effect of outstanding stock options and restricted stock grants after application of the Treasury Stock Method	0	202
Dilutive shares outstanding	28,463	28,373
Basic (loss) earnings per share	$ (0.16)	$ 0.43
Diluted (loss) earnings per share	$ (0.16)	$ 0.42

For the three months ended March 31, 2013, diluted earnings per share did not include 0.5 million of outstanding stock options and 0.1 million of outstanding restricted stock as the effect would have been antidilutive. For the three months ended March 31, 2012, diluted earnings per share did not include 0.5 million outstanding stock options as the effect would have been antidilutive.

Dividends We have not declared or paid any cash dividends in the past. The terms of the Loan and Security Agreement (as defined below in Note 11) restrict the payment or distribution of our cash or other assets, including cash dividend payments.

5. Share-Based Compensation

Restricted Stock Awards Restricted stock 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 of the Board of Directors. A participant granted restricted stock generally has all of the rights of a stockholder, unless the Compensation Committee determines otherwise. The following table summarizes information about restricted stock grants as of March 31, 2013:

Grant	Shares	Estimated Forfeiture Rate	Vesting Schedule
November 2010	404,000	4.0%	3 equal annual installments commencing on October 20, 2011
November 2011	443,250	8.2%	3 equal annual installments commencing on October 20, 2012
November 2012	494,151	8.2%	3 equal annual installments commencing on October 20, 2013

As of March 31, 2013, there was approximately $6.6 million of unearned compensation expense related to non-vested share-based compensation arrangements granted under our equity incentive plans. This expense is subject to future adjustments for vesting and forfeitures and will be recognized on a straight-line basis over the remaining period of seven months for the November 2010 awards, 19 months for the November 2011 awards and 31 months for the November 2012 awards.

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The following table summarizes information about the non-vested restricted stock grants as of March 31, 2013:

	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2012	908	$ 10.10
Granted		
Vested		
Forfeited	(6)	10.31
Nonvested at March 31, 2013	902	$ 10.10

As of March 31, 2013, 801,055 of the 4.6 million shares authorized for issuance were available for issuance under the Fourth Amended and Restated Equity Incentive Plan, including cumulative forfeitures.

6. Accounts Receivable

Trade accounts receivable are stated at current value less an allowance for doubtful accounts, which approximates fair value. This estimated allowance is based primarily on management s evaluation of specific balances as the balances become past due, the financial condition of our customers and our historical experience of write-offs. If not reserved through specific identification procedures, our general policy for uncollectible accounts is to reserve at a certain percentage, based upon the aging categories of accounts receivable and our historical experience with write-offs. Past due status is based upon the due date of the original amounts outstanding. When items are ultimately deemed uncollectible, they are charged off against the reserve previously established in the allowance for doubtful accounts.

7. Inventories

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

	March 31, 2013	December 31, 2012
Raw materials	$ 55,561	$ 57,355
Work in process	12,515	13,659
Finished goods	18,046	17,467
	$ 86,122	$ 88,481

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

8. Goodwill and Intangible Assets

Goodwill represents the excess of acquisition purchase price over the fair value of net assets acquired. We review goodwill for impairment annually, utilizing the one-step qualitative assessment, in the second fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable. Utilizing this qualitative approach, we first assess whether it is more likely than not goodwill is impaired by reviewing significant changes in events and circumstances, including cost factors, legal and regulatory changes and various industry and market considerations. If an asset is determined to be more likely than not impaired based on the one-step qualitative approach, we will then perform a quantitative valuation to estimate the fair value of our reporting units. We evaluate goodwill at the reporting unit level by first determining whether the estimated fair value of the reporting unit is less than its carrying value and, if so, by determining whether the implied fair value of goodwill within the reporting unit is less than the carrying value. Implied fair value of goodwill is determined by considering both the income and market approach. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are inherently uncertain.

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Our intangible assets were comprised of the following (in thousands):

	March 31, 2013				December 31, 2012			
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:								
Trademarks/Tradenames	23 years	$ 9,919	$ (2,700)	$ 7,219	23 years	$ 9,911	$ (2,556)	$ 7,355
Customer relationships	15 years	15,781	(354)	15,427	15 years	15,737	(91)	15,646
		$ 25,700	$ (3,054)	$ 22,646		$ 25,648	$ (2,647)	$ 23,001

The aggregate intangible asset amortization expense was approximately $0.4 million for the three months ended March 31, 2013 and 2012, respectively.

The estimated intangible asset amortization expense for the fiscal year ending December 31, 2013, and for the five succeeding years is as follows (in thousands):

Fiscal Year Ended December 31,	Estimated Amortization Expense
2013	$ 1,631
2014	$ 1,595
2015	$ 1,420
2016	$ 1,420
2017	$ 1,420
2018	$ 1,420

The changes in the carrying amounts of goodwill for the three months ended March 31, 2013 are as follows (in thousands):

	2013	2012
Balance Beginning of the period	$ 8,986	$
Additional acquisitions recorded	(39)	9,093
Currency translation adjustment	36	(107)
Balance End of the period	$ 8,983	$ 8,986

9. Restructuring Activities

In 2009, we announced the closure of our Norwalk, Ohio facility as a result of Navistar s decision to insource the cab assembly operations into its existing assembly facility in Escobedo, Mexico. We completed the Norwalk closure as of September 30, 2010.

We estimate that we will record total cash expenditures for these restructurings of approximately $3.8 million, consisting of approximately $1.2 million of severance costs and $2.6 million of facility closure costs. We have incurred cumulative restructuring charges of $2.9 million consisting of approximately $1.0 million of severance costs and $1.9 million of facility closure costs as of March 31, 2013.

A summary of the restructuring liability for the three months ended March 31, 2013 is as follows (in thousands):

Total

	Employee Costs	Facility Exit and Other Contractual Costs	
Balance December 31, 2012	$ 1	$ 333	$ 334
Utilizations		(35)	(35)
Balance March 31, 2013	$ 1	$ 298	$ 299

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10. Commitments and Contingencies

Warranty We are subject to warranty claims for products that fail to perform as expected due to design or manufacturing deficiencies. Customers continue to require their outside suppliers to guarantee or warrant their products and bear the cost of repair or replacement of such products. Depending on the terms under which we supply products to our customers, a customer may hold us responsible for some or all of the repair or replacement costs of defective products when the product supplied did not perform as represented. Our policy is to reserve for estimated future customer warranty costs based on historical trends and current economic factors. The following represents a summary of the warranty provision for the nine months ended March 31, 2013 (in thousands):

Balance December 31, 2012	$ 3,239
Additional provisions recorded	257
Deduction for payments made	(656)
Currency translation adjustment	(24)
Balance March 31, 2013	$ 2,816

Leases We lease office and manufacturing space and certain equipment under non-cancelable operating lease agreements that require us to pay maintenance, insurance, taxes and other expenses in addition to annual rents. As of March 31, 2013, our equipment leases did not provide for any material guarantee of a specified portion of residual values.

Guarantees We accrue for costs ass