

Commercial Vehicle Group, Inc.

Form 10-Q

May 09, 2014

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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, 2014**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**7800 Walton Parkway**

**New Albany, Ohio**  
**(Address of principal executive offices)**

**41-1990662**  
**(I.R.S. Employer**  
**Identification No.)**

**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 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  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

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

The number of shares outstanding of the Registrant's common stock, par value \$.01 per share, at May 9, 2014 was 29,717,553 shares.



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**QUARTERLY REPORT ON FORM 10-Q**

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

	<b>March 31, 2014 (Unaudited)</b>	<b>December 31, 2013 (Unaudited)</b>
	<b>(In thousands, except share and per share amounts)</b>	
<b>Assets</b>		
Current Assets:		
Cash	\$ 73,948	\$ 72,695
Accounts receivable, net of reserve for doubtful accounts of \$2,642 and \$2,302, respectively	137,773	119,069
Inventories	82,503	80,133
Deferred income taxes	8,173	8,180
Other current assets	7,783	7,536
Total current assets	310,180	287,613
Property, plant and equipment, net of accumulated depreciation of \$120,744 and \$118,410, respectively	75,402	78,876
Goodwill	8,417	8,220
Intangible assets, net	20,233	20,348
Deferred income taxes	24,383	24,468
Other assets, net	11,497	12,916
Total assets	\$ 450,112	\$ 432,441
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 79,745	\$ 68,280
Accrued liabilities	40,769	34,285
Total current liabilities	120,514	102,565
Long-term debt	250,000	250,000
Pension and other post-retirement benefits	16,598	17,249
Other long-term liabilities	2,574	2,686
Total liabilities	389,686	372,500
Stockholders Equity:		
	296	296

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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; 28,860,843 and 28,860,143 shares issued and outstanding, respectively		
Treasury stock purchased from employees; 689,248 shares, respectively	(6,095)	(6,095)
Additional paid-in capital	229,643	229,137
Retained loss	(137,628)	(137,122)
Accumulated other comprehensive loss	(25,821)	(26,308)
Total CVG stockholders equity	60,395	59,908
Non-controlling interest	31	33
Total stockholders equity	60,426	59,941
Total liabilities and stockholders equity	\$ 450,112	\$ 432,441

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**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(In</b>	
	<b>thousands, except per share amounts)</b>	
Revenues	\$ 198,071	\$ 177,822
Cost of Revenues	173,767	159,737
Gross Profit	24,304	18,085
Selling, General and Administrative Expenses	18,472	17,949
Amortization Expense	384	409
Operating Income (Loss)	5,448	(273)
Interest and Other Expense	5,108	5,354
Income (Loss) Before Provision (Benefit) for Income Taxes	340	(5,627)
Provision (Benefit) for Income Taxes	848	(1,011)
Net Loss	(508)	(4,616)
Less: Non-controlling interest in subsidiary's loss	(2)	(2)
Net Loss Attributable to CVG Stockholders	\$ (506)	\$ (4,614)
Loss per Common Share:		
Basic	\$ (0.02)	\$ (0.16)
Diluted	\$ (0.02)	\$ (0.16)
Weighted Average Shares Outstanding:		
Basic	28,860	28,463
Diluted	28,860	28,463

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 LOSS**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(In thousands)</b>	
Net loss	\$ (508)	\$ (4,616)
Other comprehensive income:		
Foreign currency translation adjustments	487	646
	487	646
Comprehensive loss	\$ (21)	\$ (3,970)
Less: Comprehensive loss attributed to noncontrolling interests	(2)	(2)
Comprehensive loss attributable to CVG stockholders	\$ (19)	\$ (3,968)

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		Additional		Accum.	CVG	Non-		
	Shares	Amount	Treasury	Paid-In	Other	Stockholders'	controlling		
			Stock	Capital	Comp.	Equity	Interests	Total	
				Retained	(Loss)				
				Loss					
				(Unaudited)					
				(In thousands, except share data)					
<b>BALANCE</b>									
<b>December 31, 2013</b>	<b>28,860,143</b>	<b>296</b>	<b>(6,095)</b>	<b>229,137</b>	<b>(137,122)</b>	<b>(26,308)</b>	<b>59,908</b>	<b>33</b>	<b>59,941</b>
Vesting of Restricted Stock	700								
Share-based compensation expense				506			506		506
Comprehensive income (loss)					(506)	487	(19)	(2)	(21)
<b>BALANCE</b>									
<b>March 31, 2014</b>	<b>28,860,843</b>	<b>296</b>	<b>(6,095)</b>	<b>229,643</b>	<b>(137,628)</b>	<b>(25,821)</b>	<b>60,395</b>	<b>31</b>	<b>60,426</b>

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**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(In thousands)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net Loss	\$ (508)	\$ (4,616)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	4,337	4,318
Provision for doubtful accounts	1,507	385
Noncash amortization of debt financing costs	223	283
Impairment of property, plant and equipment	738	
Shared-based compensation expense	501	1,223
Loss on sale of assets	17	20
Deferred income taxes	120	(1,016)
Noncash gain on forward exchange contracts	(82)	(259)
Change in other operating items	(5,558)	(3,133)
<b>Net cash provided by (used in) operating activities</b>	<b>1,295</b>	<b>(2,795)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property, plant and equipment	(1,475)	(2,294)
Proceeds from disposal/sale of property, plant and equipment	11	1
Premium payments for deferred compensation		(251)
<b>Net cash used in investing activities</b>	<b>(1,464)</b>	<b>(2,544)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from borrowings against life insurance policies	1,041	
<b>Net cash provided by financing activities</b>	<b>1,041</b>	
Effect of Currency Exchange Rate Changes on Cash	381	2,245
<b>Net Increase (Decrease) in Cash</b>	<b>1,253</b>	<b>(3,094)</b>
<b>Cash:</b>		
Beginning of period	72,695	68,369
End of period	\$ 73,948	\$ 65,275
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest	\$ 21	\$ 63

Cash paid for income taxes, net	\$	328	\$	1,036
Unpaid purchases of property and equipment included in accounts payable	\$	680	\$	2,232

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, , the Company, or we ) is a leading supplier of a full range of cab related products and systems for the global commercial vehicle market, including the heavy-duty truck market, the medium/ and heavy-construction vehicle markets, military, bus, automotive and agriculture markets, the specialty transportation markets and recreational 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, 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 2013 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 17, 2014. Unless otherwise indicated, all amounts are in thousands except per share amounts.

**2. Recently Issued Accounting Pronouncements**

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-08 *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in this Update require a public business entity to provide disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, including pretax profit or loss attributable to the component and the non-controlling interest profit or loss attributable to the parent. The Update also requires entities to expand disclosures about an entity's continuing involvement with a discontinued operation, including the amount of any cash inflows and outflows from or to the discontinued operation and entity about a discontinued operation in which an entity retains an equity method investment in the discontinued operation. Those disclosures are required until the results of operations of the discontinued operation in which an entity retains significant continuing involvement are no longer presented separately as discontinued operations in the statement where net income is reported. The amendments of this Update should be applied prospectively for annual periods beginning on or after December 15, 2014, and interim periods within those years. We do not expect the adoption of this ASU to have a material impact on our financial statements or disclosures.

**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.

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

	March 31, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivative assets <sup>1</sup>	\$ 277	\$	\$ 277	\$	\$ 259	\$	\$ 259	\$
Derivative liabilities <sup>1</sup>	\$ 41	\$	\$ 41	\$	\$ 105	\$	\$ 105	\$

<sup>1</sup> 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, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 250,000	\$ 255,625	\$ 250,000	\$ 250,000

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 but are infrequently traded. 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, 2014, except for an impairment of \$0.8 million recognized for Norwalk land and building assets based on the selling price of \$0.6 million in the executed sales agreement. The impairment was recorded in cost of sales on the income statement. The assets are classified as Level 2.

#### 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 28,860,843 shares issued and outstanding as of March 31, 2014.

*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, 2014.



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*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, 2014 and 2013 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):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net loss attributable to common stockholders basic and diluted	\$ (506)	\$ (4,614)
Weighted average number of common shares outstanding	28,860	28,463
Dilutive effect of outstanding stock options and restricted stock grants after application of the treasury stock method		
Dilutive shares outstanding	28,860	28,463
Basic loss per share attributable to common stockholders	\$ (0.02)	\$ (0.16)
Diluted loss per share attributable to common stockholders	\$ (0.02)	\$ (0.16)

For the three months ended March 31, 2014, diluted earnings per share did not include 141 thousand of outstanding stock options and 857 thousand of outstanding restricted stock as the effect would have been antidilutive. For the three months ended March 31, 2013, diluted earnings per share did not include 469 thousand of outstanding stock options and 127 thousand of outstanding restricted stock 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 awards are 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, 2014:



<b>Grant</b>	<b>Shares</b>	<b>Estimated Forfeiture Rate</b>	<b>Vesting Schedule</b>
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
August 2013	100,000	8.2%	3 equal annual installments commencing on October 20, 2014
November 2013	470,997	8.2%	3 equal annual installments commencing on October 20, 2014
January 2014	4,100	8.2%	3 equal annual installments commencing on October 20, 2014
March 2014	18,802	8.2%	3 equal annual installments commencing on October 20, 2014

As of March 31, 2014, there was approximately \$5.1 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 2011 awards, 19 months for the November 2012 awards and 31 months for the November 2013 awards.

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The following table summarizes information about the non-vested restricted stock grants as of March 31, 2014:

	<b>Shares (000 s)</b>	<b>Nonvested Restricted Stock Weighted- Average Grant-Date Fair Value</b>
Nonvested at December 31, 2013	855	\$ 7.59
Granted	23	8.56
Vested	(1)	11.49
Forfeited	(20)	7.78
Nonvested at March 31, 2014	857	\$ 7.61

As of March 31, 2014, 688 thousand 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. Performance Based Awards**

Cash awards granted under our Fourth Amended and Restated Equity Incentive Plan in 2013 vesting in October 2016 total \$1.4 million based on planned performance in relation to our Peer Group, as defined in the 2013 Form 10-K, footnote 13. Compensation expense was recognized for these awards totaling \$0.1 million for the three months ended March 31, 2014. Cash awards granted under our Fourth Amended and Restated Equity Incentive Plan in 2012 vesting in October 2015 total \$0.7 million, net of forfeitures of \$1.2 million based on planned performance in relation to our Peer Group, as defined in the 2013 Form 10-K, footnote 13. Compensation expense was recognized for these awards totaling \$0.1 million and \$0.2 million for the three months ended March 31, 2014 and 2013, respectively. The expense to be recorded in future periods totals \$1.4 million for the unvested portion of the 2013 and 2012 awards.

**7. 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.

**8. Inventories**

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

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Raw materials	\$ 53,460	\$ 52,455
Work in process	12,494	11,895
Finished goods	16,549	15,783
	\$ 82,503	\$ 80,133

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.

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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. In conducting the qualitative assessment, we consider relevant events and circumstances that affect the fair value or carrying amount of the reporting unit. Such events and circumstances could include macroeconomic conditions, industry and market considerations, overall financial performance, entity and reporting unit specific events, cost factors and capital markets pricing. We consider the extent to which each of the adverse events and circumstances identified affect the comparison of the reporting unit's fair value with its carrying amount. We place more weight on the events and circumstances that most affect the reporting unit's fair value or the carrying amount of its net assets. We consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. These factors are all considered by management in reaching its conclusion about whether to perform the first step of the impairment test.

If the reporting unit's fair value is determined to be more likely than not impaired based on the one-step qualitative approach, we then perform a quantitative valuation to estimate the fair value of our reporting unit. 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.

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

	Amortization Period	March 31, 2014			December 31, 2013			
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Definite-lived intangible assets:								
Trademarks/Tradenames	23 years	\$ 9,739	\$ (3,241)	\$ 6,498	23 years	\$ 9,680	\$ (3,090)	\$ 6,590
Customer relationships	15 years	15,074	(1,339)	13,735	15 years	14,828	(1,069)	13,759
		\$ 24,813	\$ (4,580)	\$ 20,233		\$ 24,508	\$ (4,159)	\$ 20,349

The aggregate intangible asset amortization expense was approximately \$0.4 million for the three months ended March 31, 2014 and 2013, respectively.

The estimated intangible asset amortization expense for the fiscal year ending December 31, 2014, and for the five succeeding years is as follows (in thousands):

**Fiscal Year Ended**

<b>December 31,</b>	<b>Estimated Amortization Expense</b>
2014	\$ 1,513
2015	\$ 1,357
2016	\$ 1,357
2017	\$ 1,357
2018	\$ 1,357
2019	\$ 1,357

The changes in the carrying amounts of goodwill are as follows (in thousands):

	<b>For the three months ended</b>	
	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Balance - Beginning of the period	\$ 8,220	\$ 8,124
Currency translation adjustment	197	96
Balance - End of the period	\$ 8,417	\$ 8,220

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*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 three months ended March 31, 2014 (in thousands):

	<b>2013</b>
Balance December 31, 2013	\$ 4,529
Provisions for new warranties issued	722
Changes in provision for preexisting warranties	3
Deduction for payments made	(1,219)
Currency translation adjustment	1
Balance March 31, 2014	\$ 4,036

*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, 2014, our equipment leases did not provide for any material guarantee of a specified portion of residual values.

*Guarantees* We accrue for costs associated with guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts, and where no amount within a range of estimates is more likely, the minimum is accrued. As of March 31, 2014, we had no such guarantees.

*Litigation* We are subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, product warranties, employment-related matters and environmental matters. Management believes that we maintain adequate insurance to cover these claims. We have established reserves for issues that are probable and estimable 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 our business will not have a material adverse impact on our consolidated financial position, results of operations or cash flows; however, such matters are subject to many uncertainties, and the outcomes of individual matters are not predictable with assurance.

**11. Debt**

Debt consisted of the following (in thousands):

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<u>7.875% senior secured notes due April 15, 2019</u>	\$ 250,000	\$ 250,000

7.875% Senior Secured Notes due 2019 The 7.875% notes were issued pursuant to an indenture, dated as of April 26, 2011 (the "7.875% Notes Indenture"), by and among CVG, certain of our subsidiaries party thereto, as guarantors (the "guarantors"), and U.S. Bank National Association, as trustee. Interest is payable on the 7.875% notes on April 15 and October 15 of each year until their maturity date of April 15, 2019.

The 7.875% notes are senior secured obligations of CVG. Our obligations under the 7.875% notes are guaranteed by the guarantors. The obligations of CVG and the guarantors under the 7.875% notes are secured by a second-priority lien (subject to certain permitted liens) on substantially all of the property and assets of CVG and the guarantors, and a pledge of 100% of the capital stock of CVG's domestic subsidiaries and 65% of the voting capital stock of each foreign subsidiary directly owned by CVG and the guarantors. The liens, the security interests and all of the obligations of CVG and the guarantors and all provisions regarding remedies in an event of default are subject to an intercreditor agreement among CVG, certain of its subsidiaries, the agent for the revolving credit facility and the collateral agent for the 7.875% notes.

The 7.875% Notes Indenture contains restrictive covenants and events of default (subject to certain customary grace periods). We were in compliance with these covenants and were not in default as of March 31, 2014.

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We had the option but did not to redeem any part of the 7.875% notes as of April 15, 2014 at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the make-whole premium set forth in the 7.875% Notes Indenture. We evaluated the make-whole premium under ASC 815-15 and determined that the premium is not required to be bifurcated from the 7.875% notes and accounted for as a separate derivative instrument. We may redeem the 7.875% notes, in whole or in part, at any time on or after April 15, 2014 at the optional redemption prices set forth in the 7.875% Notes Indenture, plus accrued and unpaid interest, if any, to the redemption date. If we experience certain change of control events, holders of the 7.875% notes may require us to repurchase all or part of their notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

**Revolving Credit Facility** On November 15, 2013, the Company and certain of the Company's subsidiaries, as borrowers (together with the Company, the borrowers) entered into a Second ARLS Agreement (as so amended and restated, the Second ARLS Agreement) with Bank of America, N.A. as agent and lender, which amended and restated the Amended and Restated Loan and Security Agreement, dated as of April 26, 2011, by and among the Company, the borrowers and Bank of America, N.A., as agent and lender, as amended, governing the Company's revolving credit facility.

Among other things, the Second ARLS Agreement extended the maturity of the revolving credit facility to November 15, 2018 and amended the applicable margin, as described below. The Second ARLS Agreement included amendments to certain covenants to provide additional flexibility, including amendments to (i) eliminate the aggregate cap on permitted distributions and instead condition such distributions on minimum availability, fixed charge coverage ratio and other requirements, (ii) eliminate the aggregate cap on permitted foreign investments and instead condition such foreign investments on minimum availability, fixed charge coverage ratio and other requirements, (iii) eliminate the aggregate cap on purchase consideration for permitted acquisitions and instead condition such acquisitions on minimum availability, fixed charge coverage ratio and other requirements and (iv) permitting certain sale-leaseback transactions. In addition, the covenant restricting payment of certain debt was amended to permit repurchases of the Company's 7.875% senior secured notes due 2019 if certain conditions are met. The Second ARLS Agreement also amended the financial covenant to reduce the fixed charge coverage ratio maintenance requirement to 1.0:1.0 and reduced the availability threshold for triggering compliance with the fixed charge coverage ratio, as described below.

The size of the revolving credit facility was unchanged by the Second ARLS Agreement and remains at \$40 million, but the borrowers may request an increase in revolver commitments from time to time in an aggregate amount of up to \$35 million, as long as the requested increase does not breach any subordinated debt agreement of the borrowers or the indenture governing the Company's 7.875% senior secured notes due 2019. Availability under the revolving credit facility is subject to borrowing base limitations and an availability block equal to the amount of debt and foreign cash management services Bank of America, N.A. or its affiliates makes available to the Company's foreign subsidiaries. Up to an aggregate of \$10.0 million is available to the borrowers for the issuance of letters of credit, which reduces availability under the revolving credit facility.

As a result of the Second ARLS Agreement, the applicable margin is based on average daily availability under the revolving credit facility as follows:

	<b>Average Daily</b>	<b>Base</b>	<b>LIBOR</b>
<b>Level</b>	<b>Availability</b>	<b>Rate</b>	<b>Revolver</b>
		<b>Loans</b>	<b>Loans</b>



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III	<sup>3</sup> \$20,000,000	0.50%	1.50%
II	> \$10,000,000 but < \$20,000,000	0.75%	1.75%
I	£ \$10,000,000	1.00%	2.00%

Until December 31, 2013, the applicable margin was set at Level III. Thereafter, the applicable margin will be subject to increase or decrease by the agent on the first day of the calendar month following each fiscal quarter end. If the agent is unable to calculate average daily availability for a fiscal quarter due to borrower's failure to deliver a borrowing base certificate when required, the applicable margin will be set at Level I until the first day of the calendar month following receipt of a borrowing base certificate. As of March 31, 2014, the applicable margin was set at Level III.

The Company pays a commitment fee to the lenders equal to 0.25% per annum of the unused amounts under the revolving credit facility. As of March 31, 2014, approximately \$4.5 million in deferred fees relating to the revolving credit facility and our 7.875% notes were being amortized over the remaining life of the agreements.

As of March 31, 2014, we did not have borrowings under the revolving credit facility. In addition, as of March 31, 2014, we had outstanding letters of credit of approximately \$2.9 million and borrowing availability of \$37.1 million under the revolving credit facility.

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The borrowers' obligations under the revolving credit facility are secured by a first-priority lien (subject to certain permitted liens) on substantially all of the tangible and intangible assets of the borrowers, as well as 100% of the capital stock of the direct domestic subsidiaries of each borrower and 65% of the capital stock of each foreign subsidiary directly owned by a borrower. Each of CVG and each other borrower is jointly and severally liable for the obligations under the revolving credit facility and unconditionally guarantees the prompt payment and performance thereof.

*Terms, Covenants and Compliance Status* The Second ARLS Agreement requires the maintenance of a minimum fixed charge coverage ratio calculated based upon consolidated EBITDA (as defined in the revolving credit facility) as of the last day of each of the Company's fiscal quarters. The borrowers are not required to comply with the fixed charge coverage ratio requirement for as long as the borrowers maintain at least \$7.5 million of borrowing availability under the revolving credit facility. If borrowing availability is less than \$7.5 million at any time, the borrowers would be required to comply with a fixed charge coverage ratio of 1.0:1.0 as of the end of any fiscal quarter, and would be required to continue to comply with these requirements until the borrowers have borrowing availability of \$7.5 million or greater for 60 consecutive days. Because the Company had borrowing availability in excess of \$7.5 million from December 31, 2013 through March 31, 2014, the Company was not required to comply with the minimum fixed charge coverage ratio covenant during the quarter ended March 31, 2014.

The Loan and Security Agreement contains customary restrictive covenants and events of default. We were in compliance with these covenants and not in default as of March 31, 2014.

## **12. Income Taxes**

We, or one of our subsidiaries, file federal income tax returns in the United States and income tax returns in various states and foreign jurisdictions. With few exceptions, we are no longer subject to income tax examinations by any of the taxing authorities for years before 2009. There are currently no income tax examinations in process.

As of March 31, 2014, we have provided a liability of approximately \$0.2 million of unrecognized tax benefits related to various federal and state income tax positions, which would impact our effective tax rate if recognized.

We accrue 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. We had approximately \$0.1 million accrued for the payment of interest and penalties at March 31, 2014, which was substantially accrued as of December 31, 2013. Accrued interest and penalties are included in the \$0.2 million of unrecognized tax benefits.

During the fiscal quarter ended March 31, 2014, we did not release any tax reserves associated with items falling outside the statute of limitations and the closure of certain tax years for examination purposes. Events could occur within the next 12 months that would have an impact on the amount of unrecognized tax benefits that would be required. Approximately \$0.1 million of unrecognized tax benefits relate to items that are affected by expiring statutes of limitation within the next 12 months.

At March 31, 2014, due to cumulative losses and other negative evidence, we continue to carry valuation allowances against the net deferred assets primarily in the following foreign jurisdictions: United Kingdom, China, India, Luxemburg and Czech Republic. We continue to evaluate the need for valuation allowances in each of our jurisdictions.

## **13. Foreign Currency Forward Exchange Contracts**

We use forward exchange contracts to hedge certain of the foreign currency transaction exposures. We estimate our projected revenues and purchases in certain foreign currencies or locations and will hedge a portion or all of the anticipated long or short positions. As of March 31, 2014, we did not have any derivatives designated as hedging instruments; therefore, our forward foreign exchange contracts have been marked-to-market and the fair value of contracts recorded in the consolidated balance sheets with the offsetting non-cash gain or loss recorded in our consolidated statements of operations. We do not hold or issue foreign exchange options or forward contracts for trading purposes. Our forward foreign exchange contracts are subject to a master netting agreement. We record assets and liabilities relating to our forward foreign exchange contracts on a gross basis in our consolidated balance sheets.

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The following table summarizes the notional amount of our open foreign exchange contracts (in thousands):

	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>U.S. Equivalent</b>		<b>U.S. Equivalent</b>	
	<b>U.S. \$</b>	<b>Fair Value</b>	<b>U.S. \$</b>	<b>Fair Value</b>
	<b>Equivalent</b>	<b>Value</b>	<b>Equivalent</b>	<b>Value</b>
<b>Commitments to buy currencies:</b>				
Mexican peso	\$ 8,303	\$ 8,538	\$ 11,157	\$ 11,311

We consider the impact of our credit risk on the fair value of the contracts, as well as the ability to execute obligations under the contract. The following table summarizes the fair value and presentation in the consolidated balance sheets for derivatives not designated as accounting hedges (in thousands):

	<b>Asset Derivatives</b>			
	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Balance Sheet</b>		<b>Balance Sheet</b>	
	<b>Location</b>	<b>Fair Value</b>	<b>Location</b>	<b>Fair Value</b>
Foreign exchange contracts	Other current assets	\$ 277	Other current assets	\$ 259

	<b>Liability Derivatives</b>			
	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Balance Sheet</b>		<b>Balance Sheet</b>	
	<b>Location</b>	<b>Fair Value</b>	<b>Location</b>	<b>Fair Value</b>
Foreign exchange contracts	Accrued liabilities	\$ 41	Accrued liabilities	\$ 105

The following table summarizes the effect of derivative instruments on the consolidated statements of operations for derivatives not designated as hedging instruments (in thousands):

		<b>Three Months Ended March 31,</b>	
		<b>2014</b>	<b>2013</b>
	<b>Location of (Loss) Gain Recognized in Income on Derivatives</b>	<b>Amount of (Loss) Gain Recognized in Income on Derivatives</b>	
Foreign exchange contracts	Cost of Revenues	\$ 82	\$ 259

**Table of Contents****14. Other Comprehensive Income (Loss)**

The after-tax changes in accumulated other comprehensive loss in thousands of dollars follow:

	Foreign currency items	Pension and postretirement benefit plans	Accumulated other comprehensive income (loss)
Ending balance, December 31, 2013	\$ (11,907)	\$ (14,401)	\$ (26,308)
Net current period change	487		487
Ending balance, March 31, 2014	\$ (11,420)	\$ (14,401)	\$ (25,821)

The related tax effects allocated to each component of other comprehensive loss are as follows:

	Before Tax		Tax (Expense)	
	Amount	Benefit	Benefit	After Tax Amount
<b>Three Months Ended March 31, 2014</b>				
Cumulative translation adjustment	487			487
Total other comprehensive income (loss)	\$ 487	\$	\$	\$ 487
<b>Three Months Ended March 31, 2013</b>				
Cumulative translation adjustment	646			646
Total other comprehensive income (loss)	\$ 646	\$	\$	\$ 646

**15. Pension and Other Post-Retirement Benefit Plans**

We sponsor pension and other post-retirement benefit plans that cover certain hourly and salaried employees in the United States and United Kingdom. Our policy is to make annual contributions to the plans to fund the normal cost as required by local regulations. In addition, we have a post-retirement benefit plan for certain U.S. operations, retirees and their dependents.

The components of net periodic benefit cost related to the pension and other post-retirement benefit plans was as follows (in thousands):

U.S. Pension Plans	Non-U.S. Pension Plans	Other Post-Retirement Benefit Plans
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	<b>Three Months Ended March 31,</b>		<b>Three Months Ended March 31,</b>		<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Service cost	\$ 24	\$ 27	\$	\$	\$	\$
Interest cost	472	426	478	410	(33)	(63)
Expected return on plan assets	(592)	(445)	(442)	(367)		
Net periodic benefit cost	\$ (96)	\$ 8	\$ 36	\$ 43	\$ (33)	\$ (63)

We previously disclosed in our financial statements for the year ended December 31, 2013, that we expect to contribute approximately \$2.7 million to our pension plans and our other post-retirement benefit plans in 2014. As of March 31, 2014, approximately \$0.7 million of contributions have been made to our pension plans.