

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

Commercial Vehicle Group, Inc.

Form 10-K

March 13, 2007

Table of Contents

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

**Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended:
December 31, 2006**

**Commission file number:
000-50890**

COMMERCIAL VEHICLE GROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

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

**6530 West Campus Oval
New Albany, Ohio**
(Address of Principal Executive Offices)

43054
(Zip Code)

**Registrant's telephone number, including area code:
(614) 289-5360**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value \$.01 per share	The Nasdaq Global Select Market

**Securities registered pursuant to Section 12(g) of the Act:
None**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Schedule 15(d) of the Act. Yes ☐ No ☒

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on June 30, 2006, excluding shares owned beneficially by affiliates, was \$448,916,663.

As of February 28, 2007, 21,707,769 shares of Common Stock of the Registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K are incorporated by reference from the Registrant's Proxy Statement for its annual meeting to be held May 22, 2007 (the "2007 Proxy Statement").

COMMERCIAL VEHICLE GROUP, INC.

Annual Report on Form 10-K

Table of Contents

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	1
<u>Item 1A. Risk Factors</u>	19
<u>Item 1B. Unresolved Staff Comments</u>	27
<u>Item 2. Properties</u>	27
<u>Item 3. Legal Proceedings</u>	29
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	29
<u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	29
<u>Item 6. Selected Financial Data</u>	32
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	48
<u>Item 8. Financial Statements and Supplementary Data</u>	50
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	93
<u>Item 9A. Controls and Procedures</u>	93
<u>Item 9B. Other Information</u>	97
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	97
<u>Item 11. Executive Compensation</u>	99
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	100
<u>Item 13. Certain Relationships, Related Transactions and Director Independence</u>	100
<u>Item 14. Principal Accountant Fees and Services</u>	100
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statements Schedules</u>	101
<u>SIGNATURES</u>	106
<u>Supplemental Indenture</u>	
<u>Computation of Ratio of Earnings to Fixed Charges</u>	
<u>Subsidiaries</u>	
<u>Consent of Deloitte & Touche LLP</u>	
<u>Certification of Officer</u>	
<u>Certification of Officer</u>	
<u>Certification Pursuant to 18 U.S.C. Section 1350</u>	
<u>Certification Pursuant to 18 U.S.C. Section 1350</u>	

Table of Contents

CERTAIN DEFINITIONS

All references in this Annual Report on Form 10-K to the Company, Commercial Vehicle Group, CVG, we, us, our refer to Commercial Vehicle Group, Inc. and its consolidated subsidiaries (unless the context otherwise requires).

FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. For this purpose, any statements contained herein that are not statements of historical fact, including without limitation, certain statements under Item 1 Business and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and located elsewhere herein regarding industry prospects and our results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, and similar expressions intended to identify forward-looking statements. The important factors discussed in Item 1A Risk Factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Such forward-looking statements represent management's current expectations and are inherently uncertain. Investors are warned that actual results may differ from management's expectations. Additionally, various economic and competitive factors could cause actual results to differ materially from those discussed in such forward-looking statements, including, but not limited to, factors which are outside our control, such as risks relating to (i) our ability to develop or successfully introduce new products; (ii) risks associated with conducting business in foreign countries and currencies; (iii) general economic or business conditions affecting the markets in which we serve; (iv) increased competition in the heavy-duty truck market; and (v) our failure to complete or successfully integrate additional strategic acquisitions. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such cautionary statements.

Table of Contents

PART I

Item 1. *Business*

Overview

Commercial Vehicle Group, Inc. (a Delaware corporation) and its subsidiaries, is a leading supplier of fully integrated system solutions for the global commercial vehicle market, including the heavy-duty truck market, the construction and agriculture markets and the specialty and military transportation markets. As a result of our strong leadership in cab-related products and systems, we are positioned to benefit from the increased focus of our customers on cab design and comfort and convenience features to better serve their end-user, the driver. Our products include suspension seat systems, interior trim systems (including instrument panels, door panels, headliners, cabinetry and floor systems), cab structures and components, mirrors, wiper systems, electronic wire harness assemblies and controls and switches specifically designed for applications in commercial vehicles.

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

Demand for our products is generally dependent on the number of new commercial vehicles manufactured, which in turn is a function of general economic conditions, interest rates, changes in governmental regulations, consumer spending, fuel costs and our customers' inventory levels and production rates. New commercial vehicle demand has historically been cyclical and is particularly sensitive to the industrial sector of the economy, which generates a significant portion of the freight tonnage hauled by commercial vehicles. Production of commercial vehicles in North America peaked in 1999 and experienced a downturn from 2000 to 2003 that was due to a weak economy, an oversupply of new and used vehicle inventory and lower spending on commercial vehicles and equipment. Demand for commercial vehicles improved in 2006 due to broad economic recovery in North America, corresponding growth in the movement of goods, the growing need to replace aging truck fleets and OEMs received larger than expected pre-orders in anticipation of the new EPA emissions standards becoming effective in 2007.

The Company was formed on August 22, 2000. On October 6, 2000, the Company acquired the assets of Bostrom plc in exchange for \$83.6 million in cash and assumption of certain liabilities. The source of the cash consisted of \$49.8 million of debt and \$33.8 million of equity.

On March 28, 2003, the Company and Commercial Vehicle Systems Holdings, Inc. (CVS) entered into an Agreement and Plan of Merger whereby a subsidiary of the Company was merged into CVS. The holders of the outstanding shares of CVS received, in exchange, shares of the Company on a one-for-one basis resulting in the issuance of 4,870,228 shares of common stock. On May 20, 2004, the Company and Trim Systems, Inc. (Trim) entered into an Agreement and Plan of Merger whereby a subsidiary of the Company was merged into Trim (the CVS and Trim mergers are collectively referred to as the Mergers). On August 2, 2004, the Trim merger was effected. The holders of the outstanding shares of Trim received, in exchange, shares of the Company on a .099-for-one basis resulting in the issuance of 2,769,567 shares of common stock. In accordance with SFAS No. 141, the Mergers were accounted for as a combination of entities under common control. Thus, the accounts of CVS, Trim and the Company were combined

based upon their respective historical basis of accounting. The financial statements reflect the combined results of the Company, CVS and Trim as if the Mergers had occurred as of the beginning of the earliest period presented.

Table of Contents

Recent Acquisitions

In November 2006, we acquired all of the outstanding common stock of C.I.E.B. Kahovec, spol. s.r.o. (C.I.E.B.). See Note 3 to our consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K for detailed information on this transaction.

Industry

Within the commercial vehicle industry, we sell our products primarily to the heavy truck segment of the North American OEM market (approximately 60% of our 2006 revenues), the aftermarket and OEM service organizations (approximately 10% of our 2006 revenues) and the construction segments of the global OEM market (approximately 18% of our 2006 revenues). The majority of our remaining 12% of 2006 revenues were to other global commercial vehicle and specialty markets.

Commercial Vehicle Supply Market Overview

Commercial vehicles are used in a wide variety of end markets, including local and long-haul commercial trucking, bus, construction, mining, general industrial, marine, municipal and recreation. The commercial vehicle supply industry can generally be separated into two categories: (1) sales to OEMs, in which products are sold in relatively large quantities directly for use by OEMs in new commercial vehicles; and (2) aftermarket sales, in which products are sold as replacements in varying quantities to a wide range of OEM service organizations, wholesalers, retailers and installers. In the OEM market, suppliers are generally divided into tiers Tier 1 suppliers (like our company), who provide their products directly to OEMs, and Tier 2 or Tier 3 suppliers, who sell their products principally to other suppliers for integration into those suppliers own product offerings.

Our largest end-market segment, the commercial truck industry, is supplied by heavy- and medium-duty commercial truck suppliers. The commercial truck supplier industry is highly fragmented and comprised of several large companies and many smaller companies. In addition, the Heavy-duty (Class 8) truck supplier industry is characterized by relatively low production volumes as well as considerable barriers to entry, including the following: (1) significant investment requirements, (2) stringent technical and manufacturing requirements, (3) high transition costs to shift production to new suppliers, (4) just-in-time delivery requirements and (5) strong brand name recognition. Foreign competition is limited in the North American commercial vehicle market due to many factors, including the need to be responsive to order changes on short notice, high shipping costs, customer concerns about quality given the safety aspect of many of our products and service requirements.

Although OEM demand for our products is directly correlated with new vehicle production, suppliers like us can also grow by increasing their product content per vehicle through cross selling and bundling of products, further penetrating business with existing customers and gaining new customers and expanding into new geographic markets. We believe that companies with a global presence and advanced technology, engineering, manufacturing and support capabilities, such as our company, are well positioned to take advantage of these opportunities.

Commercial Truck Market

Purchasers of commercial trucks include fleet operators, owner operators and other industrial end users. Commercial vehicles used for local and long-haul commercial trucking are generally classified by gross vehicle weight. Class 8 vehicles are trucks with gross vehicle weight in excess of 33,000 lbs. and Class 5

Table of Contents

through 7 vehicles are trucks with gross vehicle weight from 16,001 lbs. to 33,000 lbs. The following table shows commercial vehicle production levels for 2001 through 2006 in North America:

	2001	2002	2003	2004	2005	2006
	(Thousands of units)					
Class 8 heavy trucks	146	181	182	269	341	378
Class 5-7 light and medium-duty trucks	189	194	188	225	245	266
Total	335	375	370	494	586	644

Source: ACT Publications, The Commercial Truck, Bus and Trailer Industry OUTLOOK (February 2007).

The following describes the major segments of the commercial vehicle market in which we compete:

Class 8 Truck Market

The global Class 8 truck manufacturing market is concentrated in three primary regions: North America, Asia-Pacific and Europe. The global Class 8 truck market is localized in nature due to the following factors: (1) the prohibitive costs of shipping components from one region to another, (2) the high degree of customization of Class 8 trucks to meet the region-specific demands of end users, and (3) the ability to meet just-in-time delivery requirements. According to ACT, four companies represented approximately 97% of North American Class 8 truck production in 2006. The percentages of Class 8 production represented by Freightliner, PACCAR, Volvo/Mack and International were approximately 33%, 25%, 20% and 19%, respectively. We supply products to all of these OEMs.

Production of commercial vehicles in North America peaked in 1999 and experienced a downturn from 2000 to 2003 that was due to a weak economy, reduced sales following above-normal purchases in advance of new EPA emissions standards, an oversupply of new and used vehicle inventory and lower spending on commercial vehicles and equipment. Following a substantial decline from 1999 to 2001, truck unit production increased modestly to approximately 181,000 units in 2002 from approximately 146,000 units produced in 2001, due primarily to the purchasing of trucks that occurred prior to the October 2002 mandate for more stringent engine emissions requirements. Subsequent to the engine emissions requirements, truck production continued to remain at historically low levels due to the continuing economic recession and the reluctance of many trucking companies to invest during this period.

In mid-2003, evidence of renewed growth emerged and truck tonmiles (number of miles driven multiplied by number of tons transported) began to increase. Accompanying the increase in truck tonmiles, new truck sales also began to increase. During the second half of 2003, new truck dealer inventories declined and, consequently, OEM truck order backlogs began to increase. According to ACT, monthly truck order rates began increasing significantly in December 2003 through 2005. In 2006, OEMs received larger than expected pre-orders in anticipation of the new EPA emissions standards becoming effective in 2007.

Table of Contents

The following table illustrates North American Class 8 truck build for the years 1998 to 2011:

**North American Class 8 Truck Build Rates
(In thousands)**

E Estimated

Source: ACT Publications, Five Year Forecast (February 2007).

According to ACT, unit production for 2007 is estimated to decrease approximately 43% from 2006 levels to approximately 216,000 units. We believe that both the increase in 2006 as well as the projected decrease in 2007 are also impacted by the institution of more stringent EPA emissions standards in early 2007. We believe the increase in 2006 was primarily the result of the following factors: (1) improvement in the general economy in North America, (2) corresponding growth in the movement of goods, (3) under investment during the recession and the growing need to replace aging truck fleets and (4) OEMs received larger than expected pre-orders in anticipation of the new EPA emissions standards becoming effective in 2007.

We believe the following factors are currently driving the North American Class 8 truck market:

Economic Conditions. The North American truck industry is directly influenced by overall economic growth and consumer spending. Since truck OEMs supply the fleet lines of North America, their production levels generally match the demand for freight. The freight carried by these trucks includes consumer goods, machinery, food and beverages, construction equipment and supplies, electronic equipment and a wide variety of other materials. Since most of these items are driven by macroeconomic conditions, the truck industry tends to follow trends of gross domestic product (GDP). Generally, given the dependence of North American shippers on trucking as a freight alternative, general economic conditions have been a primary indicator of future truck builds.

Truck Freight Growth. ACT projects that total domestic truck freight will continue to increase over the next five years, driven by growth in GDP. In addition, national suppliers and distribution centers, burdened by the pricing pressure of large manufacturing and retail customers, have continued to reduce on-site inventory levels. This reduction requires freight handlers to provide to-the-hour delivery options. As a result, Class 8 trucks have replaced manufacturing warehouses as the preferred temporary storage facility for inventory. Since trucks are typically viewed as the most reliable and flexible shipping alternative, truck tonmiles, as well as truck platform improvements, should continue to increase in order to meet the increasing need for flexibility

Table of Contents

under the just-in-time system. ACT forecasts that total heavy-duty truck tonmiles will increase from 3,750 billion in 2006 to an all time high of 4,303 billion in 2011, as summarized in the following graph:

**Total U.S. Tonmiles (Class 8)
(Number of tonmiles in billions)**

E Estimated

Source: ACT Publications, The Commercial Truck, Bus and Trailer Industry OUTLOOK (February 2007).

Truck Replacement Cycle and Fleet Aging. Since 1995, the average age of active Class 8 trucks has increased from approximately 5.4 years in 1995 to approximately 5.7 years in 2006. The average fleet age tends to run in cycles as freight companies permit their truck fleets to age during periods of lagging demand and then replenish those fleets during periods of increasing demand. Additionally, as truck fleets age, their maintenance costs typically increase. Freight companies must therefore continually evaluate the economics between repair and replacement. Other factors, such as inventory management and the growth in less-than-truckload freight shipping, also tend to increase fleet mileage and, as a result, the truck replacement cycle. The chart below illustrates the average age of active U.S. Class 8 trucks:

**Average Age of Active U.S. Class 8 Trucks
(Number of years)**

E Estimated

Source: ACT Research (2007).

Table of Contents

Commercial Truck Aftermarket

Demand for aftermarket products tends to be less cyclical than OEM demand because vehicle owners are more likely to repair vehicles than purchase new ones during recessionary periods, and thus aftermarket demand generally is more stable during such periods. Demand for aftermarket products is driven by the quality of OEM parts, the number of vehicles in operation, the average age of the vehicle fleet, vehicle usage, the average useful life of vehicle parts and total tonmiles. The aftermarket is a growing market, as the overall size of the North American fleet of Class 8 trucks has continued to increase and is attractive because of the recurring nature of the sales. Additionally, aftermarket sales tend to be at a higher margin, as truck component suppliers are able to leverage their already established fixed cost base and exert moderate pricing power with their replacement parts. The recurring nature of aftermarket revenue provides some insulation to the overall cyclical nature of the industry, as it tends to provide a more stable stream of revenues.

Commercial Construction Vehicle Market

Purchasers of heavy construction equipment (weighing over 12 metric tons) include construction companies, municipalities, local governments, rental fleet owners, quarrying and mining companies, waste management companies and forestry related concerns. Purchasers of light construction equipment (weighing under 12 metric tons) include contractors, rental fleet owners, landscapers, logistics companies and farmers. Sales of heavy construction equipment are particularly dependent on the level of major infrastructure construction and repair projects such as highways, dams and harbors, which is a function of government spending and economic growth.

Military Equipment Market

We supply products for heavy- and medium-payload tactical trucks that are used by the U.S. military and other foreign militaries. Sales and production of these vehicles are influenced by overall defense spending both by the U.S. government and foreign governments and the presence of military conflicts and potential military conflicts throughout the world. Demand for these vehicles is expected to increase as the result of the continuing conflict in the Middle East. In addition, demand has increased for remanufacturing and replacement of the large fleet of vehicles that have served in the Middle East due to over-use and new armor and technology requirements.

Commercial Vehicle Industry Trends

Our performance and growth are directly related to trends in the commercial vehicle market that are focused on driver retention, comfort and safety. These commercial vehicle industry trends include the following:

System Sourcing. Commercial vehicle OEMs are beginning to seek suppliers capable of providing fully-engineered, complete systems rather than suppliers who produce the separate parts that comprise a system. By outsourcing complete systems, OEMs are able to reduce the costs associated with the design and integration of different components and improve quality by requiring their suppliers to assemble and test major portions of the vehicle prior to beginning production. In addition, OEMs are able to develop more efficient assembly processes when complete systems are delivered in sequence rather than as individual parts or components.

Globalization of Suppliers. To serve multiple markets more cost effectively, many commercial vehicle OEMs are manufacturing global vehicle platforms that are designed in a single location but are produced and sold in many different geographic markets around the world. Having operations in the geographic markets in which OEMs produce their global platforms enables suppliers to meet OEMs' needs more economically and more efficiently.

Shift of Design and Engineering to Suppliers. OEMs are focusing their efforts on brand development and overall vehicle design, instead of the design of individual vehicle systems. OEMs are increasingly looking to their suppliers to provide suggestions for new products, designs, engineering developments and manufacturing processes. As a result, Tier 1 suppliers are gaining increased access to confidential planning information

Table of Contents

regarding OEMs' future vehicle designs and manufacturing processes. Systems and modules increase the importance of Tier 1 suppliers because they generally increase the Tier 1 suppliers' percentage of vehicle content.

Broad Manufacturing Capabilities. With respect to commercial vehicle interiors, OEMs are requiring their suppliers to manufacture interior systems and products utilizing alternative materials and processes in order to meet OEMs' demand for customized styling or cost requirements. In addition, while OEMs seek to differentiate their vehicles through the introduction of innovative interior features, suppliers are proactively developing new interior products with enhanced features.

Ongoing Supplier Consolidation. The worldwide commercial vehicle supply industry is in the early stages of consolidating as suppliers seek to achieve operating synergies through business combinations, shift production to locations with more flexible work rules and practices, acquire complementary technologies, build stronger customer relationships and follow their OEM customers as they expand globally. Suppliers need to provide OEMs with single-point sourcing of integrated systems and modules on a global basis, and this is expected to drive further industry consolidation. Furthermore, the cost focus of most major OEMs has forced suppliers to reduce costs and improve productivity on an ongoing basis, including by achieving economies of scale through consolidation.

Competitive Strengths

We believe that our competitive strengths include, but are not limited to, the following:

Leading Market Positions and Brands. We believe that we are the leading supplier of seating systems and interior trim products, the only non-captive manufacturer of Class 8 truck body systems (which includes cab body assemblies), the second largest supplier of wiper systems and mirrors for the North American commercial vehicle market and the largest global supplier of construction vehicle seating systems. Our products are marketed under brand names that are well known by our customers and truck fleet operators based upon the amount of revenue we derive from sales to these markets. These brands include KAB Seating, National Seating, Trim Systems, Sprague Controls, Sprague Devices®, Prutsman™, Moto Mirror®, RoadWatch®, Mayflower® and C.I.E.B. The C.I.E.B. acquisition gave us a further penetration into the global commercial vehicle marketplace. We plan to leverage our customer relationships and dedicated sales force to cross-sell a broader range of products to position ourselves as the leading provider of complete cab systems to the commercial vehicle market.

Comprehensive Cab Product and Cab System Solutions. We believe that we offer the broadest product range of any commercial vehicle cab supplier. We manufacture a broad base of products, many of which are critical to the interior and exterior subsystems of a commercial vehicle cab. We believe we are the only supplier worldwide with the capability to manufacture and offer complete cab systems in sequence, integrating interior trim and seats with the cab structure and the electronic wire harness and instrument panel assemblies. We also utilize a variety of different processes, such as urethane molding, injection molding, Virtual Engineered Composites (VEC) large composite molding, vacuum forming and twin shell vacuum forming that enable us to meet each customer's unique styling and cost requirements. The breadth of our product offering enables us to provide a one-stop shop for our customers, who increasingly require complete cab solutions from a single supply source. As a result, we believe that we have a substantial opportunity for further customer penetration through cross-selling initiatives and by bundling our products to provide complete system solutions.

End-User Focused Product Innovation. A key trend in the commercial vehicle market is that OEMs are increasingly focused on cab design, comfort and features to better serve their end user, the driver, and our customers are seeking suppliers that can provide product innovation. We have a full service engineering and product development organization that proactively presents solutions to OEMs to meet these needs and enables us to increase our overall content on current platforms and models.

Flexible Manufacturing Capabilities and Cost Competitive Position. Because commercial vehicle OEMs permit their customers to select from an extensive menu of cab options, our customers frequently request

Table of Contents

modified products in low volumes within a limited time frame. We have a highly variable cost structure and can efficiently leverage our flexible manufacturing capabilities to provide low volume, customized products to meet each customer's styling, cost and just-in-time delivery requirements. We manufacture or assemble our products at facilities in North America, Europe, China and Australia. Several of our facilities are located near our customers to reduce distribution costs and to maintain a high level of customer service and flexibility.

Strong Free Cash Flow Generation. Our business generates strong free cash flow, as it benefits from modest capital expenditure and working capital requirements. Over the three years ended December 31, 2006, our consolidated capital expenditures averaged \$17.3 million per year, which amounts to approximately 2.5% of consolidated net revenues.

Strong Relationships with Leading Customers and Major Fleets. Because of our comprehensive product offerings, leading Class 8 brand names and innovative product features, we believe we are an important long-term supplier to all of the leading truck manufacturers in North America and also a global supplier to leading heavy equipment customers such as Caterpillar, Oshkosh Truck, Deere & Co., Komatsu and Volvo. In addition, through our sales force and engineering teams, we maintain active relationships with the major truck fleet organizations that are end users of our products such as Yellow Freight, Swift Transportation, Schneider National and Ryder Leasing. As a result of our high-quality, innovative products, well-recognized brand names and customer service, a majority of the largest 100 fleet operators specifically request certain of our products.

Significant Barriers to Entry. We believe we are a leader in providing critical cab assemblies and components to long running platforms. Considerable barriers to entry exist, including significant investment and engineering requirements, stringent technical and manufacturing requirements, high transition costs for OEMs to shift production to new suppliers, just-in-time delivery requirements and strong brand name recognition.

Proven Management Team. Our management team is highly respected within the commercial vehicle market, and our five senior executive officers have a combined average of 28 years of experience in the industry. We believe that our team has substantial depth in critical operational areas and has demonstrated success in reducing costs, integrating business acquisitions and improving processes through cyclical periods.

Strategy

Our primary growth strategies are as follows:

Increase Content, Expand Customer Penetration and Leverage System Opportunities. We believe we are the only integrated commercial vehicle supplier that can offer complete interior cab systems. We are focused on securing additional sales from our existing customer base, and we actively cross-market a diverse portfolio of products to our customers to increase our content on the cabs manufactured by these OEMs. To complement our North American capabilities and enhance our customer relationships, we are working with OEMs as they increase their focus on international markets. We have established operations in Europe and Asia and are aggressively working to secure new business from both existing and new customers with local manufacturing operations and local OEMs. We believe we are well positioned to capitalize on the migration by OEMs in the heavy truck and commercial vehicle sector towards commercial vehicle suppliers that can offer a complete interior system and components.

Leverage Our New Product Development Capabilities. We have made a significant investment in our engineering capabilities and new product development in order to anticipate the evolving demands of our customers and end users. For example, we recently introduced our VEC technology molding capability which has significant advantages over current processes including environmental, superior finish, durability and cost. In addition, we believe that our new All Belts to Seat (ABTS) design should enable us to capture additional market share in the North American bus

market and provide us with opportunities to market this seat on a global basis. We will continue to design and develop new products that add or improve content and increase cab comfort and safety.

Capitalize on Operating Leverage. We continuously seek ways to lower costs, enhance product quality, improve manufacturing efficiencies and increase product throughput and we continue to implement our Lean

Table of Contents

Manufacturing and Total Quality Production Systems (TQPS) programs. We believe our ongoing cost saving initiatives and the establishment of our sourcing relationships in Europe and Asia will enable us to continue to lower our manufacturing costs. As a result, we are well positioned to grow our operating margins and capitalize on any volume increases in the heavy truck sector with minimal additional capital expenditures. With the integration of our acquisitions, our management will be pursuing cost reduction opportunities which include: consolidating supplier relationships to achieve lower costs and better terms, strategic sourcing of products to OEMs from new facility locations, implementing lean manufacturing techniques to achieve operational efficiencies, improving product quality and delivery and providing additional capacity.

Grow Sales to the Aftermarket. While commercial vehicles have a relatively long life, certain components, such as seats, wipers and mirrors, are replaced more frequently. We believe that there are opportunities to leverage our brand recognition to increase our sales to the replacement aftermarket. Since many aftermarket participants are small and locally focused, we plan to leverage our national presence to increase our market share in the fragmented aftermarket. We believe that the continued growth in the aftermarket represents an attractive opportunity to diversify our business due to its relative stability as well as the market penetration opportunity.

Pursue Strategic Acquisitions and Continue to Diversify Sales. We will selectively pursue complementary strategic acquisitions that allow us to leverage the marketing, engineering and manufacturing strengths of our business and expand our sales to new and existing customers. The markets in which we operate are highly fragmented and provide ample consolidation opportunities. Recent acquisitions have enabled us to be a leading supplier worldwide to offer complete cab systems in sequence, integrating interior trim and seats with the cab structure, to provide integrated electronic systems into our cab products and to expand the breadth of our interior systems capabilities. In addition, these acquisitions have allowed us to diversify our revenue base by customer, market or product offering.

Products

We offer OEMs a broad range of products and system solutions for a variety of end market vehicle applications that include local and long-haul commercial truck, bus, construction, agricultural, military, end market industrial, marine, municipal and recreation. Fleets and OEMs are increasing their focus on cabs and their interiors to differentiate products and improve driver comfort and retention. Although a portion of our products are sold directly to OEMs as finished components, we use most of our products to produce systems or subsystems, which are groups of component parts located throughout the vehicle that operate together to provide a specific vehicle function. Systems currently produced by us include cab bodies, sleeper boxes, seating, trim, body panels, storage cabinets, floor covering, mirrors, windshield wipers, headliners, window lifts, door locks, temperature measurement and wire harnesses. We classify our products into five general categories: (1) seats and seating systems, (2) trim systems and components, (3) mirrors, wipers and controls, (4) cab structures, sleeper boxes, body panels and structural components and (5) electronic wire harnesses and panel assemblies.

See Notes 2 and 10 to our consolidated financial statements in Item 8 in this Annual Report on Form 10-K for information on our significant customer revenues and related receivables, as well as revenues by product category and geographical location.

Set forth below is a brief description of our products and their applications:

Seats and Seating Systems. We design, engineer and produce seating systems primarily for heavy trucks in North America and for commercial vehicles used in the construction and agricultural industries through our European operations. For the most part, our seats and seating systems are fully-assembled and ready for installation when they are delivered to the OEM. We offer a wide range of seats that include air suspension seats, static seats, bus seats and rail car seats. As a result of our strong product design and product technology, we are a leader in designing seats with

convenience features and enhanced safety. Seats and seating systems are the most complex and highly specialized products of our five product categories.

Table of Contents

Heavy Truck Seats. We produce seats and seating systems for Heavy-duty (Class 8) trucks in our North American operations. Our heavy truck seating systems are designed to achieve maximum driver comfort by adding a wide range of manual and power features such as lumbar supports, cushion and back bolsters and leg and thigh supports. Our heavy truck seats are highly specialized based on a variety of different seating options offered in OEM product lines. Our seats are built to customer specifications in low volumes and consequently are produced in numerous combinations with a wide range of price points. There are approximately 350 parts in each seat, resulting in over two million possible seat combinations.

We differentiate our seats from our competitors' seats by focusing on three principal goals: driver comfort, driver retention and decreased workers' compensation claims. Drivers of heavy trucks recognize and are often given the opportunity to specify their choice of seat brands, and we strive to develop strong customer loyalty both with the commercial vehicle OEMs and among the drivers. We believe that we have superior technology and can offer a unique seat base that is ergonomically designed, accommodates a range of driver sizes and absorbs shock to maximize driver comfort.

Other Commercial Vehicle Seats. We produce seats and seating systems for commercial vehicles used in the global construction and agricultural, bus, commercial transport and municipal industries. The principal focus of these seating systems is durability. These seats are ergonomically designed for difficult working environments, to provide comfort and control throughout the range of seats and chairs.

Other Seating Products. We also manufacture office seating products. Our office chair was developed as a result of our experience supplying chairs for the heavy truck, agricultural and construction industries and is fully adjustable to maximize comfort at work. Our office chairs are available in a wide variety of colors and fabrics to suit many different office environments, such as emergency services, call centers, receptions, studios, boardrooms and general office.

Trim Systems and Components. We design, engineer and produce trim systems and components for the interior cabs of commercial vehicles. Our interior trim products are designed to provide a comfortable interior for the vehicle occupants as well as a variety of functional and safety features. The wide variety of features that can be selected by the heavy truck customer makes trim systems and components a complex and highly specialized product category. Set forth below is a brief description of our principal trim systems and components:

Trim Products. Our trim products include A-Pillars, B-Pillars, door panels and interior trim panels. Door panels consist of several component parts that are attached to a substrate. Specific components include vinyl or cloth-covered appliques, armrests, map pocket compartments, carpet and sound-reducing insulation. In addition, door panels often incorporate electronic and electrical distribution systems and products, including lock and latch, window glass, window regulators and audio systems as well as wire harnesses for the control of power seats, windows, mirrors and door locks. Our products are attractive, lightweight solutions from a traditional cut and sew approach to a contemporary molded styling theme. The parts can be color matched or top good wrapped to integrate seamlessly with the rest of the interior.

Instrument Panels. We produce and assemble instrument panels that can be integrated with the rest of the interior trim. The instrument panel is a complex system of coverings and foam, plastic and metal parts designed to house various components and act as a safety device for the vehicle occupant.

Body Panels (Headliners/Wall Panels). Headliners consist of a substrate and a finished interior layer made of fabrics and materials. While headliners are an important contributor to interior aesthetics, they also provide insulation from road noise and can serve as carriers for a variety of other components, such as visors, overhead consoles, grab handles, coat hooks, electrical wiring, speakers, lighting and other electronic and electrical products. As the amount of

electronic and electrical content available in vehicles has increased, headliners have emerged as an important carrier of electronic features such as lighting systems.

Storage Systems. Our modular storage units and custom cabinetry are designed to improve comfort and convenience for the driver. These storage systems are designed to be integrated with the interior trim. These units may be easily expanded and customized with features that include refrigerators, sinks and water

Table of Contents

reservoirs. Our storage systems are constructed with durable materials and designed to last the life of the vehicle.

Floor Covering Systems. We have an extensive and comprehensive portfolio of floor covering systems and dash insulators. Carpet flooring systems generally consist of tufted or non-woven carpet with a thermoplastic backcoating which, when heated, allows the carpet to be fitted precisely to the interior or trunk compartment of the vehicle. Additional insulation materials are added to minimize noise, vibration and harshness. Non-carpeted flooring systems, used primarily in commercial and fleet vehicles, offer improved wear and maintenance characteristics. The dash insulator separates the passenger compartment from the engine compartment and prevents engine noise and heat from entering the passenger compartment.

Sleeper Bunks. We offer a wide array of design choices for upper and lower sleeper bunks for heavy trucks. All parts of our sleeper bunks can be integrated to match the rest of the interior trim. Our sleeper bunks arrive at OEMs fully assembled and ready for installation.

Grab Handles and Armrests. Our grab handles and armrests are designed and engineered with specific attention to aesthetics, ergonomics and strength. Our T-Skin[™] product uses a wide range of inserts and substrates for structural integrity. The integral urethane skin offers a soft touch and can be in-mold coated to specific colors.

Bumper Fascias and Fender Covers. Our highly durable, lightweight bumper fascias and fender covers are capable of withstanding repeated impacts that would deform an aluminum or steel bumper. We utilize a production technique that chemically bonds a layer of paint to the part after it has been molded, thereby enabling the part to keep its appearance even after repeated impacts.

Privacy Curtains. We produce privacy curtains for use in sleeper cabs. Our privacy curtains include features such as integrated color matching of both sides of the curtain, choice of cloth or vinyl, full black out features and low-weight.

Mirrors, Wipers and Controls. We design, engineer and produce a wide range of mirrors, wipers and controls used in commercial vehicles. Set forth below is a brief description of our principal products in this category:

Mirrors. We offer a wide range of round, rectangular, motorized and heated mirrors and related hardware, including brackets, braces and side bars. Most of our mirror designs utilize stainless steel pins, fasteners and support braces to ensure durability. We have introduced both road and outside temperature devices that are integrated into the mirror face or the vehicle's dashboard through our RoadWatch[®] family of products. These systems are principally utilized by municipalities throughout North America to monitor surface temperatures and assist them in dispersing chemicals for snow and ice removal.

Windshield Wiper Systems. We offer application-specific windshield wiper systems and individual windshield wiper components for all segments of the commercial vehicle market. Our windshield wiper systems are generally delivered to the OEM fully assembled and ready for installation. A windshield wiper system is typically comprised of an electric motor, linkages, arms, wiper blades, washer reservoirs and related pneumatic or electric pumps. We also supply air-assisted washing systems for headlights and cameras to assist drivers with visibility for safe vehicle operation. These systems utilize window wash fluid and air to create a turbulent liquid/air stream that removes road grime from headlights and cameras. We offer an optional programmable washing system that allows for periodic washing and dry cycles for maximum safety.

Controls. We offer a range of controls and control systems that includes a complete line of window lifts and door locks, mechanic, pneumatic, electrical and electronic HVAC controls and electric switch products. We specialize in air-powered window lifts and door locks, which are highly reliable and cost effective as compared to similar electrical products.

Cab Structures, Sleeper Boxes, Body Panels and Structural Components. We design, engineer and produce complete cab structures, sleeper boxes, body panels and structural components for the commercial

Table of Contents

vehicle and automotive industries in North America. Set forth below is a description of our principal products in this category:

Cab Structures. We design, manufacture and assemble complete cab structures used primarily in heavy trucks for the major commercial vehicle OEMs in North America. Our cab structures, which are manufactured from both steel and aluminum, are delivered to our customers fully assembled and primed for paint. Our cab structures are built to order based upon options selected by the vehicles' end-users and delivered to the OEMs, in line sequence, as these end-users' trucks are manufactured by the OEMs. In addition, we also design, produce and assemble cab structures for certain automotive OEMs.

Sleeper Boxes. We design, manufacture and assemble sleeper boxes primarily for heavy trucks in North America. We manufacture both integrated sleeper boxes that are part of the overall cab structure as well as stand alone assemblies depending on the customer application. Sleeper boxes are typically constructed using aluminum exterior panels in combination with steel structural components delivered to our customers in line sequence after the final seal and E-coat process.

Body Panels and Structural Components. We produce a wide range of both steel and aluminum large exterior body panels and structural components for the internal production of our cab structures and sleeper boxes as well as being sold externally to certain commercial vehicle and automotive OEMs.

Electronic Wire Harnesses and Panel Assemblies. We design, engineer and produce a wide range of electronic wire harnesses and related assemblies as well as panel assemblies used in commercial vehicles and other equipment. Set forth below is a brief description of our principal products in this category.

Electronic Wire Harnesses. We offer a broad range of complex electronic wire harness assemblies that function as the primary current carrying devices used to provide electrical interconnections for gauges, lights, control functions, power circuits and other electronic applications on a commercial vehicle. Our wire harnesses are highly customized to fit specific end-user requirements and often include more than 350 individual circuits and weigh more than 30 pounds. We provide our wire harnesses for a wide variety of commercial vehicles, military vehicles, specialty trucks and other specialty applications, including heavy-industrial equipment.

Panel Assemblies. We assemble large, integrated components such as panel assemblies and cabinets for commercial vehicle OEMs, other heavy equipment manufacturers and medical equipment manufacturers. The panels and cabinets we assemble are installed in key locations on a vehicle or unit of equipment, are integrated with our wire harness assemblies and provide user control over certain operational functions and features.

Manufacturing

A description of the manufacturing processes we utilize for each of our principal product categories is set forth below:

Seats and Seating Systems. Our seating operations utilize a variety of manufacturing techniques whereby fabric is affixed to an underlying seat frame. We also manufacture and assemble the seat frame, which involves complex welding. Generally, we utilize outside suppliers to produce the individual components used to assemble the seat frame.

Trim Systems and Components. Our interior systems process capabilities include injection molding, low-pressure injection molding, urethane molding and foaming processes, compression molding and vacuum forming as well as various trimming and finishing methods.

Mirrors, Wipers and Controls. We manufacture our mirrors, wipers and controls utilizing a variety of manufacturing processes and techniques. Our mirrors, wipers and controls are primarily hand assembled, tested and packaged.

Cab Structures, Sleeper Boxes, Body Panels and Structural Components. We utilize a wide range of manufacturing processes to produce the majority of the steel and aluminum stampings used in our cab structures, sleeper boxes, body panels and structural components and a variety of both robotic and manual welding techniques in the assembly of these products. In addition, both our Norwalk, Ohio and

Table of Contents

Kings Mountain, North Carolina facilities have large capacity, fully automated E-coat paint priming systems allowing us to provide our customers with a paint-ready cab product. Due to their high cost, full body E-coat systems, such as ours, are rarely found outside of the manufacturing operations of the major OEMs. The major large press lines at our Shadyside, Ohio facility provide us with the in-house manufacturing flexibility for both aluminum and steel stampings delivered just-in-time to our cab assembly plants. This plant also provides us with low volume forming and processing techniques including laser trim operations that minimize investment and time to manufacture for low volume applications.

Electronic Wire Harnesses and Panel Assemblies. We utilize several manufacturing techniques to produce the majority of our electronic wire harnesses and panel assemblies. Our processes, both manual and automated, are designed to produce complex, low- to medium-volume wire harnesses and panel assemblies in short time frames. Our wire harnesses and panel assemblies are both electronically and hand tested.

We have a broad array of processes to offer our commercial vehicle OEM customers to enable us to meet their styling and cost requirements. We believe the interior of the vehicle cab is the most significant and appealing aspect to the driver of the vehicle, and consequently each commercial vehicle OEM has unique requirements as to feel, appearance and features.

The end markets for our products are highly specialized and our customers frequently request modified products in low volumes within an expedited delivery timeframe. As a result, we primarily utilize flexible manufacturing cells at the vast majority of our production facilities. Manufacturing cells are clusters of individual manufacturing operations and work stations grouped in a circular configuration, with the operators placed centrally within the configuration. This provides flexibility by allowing efficient changes to the number of operations each operator performs. When compared to the more traditional, less flexible assembly line process, cell manufacturing allows us to maintain our product output consistent with our OEM customers' requirements and reduce the level of inventory.

When an end-user buys a commercial vehicle, the end-user will specify the seat and other features for that vehicle. Because each of our seating systems is unique, our manufacturing facilities have significant complexity which we manage by building in sequence. We build our seating systems as orders are received, and systems are delivered to the customer's rack in the sequence that the vehicles come down the assembly line. We have systems in place that allow us to provide complete customized interior kits in boxes that are delivered in sequence, and we intend to expand upon these systems such that we will be able to provide, in sequence, fully integrated modular systems combining the cab body and interior and seating systems.

In most instances, we keep track of our build sequence by vehicle identification number and components are identified by bar code. Sequencing reduces our cost of production because it eliminates warehousing costs and reduces waste and obsolescence, offsetting any increased labor costs. Several of our manufacturing facilities are strategically located near our customers' assembly plants, which facilitates this process and minimizes shipping costs.

We employ just-in-time manufacturing and system sourcing in our operations to meet customer requirements for faster deliveries and to minimize our need to carry significant inventory levels. We utilize visual material systems to manage inventory levels and, in certain locations, we have inventory delivered as often as two times per day from a nearby facility based on the previous day's order. This eliminates the need to carry excess inventory at our facilities.

Typically, in a strong economy, new vehicle production increases and greater funding is available to be spent on enhancements to the truck interior. As demand goes up, the mix of our products shifts towards more expensive systems, such as sleeper units, with enhanced features and higher quality materials. The shift from low-end units to high-end units amplifies the positive effect a strong economy has on our business. Conversely, when economic conditions and indicators decline and customers shift away from ordering high-end units with enhanced features, our

business is adversely affected from both lower volume and lower pricing. We strive to manage down cycles by running our facilities at capacity while maintaining the capability and flexibility to

Table of Contents

expand. We work with our employees and rely on their involvement to help eliminate problems and re-align our capacity. During a ramp-up of production, we have plans in place to manage increased demand and achieve on-time delivery. Our strategies include alternating between human and machine production and allowing existing employees to try higher skilled positions while hiring new employees for lower skilled positions.

As a means to enhance our operations, we continue to implement TQPS throughout our operations. TQPS is our customized version of Lean Manufacturing and consists of a 32 hour interactive class that is taught exclusively by members of our management team. A significant portion of the labor efficiencies we gained over the past few years is due to the program. TQPS is an analytical process in which we analyze each of our manufacturing cells and identify the most efficient process to improve efficiency and quality. The goal is to achieve total cost management and continuous improvement. Some examples of TQPS-related improvements are: reduced labor to move parts around the facility, clear walking paths in and around manufacturing cells and increased safety. An ongoing goal is to reduce the time employees spend waiting for materials within a facility. In an effort to increase operational efficiency, improve product quality and provide additional capacity, we intend to continue to implement TQPS improvements at each of our manufacturing facilities.

Raw Materials and Suppliers

A description of the principal raw materials we utilize for each of our principal product categories is set forth below:

Seats and Seating Systems. The principal raw materials used in our seat systems include steel, aluminum and foam chemicals, and are generally readily available and obtained from multiple suppliers under various supply agreements. Leather, vinyl, fabric and certain components are also purchased from multiple suppliers under supply agreements. Typically, our supply agreements are for a term of at least one year and are terminable by us for breach or convenience. Some purchased components are obtained from our customers.

Trim Systems and Components. The principal raw materials used in our interior systems processes are resin and chemical products, foam, vinyl and fabric which are formed and assembled into end products. These raw materials are obtained from multiple suppliers, typically under supply agreements which are for a term of at least one year and are terminable by us for breach or convenience.

Mirrors, Wipers and Controls. The principal raw materials used to manufacture our mirrors, wipers and controls are steel, stainless steel, aluminum, glass and rubber, which are generally readily available and obtained from multiple suppliers.

Cab Structures, Sleeper Boxes, Body Panels and Structural Components. The principal raw materials used in our cab structures, sleeper boxes, body panels and structural components are steel and aluminum, the majority of which we purchase in sheets and stamp at our Shadyside, Ohio facility. These raw materials are generally readily available and obtained from several suppliers, typically under purchase orders that are cancellable by us without cause, pursuant to one year supply agreements.

Electronic Wire Harnesses and Panel Assemblies. The principal raw materials used to manufacture our electronic wire harnesses are wire, connectors, terminals, switches, relays and braid fabric. These raw materials are obtained from multiple suppliers and are generally readily available. Many of our customers specify particular wire and connectors and, as such, negotiate pricing of these materials directly with our suppliers. Our panel assembly materials are generally procured directly from the customer.

Our supply agreements generally provide for fixed pricing but do not require us to purchase any specified quantities. We have not experienced any significant shortages of raw materials and normally do not carry inventories of raw

materials or finished products in excess of those reasonably required to meet production and shipping schedules as well as service requirements. We purchase materials such as steel, foam, vinyl and cloth in large quantities on a global basis through our central corporate office, and other materials for which we require lower volumes are purchased directly by our facilities. We purchase steel and copper at market

Table of Contents

prices, which during the last year, have increased significantly. As a result, we are currently being assessed surcharges and price increases on certain of our purchases of steel, copper and petroleum-related products. We continue to work with our customers and suppliers to minimize the impact of such surcharges. We do not believe we are dependent on a single supplier or limited group of suppliers for our raw materials.

Customers and Marketing

We sell our products principally to the commercial vehicle OEM truck market. Approximately 60% of our 2006 revenues and approximately 62% of our 2005 revenues were derived from sales to commercial vehicle truck OEMs, with the remainder of our revenues being generated principally from sales to the construction and aftermarket.

We supply our products primarily to the heavy truck OEM market, construction market, the aftermarket and OEM service segment and other commercial vehicle and specialty markets. The following is a summary of our revenues by end-user market for the three years ended December 31:

	2006	2005	2004
Heavy Truck OEM	60%	62%	56%
Construction	18	15	18
Aftermarket and OEM Service	10	9	15
Bus	2	2	2
Military	3	2	2
Agriculture	1	1	1
Other	6	9	6
Total	100%	100%	100%

The change in revenues by end market in 2006 is primarily related to the increased demand in the North American (Class 8) heavy truck market and the full year impact of the Mayflower Vehicle Systems (Mayflower), Monona Wire Corporation (Monona) and Cabarrus Plastics, Inc. (Cabarrus) acquisitions.

Our principal customers in North America include International, PACCAR, Freightliner, Volvo/Mack and Caterpillar. We believe we are an important long-term supplier to all leading truck manufacturers in North America because of our comprehensive product offerings, leading brand names and product innovation. In our European and Asian operations, our principal customers in the commercial vehicle market include Caterpillar, Komatsu, Hitachi, CNH Global (Case New Holland) and JCB Limited. We also sell our trim products to OEMs in the marine and recreational vehicle industries and seating products to office product manufacturers principally in Europe.

The following is a summary of our significant revenues by OEM customer for the three years ended December 31:

	2006	2005	2004
International	22%	19%	9%
PACCAR	17	17	28
Freightliner	13	16	17
Volvo/Mack	13	14	6

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

Caterpillar	8	7	5
Komatsu	2	2	3
Deere & Co.	2	2	1
Oshkosh Truck	2	2	
Other	21	21	31
Total	100%	100%	100%

Table of Contents

Except as set forth in the above table, no other customer accounted for more than 10% of our revenues for the three years ended December 31, 2006. The change in revenues by significant OEM customers in 2006 is primarily related to the increased demand in the North American (Class 8) heavy truck market and the full year impact of the Mayflower, Monona and Cabarrus acquisitions.

Our European, China and Australian operations collectively contributed approximately 13%, 16% and 28% of our revenues for the years ended December 31, 2006, 2005 and 2004, respectively. The change in revenue by geographic location in 2006 is primarily related to the full year impact of the Mayflower, Monona and Cabarrus acquisitions and the higher North American truck build rates resulting from the new EPA emissions standards effective in 2007.

Our OEM customers generally source business to us pursuant to written contracts, purchase orders or other firm commitments in terms of price, quality, technology and delivery. Awarded business generally covers the supply of all or a portion of a customer's production and service requirements for a particular product program rather than the supply of a specific quantity of products. In general, these contracts, purchase orders and commitments provide that the customer can terminate the contract, purchase order or commitment if we do not meet specified quality, delivery and cost requirements. Such contracts, purchase orders or other firm commitments generally extend for the entire life of a platform, which is typically five to seven years. Although these contracts, purchase orders or other commitments may be terminated at any time by our customers (but not by us), such terminations have been minimal and have not had a material impact on our results of operations. In order to reduce our reliance on any one vehicle model, we produce products for a broad cross-section of both new and more established models.

Our contracts with our major OEM customers generally provide for an annual productivity cost reduction. These reductions are calculated on an annual basis as a percentage of the previous year's purchases by each customer. The reduction is achieved through engineering changes, material cost reductions, logistics savings, reductions in packaging cost and labor efficiencies. Historically, most of these cost reductions have been offset by both internal reductions and through the assistance of our supply base, although no assurances can be given that we will be able to achieve such reductions in the future. If the annual reduction targets are not achieved, the difference is recovered through price reductions. Our cost structure is comprised of a high percentage of variable costs that provides us with additional flexibility during economic cycles.

Our sales and marketing efforts with respect to our OEM sales are designed to create overall awareness of our engineering, design and manufacturing capabilities and to enable us to be selected to supply products for new and redesigned models by our OEM customers. Our sales and marketing staff works closely with our design and engineering personnel to prepare the materials used for bidding on new business as well as to provide a consistent interface between us and our key customers. We currently have sales and marketing personnel located in every major region in which we operate. From time to time, we also participate in industry trade shows and advertise in industry publications. One of our ongoing initiatives is to negotiate and enter into long term supply agreements with our existing customers that allow us to leverage all of our business and provide a complete cab system to our commercial vehicle OEM customers.

Our principal customers for our aftermarket sales include OEM dealers and independent wholesale distributors. Our sales and marketing efforts for our aftermarket sales are focused on support of these two distribution chains, as well as direct contact with all major fleets.

Backlog

We do not generally obtain long-term, firm purchase orders from our customers. Rather, our customers typically place annual blanket purchase orders, but these orders do not obligate them to purchase any specific or minimum amount of products from us until a release is issued by the customer under the blanket purchase order. Releases are typically

placed within 30 to 90 days of required delivery and may be canceled at any time, in which case the customer would be liable for work in process and finished goods. We do not believe that our backlog of expected product sales covered by firm purchase orders is a meaningful indicator of future sales since orders may be rescheduled or canceled.

Table of Contents

Competition

Within each of our principal product categories, we compete with a variety of independent suppliers and with OEMs in-house operations, primarily on the basis of price, breadth of product offerings, product quality, technical expertise, development capability, product delivery and product service. We believe we are the only supplier in the North American commercial vehicle market that can offer complete cab systems in sequence integrating interior systems (including seats, interior trim and flooring systems) and wire harnesses with the cab structure. A summary of our estimated market position and primary independent competitors is set forth below:

Seats and Seating Systems. We believe that we have the number one market position in North America with respect to our seating operations. We also believe that we have the number one market position in supplying seats and seating systems to commercial vehicles used in the construction industry on a worldwide basis. Our primary independent competitors in the North American commercial vehicle market include Sears Manufacturing Company, Accuride Corporation, Grammer AG and Seats, Inc., and our primary competitors in the European commercial vehicle market include Grammar and Isringhausen.

Trim Systems and Components. We believe that we have the number one market position in North America with respect to our interior trim products. We face competition from a number of different competitors with respect to each of our trim system products and components. Overall, our primary independent competitors are ConMet, Fabriform, TPI, Findlay, Superior, Trim Masters, Inc., Blachford Ltd., Gage Industries, Inc. and Mitras.

Mirrors, Wipers and Controls. We believe that we have the number two market position in North America with respect to our windshield wiper systems and mirrors. We face competition from a number of different competitors with respect to each of our principal products in this category. Our principal competitors for mirrors are Hadley, Lang-Mekra and Trucklite, and our principal competitors for windshield wiper systems are Johnson Electric, Trico and Valeo.

Cab Structures, Sleeper Boxes, Body Panels and Structural Components. We believe we are a leading non-captive supplier in North America with respect to our cab structural components, cab structures, sleeper boxes and body panels. Our principal competitors are Magna, Ogihara Corporation, Spartanburg Stamping, Union Stamping, Able Body and Defiance Metal Products.

Electronic Wire Harnesses and Panel Assemblies. We believe that we are a leading producer of low- to medium-volume complex, electronic wire harnesses and related assemblies used in the global heavy equipment, commercial vehicle, heavy-truck and specialty and military vehicle markets. Our principal competitors for electronic wire harnesses include large diversified suppliers such as AFL, Delphi, Leoni, Stoneridge, Yazaki and smaller independent companies such as Fargo Assembly and Unlimited Services.

Research and Development, Design and Engineering

Our objective is to be a leader in offering superior quality and technologically advanced products to our customers at competitive prices. We engage in ongoing engineering and research and development activities to improve the reliability, performance and cost-effectiveness of our existing products and to design and develop new products for existing and new applications.

We work with our customers' engineering and development teams at the beginning of the design process for new components and assemblies, or the redesign process for existing components and assemblies, in order to maximize

production efficiency and quality. These processes may take place from one to three years prior to the commencement of production. On average, the development time for a new component takes between 12 and 24 months during the design phase, while the re-engineering of an existing part may take between one and six months. Early design involvement can result in a product that meets or exceeds the customer's design and performance requirements and is more efficient to manufacture. In addition, our extensive involvement

Table of Contents

enhances our position for bidding on such business. We work aggressively to ensure that our quality and delivery metrics distinguish us from our competitors.

We focus on bringing our customers integrated products that have superior content, comfort and safety. Consistent with our value-added engineering focus, we place a large emphasis on the relationships with the engineering departments of our customers. These relationships not only help us to identify new business opportunities but also enable us to compete based on the quality of our products and services, rather than exclusively on price. In addition, we have also provided engineering solutions for certain specialty vehicles including, most recently, the body development for the prestigious Ford GT sports car.

We are currently involved in the design stage of several products for our customers and expect to begin production of these products in the years 2007 to 2011.

Intellectual Property

We consider ourselves to be a leader in both product and process technology, and, therefore, protection of intellectual property is important to our business. Our principal intellectual property consists of product and process technology, a limited number of United States and foreign patents, trade secrets, trademarks and copyrights. Although our intellectual property is important to our business operations and in the aggregate constitutes a valuable asset, we do not believe that any single patent, trade secret, trademark or copyright, or group of patents, trade secrets, trademarks or copyrights is critical to the success of our business. Our policy is to seek statutory protection for all significant intellectual property embodied in patents, trademarks and copyrights. From time to time, we grant licenses under our patents and technology and receive licenses under patents and technology of others.

We market our products under well-known brand names that include KAB Seating, National Seating, Trim Systems and Sprague Controls, Sprague Devices®, Prutsman™, Moto Mirror®, RoadWatch®, Mayflower® and C.I.E.B. We believe that our brands are valuable and are increasing in value with the growth of our business, but that our business is not dependent on such brands. We own U.S. federal registrations for several of our brands.

Seasonality

OEMs' production requirements are generally higher in the first three quarters of the year as compared to the fourth quarter. We believe this seasonality is due, in part, to demand for new vehicles softening during the holiday season and as a result of the winter months in North America and Europe. Also, the major North American OEM manufacturers generally close their production facilities at various times during the holiday season in the last two months of the year.

Employees

As of December 31, 2006, we had approximately 5,790 permanent employees, of which approximately 15.0% were salaried and the remainder were hourly. Approximately 52.3% of the hourly employees in our North American operations were unionized, and approximately 46.0% of our hourly employees at our United Kingdom operations were represented by shop steward committees. Employees at our Seattle, Washington facility elected to be represented by the International Association of Machinists and Aerospace Workers, certified by a representative of the National Labor Relations Board effective May 8, 2006. We have not experienced any material strikes, lockouts or work stoppages during 2006 and consider our relationship with our employees to be satisfactory. On an as needed basis during peak periods, contract and temporary employees are utilized.

As a result of the C.I.E.B. acquisition, our total number of employees at December 31, 2006 increased by approximately 225, of which approximately 27.6% were salaried and the remainder were hourly. None of these employees added with the C.I.E.B. acquisition were unionized.

Table of Contents

Available Information

We maintain a website on the Internet at www.cvgrp.com. We make available free of charge through our website, by way of a hyperlink to a third-party Securities Exchange Commission (SEC) filing website, our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports electronically filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934. Such information is available as soon as such reports are filed with the SEC. Additionally, our Code of Ethics may be accessed within the Investor Relations section of our website. Information found on our website is not part of this Annual Report on Form 10-K or any other report filed with the SEC.

Item 1A. *Risk Factors*

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

If any of these certain risks and uncertainties were to actually occur, our business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline and you may lose all or part of your investment. These risks and uncertainties include, but are not limited to, the following:

Volatility and cyclical in the commercial vehicle market could adversely affect us.

Our profitability depends in part on the varying conditions in the commercial vehicle market. This market is subject to considerable volatility as it moves in response to cycles in the overall business environment and is particularly sensitive to the industrial sector, which generates a significant portion of the freight tonnage hauled. Sales of commercial vehicles have historically been cyclical, with demand affected by such economic factors as industrial production, construction levels, demand for consumer durable goods, interest rates and fuel costs. For example, North American commercial vehicle sales and production experienced a downturn from 2000 to 2003 due to a confluence of events that included a weak economy, an oversupply of new and used vehicle inventory and lower spending on commercial vehicles and equipment. This downturn had a material adverse effect on our business during the same period. We cannot provide any assurance as to the length or ultimate level of the recovery of this decline. We expect that unit production of class 8 heavy trucks will decline in 2007 from 2006 levels.

Our profitability could be adversely affected if the actual production volumes for our customers' vehicles is significantly lower than expected.

We incur costs and make capital expenditures based upon estimates of production volumes for our customers' vehicles. While we attempt to establish a price of our components and systems that will compensate for variances in production volumes, if the actual production of these vehicles is significantly less than anticipated, our gross margin on these products would be adversely affected. We enter into agreements with our customers at the beginning of a given platform's life to supply products for that platform. Once we enter into such agreements, fulfillment of our purchasing requirements is our obligation for the entire production life of the platform, with terms ranging from five to seven years, and we have no provisions to terminate such contracts. We may become committed to supply products to our customers at selling prices that are not sufficient to cover the direct cost to produce such products. We cannot predict our customers' demands for our products either in the aggregate or for particular reporting periods. If customers representing a significant amount of our revenues were to purchase materially lower volumes than expected, it would have a material adverse effect on our business, financial condition and results of operations.

Our major OEM customers may exert significant influence over us.

The commercial vehicle component supply industry has traditionally been highly fragmented and serves a limited number of large OEMs. As a result, OEMs have historically had a significant amount of leverage over their outside suppliers. Our contracts with major OEM customers generally provide for an annual productivity

Table of Contents

cost reduction. Historically, cost reductions through product design changes, increased productivity and similar programs with our suppliers have generally offset these customer-imposed productivity cost reduction requirements. However, if we are unable to generate sufficient production cost savings in the future to offset price reductions, our gross margin and profitability would be adversely affected. In addition, changes in OEMs' purchasing policies or payment practices could have an adverse effect on our business.

We may be unable to successfully implement our business strategy and, as a result, our businesses and financial position and results of operations could be materially and adversely affected.

Our ability to achieve our business and financial objectives is subject to a variety of factors, many of which are beyond our control. For example, we may not be successful in implementing our strategy if unforeseen factors emerge that diminish the expected growth in the heavy truck market, or we experience increased pressure on our margins. In addition, we may not succeed in integrating strategic acquisitions and our pursuit of additional strategic acquisitions may lead to resource constraints which could have a negative impact on our ability to meet customers' demands, thereby adversely affecting our relationships with those customers. As a result of such business or competitive factors, we may decide to alter or discontinue aspects of our business strategy and may adopt alternative or additional strategies. Any failure to successfully implement our business strategy could adversely affect our business, results of operations and growth potential.

Developing product innovations has been and will continue to be a significant part of our business strategy. We believe that it is important that we continue to meet our customers' demands for product innovation, improvement and enhancement, including the continued development of new-generation products, design improvements and innovations that improve the quality and efficiency of our products. However, such development will require us to continue to invest in research and development and sales and marketing. In the future, we may not have sufficient resources to make such necessary investments, or we may be unable to make the technological advances necessary to carry out product innovations sufficient to meet our customers' demands. We are also subject to the risks generally associated with product development, including lack of market acceptance, delays in product development and failure of products to operate properly. We may, as a result of these factors, be unable to meaningfully focus on product innovation as a strategy and may therefore be unable to meet our customers' demands for product innovation.

If we are unable to obtain raw materials at favorable prices, it could adversely impact our results of operations and financial condition.

Numerous raw materials are used in the manufacture of our products. Steel, aluminum, resin, foam and fabrics account for the most significant components of our raw material costs. Although we currently maintain alternative sources for raw materials, our business is subject to the risk of price increases and periodic delays in delivery. For example, we are currently being assessed surcharges as well as price increases on certain purchases of steel, copper and other raw materials. If we are unable to purchase certain raw materials required for our operations for a significant period of time, our operations would be disrupted, and our results of operations would be adversely affected. In addition, if we are unable to pass on the increased costs of raw materials to our customers, this could adversely affect our results of operations and financial condition. Our operating results for the years ended December 31, 2006 and 2005 were adversely affected by the costs on certain of our purchases of steel, petroleum and copper costs.

We may be unable to complete additional strategic acquisitions or we may encounter unforeseen difficulties in integrating acquisitions.

The commercial vehicle component supply industry is beginning to undergo consolidation as OEMs seek to reduce costs and their supplier base. We intend to actively pursue additional acquisition targets that will allow us to continue to expand into new geographic markets, add new customers, provide new product, manufacturing and service

capabilities and increase penetration with existing customers. However, we expect to face competition for acquisition candidates, which may limit the number of our acquisition opportunities and may lead to higher acquisition prices. Moreover, acquisitions of businesses may require additional debt

Table of Contents

financing, resulting in additional leverage. The covenants of our senior credit facility may further limit our ability to complete acquisitions. There can be no assurance that we will find attractive acquisition candidates or successfully integrate acquired businesses into our existing business. If we fail to complete additional acquisitions, we may have difficulty competing with more thoroughly integrated competitors and our results of operations could be adversely affected. To the extent that we do complete additional acquisitions, if the expected synergies from such acquisitions do not materialize or we fail to successfully integrate such new businesses into our existing businesses, our results of operations could also be adversely affected.

We may be adversely impacted by labor strikes, work stoppages and other matters.

The hourly workforces at our Norwalk and Shadyside, Ohio and Seattle, Washington facilities and Mexico operations are unionized. The unionized employees at these facilities represented approximately 52.3% of our total hourly employees in our North American operations as of December 31, 2006. Employees at our Seattle, Washington facility elected to be represented by the International Association of Machinists and Aerospace Workers, certified by a representative of the National Labor Relations Board effective May 8, 2006. We have experienced limited unionization efforts at certain of our other North American facilities from time to time. In addition, a significant portion of our employees at our United Kingdom operations are represented by a shop steward committee, which may seek to limit our flexibility in our relationship with these employees. We cannot assure you that we will not encounter future unionization efforts or other types of conflicts with labor unions or our employees.

Many of our OEM customers and their suppliers also have unionized work forces. Work stoppages or slow-downs experienced by OEMs or their other suppliers could result in slow-downs or closures of assembly plants where our products are included in assembled commercial vehicles. In the event that one or more of our customers or their suppliers experience a material work stoppage, such work stoppage could have a material adverse effect on our business.

Our businesses are subject to statutory environmental and safety regulations in multiple jurisdictions, and the impact of any changes in regulation and/or the violation of any applicable laws and regulations by our businesses could result in a material and adverse affect on our financial condition and results of operations.

We are subject to foreign, federal, state, and local laws and regulations governing the protection of the environment and occupational health and safety, including laws regulating air emissions, wastewater discharges, the generation, storage, handling, use and transportation of hazardous materials; the emission and discharge of hazardous materials into the soil, ground or air; and the health and safety of our colleagues. We are also required to obtain permits from governmental authorities for certain of our operations. We cannot assure you that we are, or have been, in complete compliance with such environment and safety laws, regulations and permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators. In some instances, such a fine or sanction could have a material adverse effect on us. The environmental laws to which we are subject have become more stringent over time, and we could incur material expenses in the future to comply with environmental laws. We are also subject to laws imposing liability for the cleanup of contaminated property. Under these laws, we could be held liable for costs and damages relating to contamination at our past or present facilities and at third party sites to which we sent waste containing hazardous substances. The amount of such liability could be material.

Several of our facilities are either certified as, or are in the process of being certified as ISO 9001, 14000, 14001 or TS16949 (the international environmental management standard) compliant or are developing similar environmental management systems. Although we have made, and will continue to make, capital expenditures to implement such environmental programs and comply with environmental requirements, we do not expect to make material capital expenditures for environmental controls in 2007 or 2008. The environmental laws to which we are subject have become more stringent over time, however, and we could incur material costs or expenses in the future to comply with

environmental laws. Certain of our operations generate hazardous substances and wastes. If a release of such substances or wastes occurs at or from our properties, or at or from any offsite disposal location to which substances or wastes from our current or former operations were taken,

Table of Contents

or if contamination is discovered at any of our current or former properties, we may be held liable for the costs of cleanup and for any other response by governmental authorities or private parties, together with any associated fines, penalties or damages. In most jurisdictions, this liability would arise whether or not we had complied with environmental laws governing the handling of hazardous substances or wastes.

We may be adversely affected by the impact of government regulations on our OEM customers.

Although the products we manufacture and supply to commercial vehicle OEMs are not subject to significant government regulation, our business is indirectly impacted by the extensive governmental regulation applicable to commercial vehicle OEMs. These regulations primarily relate to emissions and noise standards imposed by the Environmental Protection Agency, state regulatory agencies, such as the California Air Resources Board (CARB), and other regulatory agencies around the world. Commercial vehicle OEMs are also subject to the National Traffic and Motor Vehicle Safety Act and Federal Motor Vehicle Safety Standards promulgated by the National Highway Traffic Safety Administration. Changes in emission standards and other proposed governmental regulations could impact the demand for commercial vehicles and, as a result, indirectly impact our operations. For example, new emission standards governing Heavy-duty (Class 8) diesel engines that went into effect in the United States on October 1, 2002 resulted in significant purchases of new trucks by fleet operators prior to such date and reduced short term demand for such trucks in periods immediately following such date. New emission standards for truck engines used in Class 5 to 8 trucks imposed by the EPA and CARB are scheduled to become effective in 2007. To the extent that current or future governmental regulation has a negative impact on the demand for commercial vehicles, our business, financial condition or results of operations could be adversely affected.

Our customer base is concentrated and the loss of business from a major customer or the discontinuation of particular commercial vehicle platforms could reduce our revenues.

Sales to International, PACCAR, Freightliner and Volvo/Mack accounted for approximately 22%, 17%, 13% and 13%, respectively, of our revenue in 2006, and our ten largest customers accounted for approximately 82% of our revenue in 2006. The loss of any of our largest customers or the loss of significant business from any of these customers could have a material adverse effect on our business, financial condition and results of operations. Even though we may be selected as the supplier of a product by an OEM for a particular vehicle, our OEM customers issue blanket purchase orders which generally provide for the supply of that customer's annual requirements for that vehicle, rather than for a specific number of our products. If the OEM's requirements are less than estimated, the number of products we sell to that OEM will be accordingly reduced. In addition, the OEM may terminate its purchase orders with us at any time.

Currency exchange rate fluctuations could have an adverse effect on our revenues and results of operations.

We have operations in Europe, Australia, Mexico and China, and sales derived from these operations were approximately 13% of our revenues in 2006. As a result, we generate a significant portion of our sales and incur a significant portion of our expenses in currencies other than the U.S. dollar. To the extent that we are unable to match revenues received in foreign currencies with costs paid in the same currency, exchange rate fluctuations in any such currency could have an adverse effect on our financial results. During times of a strengthening U.S. dollar, our reported revenues and earnings from our international operations will be reduced because the applicable local currencies will be translated into fewer U.S. dollars. The converse is also true and the strengthening of the European currencies in relation to the U.S. dollar can have a positive impact on our foreign revenues and earnings.

We are subject to certain risks associated with our foreign operations.

We have operations in Europe, Australia, Mexico and China. Our international operations accounted for approximately 13%, 16% and 28% of our total revenues for the years ended December 31, 2006, 2005 and

Table of Contents

2004, respectively. There are certain risks inherent in our international business activities including, but not limited to:

the difficulty of enforcing agreements and collecting receivables through certain foreign legal systems;

foreign customers, who may have longer payment cycles than customers in the United States;

tax rates in certain foreign countries, which may exceed those in the United States and foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls or other restrictions, including restrictions on repatriation;

intellectual property protection difficulties;

general economic and political conditions in countries where we operate, which may have an adverse effect on our operations in those countries;

the difficulties associated with managing a large organization spread throughout various countries; and

complications in complying with a variety of foreign laws and regulations, which may conflict with United States law.

As we continue to expand our business globally, our success will be dependent, in part, on our ability to anticipate and effectively manage these and other risks associated with foreign operations. We cannot assure you that these and other factors will not have a material adverse effect on our international operations or our business, financial condition or results of operations as a whole.

Our inability to compete effectively in the highly competitive commercial vehicle component supply industry could result in lower prices for our products, reduced gross margins and loss of market share, which could have an adverse effect on our revenues and operating results.

The commercial vehicle component supply industry is highly competitive. Our products primarily compete on the basis of price, breadth of product offerings, product quality, technical expertise and development capability, product delivery and product service. Increased competition may lead to price reductions resulting in reduced gross margins and loss of market share.

Current and future competitors may make strategic acquisitions or establish cooperative relationships among themselves or with others, foresee the course of market development more accurately than we do, develop products that are superior to our products, produce similar products at lower cost than we can or adapt more quickly to new technologies, industry or customer requirements. By doing so, they may enhance their ability to meet the needs of our customers or potential future customers. These developments could limit our ability to obtain revenues from new customers and to maintain existing revenues from our customer base. We may not be able to compete successfully against current and future competitors and the failure to do so may have a material adverse effect on our business, operating results and financial condition.

Our products may be rendered less attractive by changes in competitive technologies.

Changes in competitive technologies may render certain of our products less attractive. Our ability to anticipate changes in technology and to successfully develop and introduce new and enhanced products on a timely basis will be a significant factor in our ability to remain competitive. There can be no assurance that we will be able to achieve the technological advances that may be necessary for us to remain competitive. We are also subject to the risks generally

associated with new product introductions and applications, including lack of market acceptance, delays in product development and failure to operate properly.

If we are unable to recruit or retain skilled personnel, or if we lose the services of any of our key management personnel, our business, operating results and financial condition could be materially adversely affected.

Our future success depends on our continuing ability to attract, train, integrate and retain highly skilled personnel. Competition for these employees is intense. We may not be able to retain our current key

Table of Contents

employees or attract, train, integrate or retain other highly skilled personnel in the future. Our future success also depends in large part on the continued service of key management personnel, particularly our key executive officers. If we lose the services of one or more of these individuals or other key personnel, or if we are unable to attract, train, integrate and retain the highly skilled personnel we need, our business, operating results and financial condition could be materially adversely affected.

We have only limited protection for our proprietary rights in our intellectual property, which makes it difficult to prevent third parties from infringing upon our rights.

Our success depends to a certain degree on our ability to protect our intellectual property and to operate without infringing on the proprietary rights of third parties. While we have been issued patents and have registered trademarks with respect to many of our products, our competitors could independently develop similar or superior products or technologies, duplicate our designs, trademarks, processes or other intellectual property or design around any processes or designs on which we have or may obtain patents or trademark protection. In addition, it is possible that third parties may have or acquire licenses for other technology or designs that we may use or desire to use, so that we may need to acquire licenses to, or to contest the validity of, such patents or trademarks of third parties. Such licenses may not be made available to us on acceptable terms, if at all, and we may not prevail in contesting the validity of third party rights.

In addition to patent and trademark protection, we also protect trade secrets, know-how and other confidential information against unauthorized use by others or disclosure by persons who have access to them, such as our employees, through contractual arrangements. These arrangements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, our revenues could be materially adversely affected.

Our products may be susceptible to claims by third parties that our products infringe upon their proprietary rights.

As the number of products in our target markets increases and the functionality of these products further overlaps, we may become increasingly subject to claims by a third party that our technology infringes such party's proprietary rights. Regardless of their merit, any such claims could be time consuming and expensive to defend, may divert management's attention and resources, could cause product shipment delays and could require us to enter into costly royalty or licensing agreements. If successful, a claim of infringement against us and our inability to license the infringed or similar technology and/or product could have a material adverse effect on our business, operating results and financial condition.

The market price of our common stock may be extremely volatile.

Our stock price has fluctuated since our initial public offering in August 2004. The trading price of our common stock is subject to significant fluctuations in response to variations in quarterly operating results, the gain or loss of significant orders, changes in earnings estimates by analysts, announcements of technological innovations or new products by us or our competitors, general conditions in the commercial vehicle industry and other events or factors. In addition, the equity markets in general have experienced extreme price and volume fluctuations which have affected the market price for many companies in industries similar or related to that of ours and which have been unrelated to the operating performance of these companies. These market fluctuations may have affected and may continue to affect the market price of our common stock.

Our operating results, revenues and expenses may fluctuate significantly from quarter-to-quarter or year-to-year, which could have an adverse effect on the market price of our stock.

For a number of reasons, including but not limited to, those described below, our operating results, revenues and expenses have in the past varied and may in the future vary significantly from quarter-to-quarter or year-to-year. These fluctuations could have an adverse effect on the market price of our common stock.

Table of Contents

Fluctuations in Quarterly or Annual Operating Results. Our quarterly operating results may fluctuate as a result of:

the size, timing, volume and execution of significant orders and shipments;

changes in the terms of our sales contracts;

the timing of new product announcements;

changes in our pricing policies or those of our competitors;

market acceptance of new and enhanced products;

the length of our sales cycles;

changes in our operating expenses;

personnel changes;

new business acquisitions;

changes in foreign currency exchange rates; and

seasonal factors.

Limited Ability to Adjust Expenses. We base our operating expense budgets primarily on expected revenue trends. Many of our expenses are relatively fixed and as such we may be unable to adjust expenses quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in revenue may cause significant variation in operating results in any quarter.

Based on the above factors, we believe that quarter-to-quarter or year-to-year comparisons of our operating results may not be a good indication of our future performance. It is possible that in one or more future quarters or years, our operating results may be below the expectations of public market analysts and investors. In that event, the trading price of our common stock may be adversely affected.

We may be subject to product liability claims, recalls or warranty claims, which could be expensive, damage our reputation and result in a diversion of management resources.

As a supplier of products and systems to commercial vehicle OEMs, we face an inherent business risk of exposure to product liability claims in the event that our products, or the equipment into which our products are incorporated, malfunction and result in personal injury or death. Product liability claims could result in significant losses as a result of expenses incurred in defending claims or the award of damages.

In addition, we may be required to participate in recalls involving systems or components sold by us if any prove to be defective, or we may voluntarily initiate a recall or make payments related to such claims as a result of various industry or business practices or the need to maintain good customer relationships. Such a recall would result in a diversion of management resources. While we do maintain product liability insurance, we cannot assure you that it will be sufficient to cover all product liability claims, that such claims will not exceed our insurance coverage limits or that such insurance will continue to be available on commercially reasonable terms, if at all. Any product liability

claim brought against us could have a material adverse effect on our results of operations.

Moreover, we warrant the workmanship and materials of many of our products under limited warranties and have entered into warranty agreements with certain OEMs that warranty certain of our products in the hands of these OEMs customers, in some cases for as long as six years. Accordingly, we are subject to risk of warranty claims in the event that our products do not conform to our customers' specifications or, in some cases in the event that our products do not conform with their customers' expectations. It is possible for warranty claims to result in costly product recalls, significant repair costs and damage to our reputation, all of which would adversely affect our results of operations.

Table of Contents

Equipment failures, delays in deliveries or catastrophic loss at any of our facilities could lead to production or service curtailments or shutdowns.

We manufacture or assemble our products at facilities in North America, Europe, China and Australia. An interruption in production or service capabilities at any of these facilities as a result of equipment failure or other reasons could result in our inability to produce our products, which could reduce our net revenues and earnings for the affected period. In the event of a stoppage in production at any of our facilities, even if only temporary, or if we experience delays as a result of events that are beyond our control, delivery times to our customers could be severely affected. Any significant delay in deliveries to our customers could lead to increased returns or cancellations and cause us to lose future revenues. Our facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. We may experience plant shutdowns or periods of reduced production as a result of equipment failure, delays in deliveries or catastrophic loss, which could have a material adverse effect on our business, results of operations or financial condition.

Our indebtedness could adversely affect our financial condition and make it more difficult to implement our business strategy.

The aggregate amount of our outstanding indebtedness was \$162.1 million as of December 31, 2006. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness, including the notes. Our substantial indebtedness, combined with our lease and other financial obligations and contractual commitments could have other important consequences to you as a holder of the notes. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, including the notes, and any failure to comply with the obligations of any of our debt instruments, including financial and other restrictive covenants, could result in an event of default under the indenture governing the notes and the agreements governing such other indebtedness;

- make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions and other general corporate purposes;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- place us at a competitive disadvantage compared to our competitors that have less debt; and

- limit our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes.

Any of the above listed factors could materially adversely affect our business, financial condition and results of operations.

The terms of our senior credit facility and the indenture governing the 8.0% senior notes due 2013 may restrict our current and future operations, particularly our ability to respond to changes in our business or to

take certain actions.

Our senior credit facility and the indenture governing the 8.0% senior notes due 2013 contain covenants that, among other things, restricts our ability to:

incur liens;

incur or assume additional debt or guarantees or issue preferred stock;

pay dividends, or make redemptions and repurchases, with respect to capital stock;

Table of Contents

prepay, or make redemptions and repurchases of, subordinated debt;

make loans and investments;

make capital expenditures;

engage in mergers, acquisitions, asset sales, sale/leaseback transactions and transactions with affiliates;

change the business conducted by us or our subsidiaries; and

amend the terms of subordinated debt.

Also, our senior credit facility requires us to maintain compliance with specified financial ratios and satisfy certain financial condition tests (some of which become more restrictive over time). If we do not comply with such covenants or satisfy such ratios, our lenders could declare a default under the senior credit facility, and our indebtedness could be declared immediately due and payable. Our ability to comply with the provisions of the senior credit facility may be affected by changes in economic or business conditions beyond our control. In addition, these covenants could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise.

Our inability to successfully execute any planned cost reductions, restructuring initiatives or the achievement of operational efficiencies could result in the incurrence of additional costs and expenses that could adversely affect our reported earnings.

As part of our business strategy, we continuously seek ways to lower costs, improve manufacturing efficiencies and increase productivity and intend to apply this strategy to those operations acquired through acquisitions. In this regard, we may incur restructuring charges in the future and such charges could adversely affect our operating results and financial condition.

Our earnings may be adversely affected by changes to the carrying values of our tangible and intangible assets, including goodwill, as a result of recording any impairment charges deemed necessary in conjunction with the execution of our periodic asset impairment assessment and testing policy.

At December 31, 2006, we had goodwill of approximately \$134.8 million and other intangible assets of approximately \$84.2 million. We may identify additional anticipated or unanticipated impairments in any of our tangible or intangible asset categories in future testing periods and be required to record charges against earnings in the period in which the impairment is identified. Specific indicators that give rise to asset impairment may include, but are not limited to, changes in the general economic environment, changes or downturns in our industry as a whole, termination of any of our customer contracts, restructuring efforts and general workforce reductions among other factors.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate office is located in New Albany, Ohio. Several of our manufacturing facilities are located near our OEM customers to reduce our distribution costs, reduce risk of interruptions in our delivery schedule,

Table of Contents

further improve customer service and provide our customers with reliable delivery of products and services. The following table provides selected information regarding our principal facilities:

Location	Products Produced	Approximate Square Footage	Ownership Interest
Norwalk, Ohio (3 facilities)	Cab, Sleeper Box, Assembly and Ford GT Service	360,000 sq. ft.	Owned/Leased
Vonore, Tennessee (2 facilities)	Seats, Mirrors	245,000 sq. ft.	Owned/Leased
Shadyside, Ohio	Stamping of Steel and Aluminum Structural and Exposed Stamped Components	200,000 sq. ft.	Owned
Northampton, England	Seats (office and commercial vehicle)	210,000 sq. ft.	Leased
Kings Mountain, North Carolina	Cab, Sleeper Box, Assembly	180,000 sq. ft.	Owned
Statesville, North Carolina (2 facilities)	Interior Trim, Seats	163,000 sq. ft.	Leased
Seattle, Washington	RIM Process, Interior Trim, Seats	156,000 sq. ft.	Owned
Michigan City, Indiana	Wipers, Switches	87,000 sq. ft.	Leased
Canby, Oregon	Road watch/Electronics Assembly	4,000 sq. ft.	Leased
Dublin, Virginia	Interior Trim, Seats	79,000 sq. ft.	Owned
Vancouver, Washington (2 facilities)	Interior Trim	63,000 sq. ft.	Leased
Chillicothe, Ohio	Interior Trim, Dash Assembly	62,000 sq. ft.	Owned
Shanghai, China (2 facilities)	Seats	74,000 sq. ft.	Leased
Bellaire, Ohio	Warehouse Facility	41,000 sq. ft.	Leased
Tacoma, Washington	Injection Molding	25,000 sq. ft.	Leased
Plain City, Ohio	R&D, Lab	8,000 sq. ft.	Leased
Seneffs (Brussels), Belgium	Seat Assembly	35,000 sq. ft.	Leased
Brisbane (HQ), Australia	Seat Assembly	50,000 sq. ft.	Leased
Dublin, Ohio	Administration	14,000 sq. ft.	Leased
Agua Prieta, Mexico (4 facilities)	Wire Harness Assembly	150,000 sq. ft.	Leased
Douglas, Arizona (2 facilities)	Warehouse Facility	21,000 sq. ft.	Leased
Monona, Iowa	Wire Harness/Panel Assembly	62,000 sq. ft.	Owned
Edgewood, Iowa	Wire Harness/Assembly	18,000 sq. ft.	Leased
Redgranite, Wisconsin	Wire Harness Engineering Support	2,000 sq. ft.	Leased
Dekalb, Illinois	Cab Assembly	60,000 sq. ft.	Leased
Gahanna, Ohio	R&D, Lab	29,000 sq. ft.	Leased
Concord, North Carolina (2 facilities)	Injection Molding	150,000 sq. ft.	Leased
New Albany, Ohio	Corporate Headquarters	16,000 sq. ft.	Leased
Brandys nad Orlici, Czech Republic	Seat Assembly	52,000 sq. ft.	Owned

We also have leased sales and service offices located in Australia, France and Czech Republic.

Utilization of our facilities varies with North American and European commercial vehicle production and general economic conditions in such regions. All locations are principally used for manufacturing or assembly, except for our

New Albany and Dublin, Ohio facilities which are corporate and administrative offices, our

Table of Contents

Plain City and Gahanna, Ohio, Wixom, Michigan and Redgranite, Wisconsin research and development and engineering facilities and our leased warehouse facilities in Douglas, Arizona and Bellaire and Norwalk, Ohio.

Item 3. *Legal Proceedings*

We are subject to various legal proceedings and claims arising in the ordinary course of business, including, but not limited to, customer and supplier disputes and product liability claims arising out of the conduct of our businesses and examinations by the Internal Revenue Service (IRS). The IRS routinely examines our federal income tax returns and, in the course of those examinations, the IRS may propose adjustments to our federal income tax liability reported on such returns. It is our practice to defend those proposed adjustments that we deem lacking merit. We are not involved in any litigation at this time in which we expect that an unfavorable outcome of the proceedings, including any proposed adjustments presented to date by the IRS, individually or collectively, will have a material adverse effect on our financial position, results of operations or cash flows.

Item 4. *Submission of Matters to a Vote of Security Holders*

There were no matters submitted to a vote of stockholders during the fourth quarter of 2006.

PART II**Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the Nasdaq Global Select Market under the symbol CVGI. The following table sets forth the high and low sale prices for our common stock, for the periods indicated as regularly reported by the Nasdaq Global Select Market:

	High	Low
Year Ended December 31, 2006:		
Fourth Quarter	\$ 23.57	\$ 18.47
Third Quarter	\$ 21.08	\$ 17.19
Second Quarter	\$ 21.25	\$ 17.82
First Quarter	\$ 22.29	\$ 17.10
Year Ended December 31, 2005:		
Fourth Quarter	\$ 21.11	\$ 17.30
Third Quarter	\$ 24.94	\$ 17.70
Second Quarter	\$ 21.74	\$ 16.51
First Quarter	\$ 24.38	\$ 18.25

As of February 28, 2007, there were 128 holders of record of our outstanding common stock.

We have not declared or paid any dividends to the holders of our common stock in the past and do not anticipate paying dividends in the foreseeable future. Any future payment of dividends is within the discretion of the Board of Directors and will depend upon, among other factors, the capital requirements, operating results and financial condition of CVG. In addition, our ability to pay cash dividends is limited under the terms of the credit agreement governing our senior credit facility.

Table of Contents

The graph below matches Commercial Vehicle Group, Inc.'s cumulative 28-month total stockholder return on common stock with the cumulative total returns of the NASDAQ Composite Index, the Commercial Vehicle OEM Composite Index and the Commercial Vehicle Supplier Composite Index. The Commercial Vehicle OEM Composite Index includes four companies: Navistar International Corp., PACCAR Inc., Volvo AB and Wabash National Corp. The Commercial Vehicle Supplier Composite Index includes five companies: Accuride Corporation, ArvinMeritor, Inc., Cummins, Inc., Eaton Corp. and Modine Manufacturing Co. The graph tracks the performance of a \$100 investment in our common stock and in each index (with the reinvestment of all dividends) from August 5, 2004 to December 31, 2006.

COMPARISON OF 28 MONTH CUMULATIVE TOTAL RETURN*

Among Commercial Vehicle Group, Inc., The NASDAQ Composite Index,
Commercial Vehicle OEM Composite Index and Commercial Vehicle Supplier Composite Index

* \$100 invested on 8/5/04 in stock or on 7/31/04 in index-including reinvestment of dividends.

	08/05/04	12/31/04	12/31/05	12/31/06
Commercial Vehicle Group, Inc.	\$ 100.00	\$ 166.64	\$ 143.36	\$ 166.41
NASDAQ Composite	\$ 100.00	\$ 118.75	\$ 119.46	\$ 129.61
Commercial Vehicle OEM Composite	\$ 100.00	\$ 103.78	\$ 141.62	\$ 188.02
Commercial Vehicle Supplier Composite	\$ 100.00	\$ 116.42	\$ 111.04	\$ 129.90

The information in the graph and table above is not soliciting material, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this annual report, except to the extent that we specifically incorporate such information by reference.

Table of Contents

The following table sets forth information in connection with purchases made by, or on behalf of, us or any affiliated purchaser, of shares of our common stock during the quarterly period ended December 31, 2006:

			(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)		
Month #1 (October 1, 2006 through October 31, 2006)	5,836	\$ 19.67		
Month #2 (November 1, 2006 through November 30, 2006)				
Month #3 (December 1, 2006 through December 31, 2006)				

We did not repurchase any of our common stock on the open market as part of a stock repurchase program during the fourth quarter of 2006, however, our employees surrendered 5,836 shares of our common stock to satisfy the tax withholding obligations on the vesting of restricted stock awards issued under our Amended and Restated Equity Incentive Plan.

Table of Contents**Item 6. Selected Financial Data**

The following table sets forth selected consolidated financial data regarding our business and certain industry information and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

Material Events Affecting Financial Statement Comparability:

Collectively, our acquisitions of Mayflower, Monona, Cabarrus and C.I.E.B. materially impacted our results of operations and as a result, our consolidated financial statements for the years ended December 31, 2006 and 2005 are not comparable to the results of the prior periods presented without consideration of the information provided in Note 3 and Note 7 to our consolidated financial statements contained in Item 15 of our Annual Report on Form 10-K for the year ended December 31, 2005, and Note 3 and Note 7 to our consolidated financial statements contained in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

	Years Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues	\$ 918,751	\$ 754,481	\$ 380,445	\$ 287,579	\$ 298,678
Cost of revenues	768,913	620,031	309,696	237,884	249,181
Gross profit	149,838	134,450	70,749	49,695	49,497
Selling, general and administrative expenses	51,950	44,564	28,985	24,281	23,952
Share-based compensation expense			10,125		
Amortization expense	414	358	107	185	122
Operating income	97,474	89,528	31,532	25,229	25,423
(Gain) loss on foreign currency forward contracts and other	(3,468)	(3,741)	(1,247)	3,230	1,098
Interest expense	14,829	13,195	7,244	9,796	12,940
Loss on early extinguishment of debt	318	1,525	1,605	2,972	
Income before income taxes and cumulative effect of accounting change	85,795	78,549	23,930	9,231	11,385
Provision for income taxes	27,745	29,138	6,481	5,267	5,235
Income before cumulative effect of change in accounting principle	58,050	49,411	17,449	3,964	6,150
Cumulative effect of change in accounting principle					(51,630)
Net income (loss)	\$ 58,050	\$ 49,411	\$ 17,449	\$ 3,964	\$ (45,480)

Earnings (loss) per share:(1)

Basic	\$	2.74	\$	2.54	\$	1.13	\$	0.29	\$	(3.29)
Diluted	\$	2.69	\$	2.51	\$	1.12	\$	0.29	\$	(3.26)

Weighted average common shares
outstanding:

Basic	21,151	19,440	15,429	13,779	13,827
Diluted	21,545	19,697	15,623	13,883	13,931

Table of Contents

	Years Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share data)				
Balance Sheet Data (at end of each period):					
Working capital (current assets less current liabilities)	135,368	119,104	41,727	28,216	8,809
Total assets	590,822	543,883	225,638	210,495	204,217
Total liabilities, excluding debt	163,803	150,797	60,667	48,215	49,990
Total debt	162,114	191,009	53,925	127,474	127,202
Total stockholders' investment	264,905	202,077	111,046	34,806	27,025
Other Data:					
Adjusted EBITDA(2)	\$ 115,910	\$ 105,385	\$ 40,389	\$ 30,105	\$ 33,007
Net cash provided by (used in):					
Operating activities	36,922	44,156	34,177	10,442	18,172
Investing activities	(27,625)	(188,569)	(8,907)	(5,967)	(4,937)
Financing activities	(27,952)	188,547	(28,427)	(2,761)	(14,825)
Depreciation and amortization	14,983	12,064	7,567	8,106	8,682
Capital expenditures, net	22,389	20,669	8,907	5,967	4,937
North American Heavy-duty (Class 8) truck production (units)(3)	378,000	341,000	269,000	182,000	181,000

- (1) Earnings (loss) per share has been calculated giving effect to the reclassification of our outstanding classes of common stock into one class of common stock and, in connection therewith, a 38.991-to-one stock split.
- (2) Adjusted EBITDA is a non-GAAP financial measure that is reconciled to net income, its most directly comparable GAAP measure, in the accompanying financial tables. Adjusted EBITDA is defined as net earnings before interest, taxes, depreciation, amortization, gains/losses on the early extinguishment of debt, miscellaneous income/expenses and cumulative effect of changes in accounting principle. In calculating Adjusted EBITDA, we exclude the effects of gains/losses on the early extinguishment of debt, miscellaneous income/expenses and cumulative effect of changes in accounting principles because our management believes that some of these items may not occur in certain periods, the amounts recognized can vary significantly from period to period and these items do not facilitate an understanding of our operating performance. Our management utilizes Adjusted EBITDA, in addition to the supplemental information, as an operating performance measure in conjunction with GAAP measures, such as net income and gross margin calculated in conformity with GAAP.

Our management uses Adjusted EBITDA, in addition to the supplemental information, as an integral part of its report and planning processes and as one of the primary measures to, among other things:

- (i) monitor and evaluate the performance of our business operations;
- (ii) facilitate management's internal comparisons of our historical operating performance of our business operations;
- (iii) facilitate management's external comparisons of the results of our overall business to the historical operating performance of other companies that may have different capital structures and debt levels;

(iv) review and assess the operating performance of our management team and as a measure in evaluating employee compensation and bonuses;

(v) analyze and evaluate financial and strategic planning decisions regarding future operating investments; and

33

Table of Contents

(vi) plan for and prepare future annual operating budgets and determine appropriate levels of operating investments.

Our management believes that Adjusted EBITDA, in addition to the supplemental information, is useful to investors as it provides them with disclosures of our operating results on the same basis as that used by our management. Additionally, our management believes that Adjusted EBITDA, in addition to the supplemental information, provides useful information to investors about the performance of our overall business because the measure eliminates the effects of certain recurring and other unusual or infrequent charges that are not directly attributable to our underlying operating performance. Additionally, our management believes that because we have historically provided a non-GAAP financial measure in previous filings, that continuing to include a non-GAAP measure in our filings provides consistency in our financial reporting and continuity to investors for comparability purposes. Accordingly, we believe that the presentation of Adjusted EBITDA, when used in conjunction with the supplemental information and GAAP financial measures, is a useful financial analysis tool, used by our management as described above, that can assist investors in assessing our financial condition, operating performance and underlying strength. Adjusted EBITDA should not be considered in isolation or as a substitute for net income prepared in conformity with GAAP. Other companies may define Adjusted EBITDA differently. Adjusted EBITDA, as well as the other information in this filing, should be read in conjunction with our financial statements and footnotes contained in the documents that we file with the U.S. Securities and Exchange Commission.

The following is a reconciliation of Net Income to Adjusted EBITDA:

	Years Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands)				
Net income (loss)	\$ 58,050	\$ 49,411	\$ 17,449	\$ 3,964	\$ (45,480)
Add (subtract):					8,682
Depreciation and amortization	14,983	12,064	7,567	8,106	12,940
Interest expense	14,829	13,195	7,244	9,796	5,235
Provision for income taxes	27,745	29,138	6,481	5,267	
Loss on early extinguishment of debt	318	1,525	1,605	2,972	
Miscellaneous (income) expense	(15)	52	43		
Cumulative effect of change in accounting principle					51,630
Adjusted EBITDA	\$ 115,910	\$ 105,385	\$ 40,389	\$ 30,105	\$ 33,007
Supplemental Information:					
Noncash (gain) loss on forward exchange contracts	(4,203)	(3,793)	(1,290)	3,230	1,098
Nonrecurring provision for prior period debt service	750				

(3) Source: Americas Commercial Transportation Research Co. LLC and ACT Publications.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with the information set forth under Item 6 Selected Financial Data and our consolidated financial statements and the notes thereto included in Item 8 in this Annual Report on Form 10-K. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. See Forward-Looking Information on page ii of this Annual Report on Form 10-K. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under Item 1A Risk Factors. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Company Overview

We are a leading supplier of fully integrated system solutions for the global commercial vehicle market, including the Heavy-duty (Class 8) truck market, the construction and agriculture market and the specialty and military transportation markets. As a result of our strong leadership in cab-related products and systems, we are positioned to benefit from the increased focus of our customers on cab design and comfort and convenience features to better serve their end-user, the driver. Our products include suspension seat systems, interior trim systems (including instrument panels, door panels, headliners, cabinetry and floor systems), cab structures and components, mirrors, wiper systems, electronic wire harness assemblies and controls and switches specifically designed for applications in commercial vehicles.

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

Demand for our products is generally dependent on the number of new commercial vehicles manufactured, which in turn is a function of general economic conditions, interest rates, changes in governmental regulations, consumer spending, fuel costs and our customers' inventory levels and production rates. New commercial vehicle demand has historically been cyclical and is particularly sensitive to the industrial sector of the economy, which generates a significant portion of the freight tonnage hauled by commercial vehicles. Production of commercial vehicles in North America peaked in 1999 and experienced a downturn from 2000 to 2003 that was due to a weak economy, an oversupply of new and used vehicle inventory and lower spending on commercial vehicles and equipment. Demand for commercial vehicles improved in 2006 due to broad economic recovery in North America, corresponding growth in the movement of goods, the growing need to replace aging truck fleets and OEMs received larger than expected pre-orders in anticipation of the new EPA emissions standards becoming effective in 2007.

In 2006, approximately 60% of our revenue was generated from sales to North American heavy-duty truck OEMs. Our remaining revenue in 2006 was primarily derived from sales to OEMs in the global construction market, the aftermarket, OEM service organizations and other commercial vehicle and specialty markets. Demand for our products is also driven to a significant degree by preferences of the end-user of the commercial vehicle, particularly with respect to Heavy-duty (Class 8) trucks. Unlike the automotive industry, commercial vehicle OEMs generally afford the ultimate end-user the ability to specify many of the component parts that will be used to manufacture the

commercial vehicle, including a wide variety of cab interior styles and colors, the brand and type of seats, type of seat fabric and color and specific mirror styling. In addition, certain of our products are only utilized in Heavy-duty (Class 8) trucks, such as our storage systems, sleeper boxes, sleeper bunks and privacy curtains, and, as a result, changes in demand for Heavy-duty (Class 8) trucks or the mix of options on a vehicle can have a greater impact on our business than changes in the overall

Table of Contents

demand for commercial vehicles. To the extent that demand increases for higher content vehicles, our revenues and gross profit will be positively impacted.

Along with North America, we have operations in Europe, Australia, Mexico and China. Our operating results are, therefore, impacted by exchange rate fluctuations to the extent we are unable to match revenues received in such currencies with costs incurred in such currencies. Strengthening of these foreign currencies as compared to the U.S. dollar resulted in an approximate \$3.0 million decrease in our revenues in 2006 as compared to 2005 and an approximate \$1.0 million increase in 2005 as compared to 2004. Because our costs were generally impacted to the same degree as our revenue, this exchange rate fluctuation did not have a material impact on our net income in 2005 as compared to 2006 and 2005 compared to 2004.

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

- establishing sourcing efforts in China and Europe;

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

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

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

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

Recent Acquisitions

On November 29, 2006, we acquired all of the outstanding stock of C.I.E.B. C.I.E.B. is a manufacturer of seats primarily for the commercial vehicle market. The C.I.E.B. acquisition was financed with borrowings from our revolving credit facility. The operating results of C.I.E.B. have been included in our 2006 consolidated financial statements since the date of acquisition.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). For a comprehensive discussion of our accounting policies, see Note 2 to our consolidated financial statements in Item 8 in this Annual Report on Form 10-K.

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at

Table of Contents

the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions, particularly relating to revenue recognition and sales commitments, provision for income taxes, restructuring and impairment charges and litigation and contingencies may have a material impact on our financial statements, and are discussed in detail throughout our analysis of our results of operations.

In addition to evaluating estimates relating to the items discussed above, we also consider other estimates, including, but not limited to, those related to allowance for doubtful accounts, defined benefit pension plan assumptions, uncertain tax positions and goodwill and other intangible assets. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results and outcomes could differ materially from these estimates and assumptions. See Item 1A *Risk Factors* for additional information regarding risk factors that may impact our estimates.

We apply the following critical accounting policies in the preparation of our consolidated financial statements.

Revenue Recognition and Sales Commitments We recognize revenue in accordance with the SEC's Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*, and SAB No. 104, *Revenue Recognition*, and other authoritative accounting literature. These pronouncements generally require that we recognize revenue when (1) delivery has occurred or services have been rendered, (2) persuasive evidence of an arrangement exists, (3) there is a fixed or determinable price and (4) collectibility is reasonably assured. Our products are generally shipped from our facilities to our customers, which is when legal title passes to the customer for substantially all of our revenues. We enter into agreements with our customers at the beginning of a given platform's life to supply products for that platform. Once we enter into such agreements, fulfillment of our purchasing requirements is our obligation for the entire production life of the platform, with terms generally ranging from five to seven years, and we have no provisions to terminate such contracts.

Provisions for anticipated contract losses are recognized at the time they become evident. In certain instances, we may be committed under existing agreements to supply product to our customers at selling prices that are not sufficient to cover the cost to produce such product. In such situations, we record a provision for the estimated future amount of such losses. Such losses are recognized at the time that the loss is probable and reasonably estimable and are recorded at the minimum amount necessary to fulfill our obligations to our customers. We had no such recorded loss as of December 31, 2006 and \$0.1 million and \$0.6 million at December 31, 2005 and 2004, respectively.

Goodwill and Intangible Assets Goodwill represents the excess of acquisition purchase price over the fair value of net assets acquired. In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Intangible Assets*. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed annually or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives, but with no maximum life. Prior to the adoption of SFAS No. 142 on January 1, 2002, goodwill was being amortized on a straight-line basis over 40 years.

We review goodwill and 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 SFAS No. 142. We review definite-lived intangible assets in accordance with the provisions of SFAS No. 142 and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of the reporting unit to the carrying value. Our reporting unit is consistent with the reportable segment identified in Note 10

to our consolidated financial statements contained in this Annual Report on Form 10-K for the year ended December 31, 2006. If the fair value of the reporting unit

Table of Contents

exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference. SFAS No. 142 also requires that the fair value of the purchased intangible assets with indefinite lives be estimated and compared to the carrying value. We estimate the fair value of these intangible assets using an income approach. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value. In this regard, our management considers the following indicators in determining if events or changes in circumstances have occurred indicating that the recoverability of the carrying amount of indefinite-lived and amortizing intangible assets should be assessed: (1) a significant decrease in the market value of an asset; (2) a significant change in the extent or manner in which an asset is used or a significant physical change in an asset; (3) a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator; (4) an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset; and (5) a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue. Our annual goodwill and indefinite-lived (SFAS No. 142) and definite-life intangible asset (SFAS No. 144) impairment analysis was performed during the second quarter of fiscal 2006 and did not result in an impairment charge.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. The valuation approaches we use include the Income Approach (the Discounted Cash Flow Method) and the Market Approach (the Guideline Company and Transaction Methods) to estimate the fair value of the reporting unit; earnings are emphasized in the Discounted Cash Flow, Guideline Company, and the Transaction Methods. In addition, these methods utilize market data in the derivation of a value estimate and are forward-looking in nature. The Discounted Cash Flow Method utilizes a market-derived rate of return to discount anticipated performance, while the Guideline Company Method and the Transaction Method incorporate multiples that are based on the market's assessment of future performance. Actual future results may differ materially from those estimates.

Intangible Assets Indefinite-Lived

Basis for Accounting Treatment

Our indefinite-lived intangible assets consist of customer relationships acquired in the 2005 acquisitions of Mayflower and Monona. We have accounted for these customer relationships as indefinite-lived intangible assets, which we believe is appropriate based upon the following circumstances and conditions under which we operate:

Sourcing, Barriers to Entry and Competitor Risks

The customer sourcing decision for the Mayflower and Monona businesses is heavily predicated on price, quality, delivery and the overall customer relationship. Absent a significant change in any or all of these factors, it is unlikely that a customer would source production to an alternate supplier. In addition, the factors listed below impose a high barrier for new competitors to enter into this industry. Historical experience indicates that Mayflower and Monona have not lost any primary customers and/or relationships due to these factors and such loss is not anticipated in the foreseeable future for the following reasons:

Costs associated with setting up a new production line, including tooling costs, are typically cost prohibitive in a competitive pricing environment;

Table of Contents

The risk associated with potential production delays and a disruption to the supply chain typically outweighs any potential economic benefit;

Significant initial outlays of capital and institutional production knowledge represent a significant barrier to entry. Due to the asset-intensive nature of the businesses, a new competitor would require a substantial amount of initial capital;

Changeover costs are high both from an economic and risk standpoint;

The highly complex nature of successfully producing electronic wiring harnesses and complete cab structures in accordance with OEM quality standards makes it difficult for a competitor to enter the business; and

There is significant risk in operating the businesses as a result of the highly customized nature of the business. For example, production runs in the commercial vehicle business are significantly smaller and are more build to order in nature which requires the systems, expertise, equipment and logistics in order to be successful.

These costs and risks are the primary prohibiting factors which preclude our customers from sourcing their business elsewhere at any given time.

Duration and Strength of Existing Customer Relationships/Concentrations of Revenue

Mayflower and Monona have long-standing relationships with their existing customers and have experienced de minimis historical attrition. These relationships have endured over time and, accordingly, an assumption of prospective attrition is inconsistent with this historical experience and management's expectations. Both Mayflower and Monona have a limited customer base, consisting of three primary customers, that has existed for many years, and we had pre-existing long-standing relationships with the same primary customers prior to the acquisitions of Mayflower and Monona, which in most cases have exceeded a period of 40 years. We believe the addition of Mayflower and Monona further strengthens our existing customer relationships with such customers. Specifically:

Mayflower and Monona's relationships with their customers' key decision-making personnel are mature and stable.

Mayflower's and Monona's customers typically make purchasing decisions through a team approach versus a single decision maker. Mayflower and Monona have historically maintained strong relationships with individuals at all levels of the decision making process including the engineering, operations and purchasing functions in order to successfully minimize the impact of any employee turnover at the customer level.

The top three customers of Mayflower and Monona have been established customers for a substantial period of time.

Mayflower has had relationships with Volvo/Mack, Freightliner and International since 1965, 1997 and 2001, respectively. We and/or our predecessor entities, had pre-existing relationships with these same customers since 1949, 1954 and 1950, respectively. These customers comprised approximately 88% and 85% of Mayflower's revenues for fiscal years 2006 and 2005, respectively.

Monona has had relationships with Deere & Co., Caterpillar and Oshkosh since 1969, 1970 and 1985, respectively. We and/or our predecessor entities, had pre-existing relationships with these same customers since 1987, 1958 and 1950, respectively. These customers comprised approximately 85% and 88% of Monona's revenues for fiscal years 2006 and 2005, respectively.

Valuation Methodology

For valuation purposes, the income approach using the discounted cash flow method was employed for the purpose of evaluating the Mayflower and Monona customer relationship intangible assets. Under this

Table of Contents

approach, we determined that the fair value of the Mayflower and Monona customer relationship intangible assets at their dates of acquisition was \$45.9 million and \$28.9 million, respectively.

Significant assumptions used in the valuation and determination of an indefinite useful life for these customer relationship intangible assets included the following:

The revenue projections that we relied upon to substantiate the economic consideration paid for the businesses is almost exclusively tied to the existing customer base. With regard to the valuation process, we projected less than 1% of total revenue in 2005 and 2006 to be lost due to core customer attrition and no core customer attrition thereafter.

Contributory asset charges were deducted for assets that contribute to income generation including: (i) net working capital; (ii) personal property; (iii) real property; (iv) tradename and trademarks; and (v) an assembled workforce.

The cash flows associated with the customer relationships acquired in the Mayflower and Monona transactions were discounted at a rate of return of 25.0% and 29.5%, respectively, which is approximately equal to the equity rate of return.

Intangible Asset Impairment Accounting Treatment

If Mayflower and/or Monona were to prospectively lose any of their customers, in accordance with the provisions of paragraphs 16 and 17 of SFAS No. 142, *Goodwill and Other Intangible Assets*, we would perform an intangible asset impairment test to determine the impact of the loss on the customer relationship intangible asset and if impairment was indicated, we would record an impairment loss in our consolidated statement of operations.

Accounting for Income Taxes As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. In addition, tax expense includes the impact of differing treatment of items for tax and accounting purposes which result in deferred tax assets and liabilities which are included in our consolidated balance sheet. To the extent that recovery of deferred tax assets is not likely, we must establish a valuation allowance. Significant judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. As of December 31, 2004, we determined that we do not require a valuation allowance against our deferred tax assets due to the likelihood of recovery in future periods. In the event that our actual results differ from our estimates or we adjust these estimates in future periods, the effects of these adjustments could materially impact our financial position and results of operations. The net deferred tax liability as of December 31, 2006 was \$1.8 million. We will adopt FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*, (FIN 48) in the first quarter 2007. The adoption of this interpretation will change the manner in which we evaluate recognition and measurement of uncertain tax positions. See *Recently Issued Accounting Pronouncements* in Note 2 to our consolidated financial statements for further information regarding the adoption of this authoritative literature.

Warranties We are subjected 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 supplied 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 amount of such estimates for warranty provisions was approximately \$5.2 million, \$7.1 million and \$2.4 million at December 31, 2006, 2005

and 2004, respectively. The increase in estimate from 2004 to 2005 is primarily the result of the Mayflower, Monona and Cabarrus acquisitions.

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

Table of Contents

to make annual contributions to the plans to fund the normal cost as required by local regulations. In addition, we have an other post-retirement benefit plan for certain U.S. operations, retirees and their dependents.

Our Assumptions

The determination of pension and other post-retirement benefit plan obligations and related expenses requires the use of assumptions to estimate the amount of the benefits that employees earn while working, as well as the present value of those benefits. Our assumptions are determined based on current market conditions, historical information and consultation with and input from our actuaries. Due to the significant management judgment involved, our assumptions could have a material impact on the measurement of our pension and other post-retirement benefit expenses and obligations.

Significant assumptions used to measure our annual pension and other post-retirement benefit expenses include:

discount rate;

expected return on plan assets; and

health care cost trend rates.

Discount Rate The discount rate represents the interest rate that should be used to determine the present value of future cash flows currently expected to be required to settle the pension and other post-retirement benefit obligations. In estimating this rate, we consider rates of return on high quality fixed-income investments included in various published bond indexes. We consider the Moody's Aa Corporate Bond Index and the Barclay's Capital AA Rated Sterling Bond Index in the determination of the appropriate discount rate assumptions. The weighted average rate we used to measure our pension obligation as of December 31, 2006 was 5.8% for the U.S. and 5.0% for the non-U.S. pension plans.

Expected Long-Term Rate of Return The expected return on pension plan assets is based on our historical experience, our pension plan investment strategy and our expectations for long-term rates of return. Our pension plan investment strategy is reviewed annually and is established based upon plan liabilities, an evaluation of market conditions, tolerance for risk and cash requirements for benefit payments. We use a third-party advisor to assist us in determining our investment allocation and modeling our long-term rate of return assumptions. For 2006 and 2005, we assumed an expected long-term rate of return on plan assets of 8.5 percent and 8.5 percent, respectively, for the U.S. pension plans and 6.0 percent and 7.5 percent, respectively, for the non-U.S. pension plans.

Changes in the discount rate and expected long-term rate of return on plan assets within the range indicated below would have had the following impact on 2006 pension and other post-retirement benefits results (in thousands):

	1 Percentage Point Increase	1 Percentage Point Decrease
(Decrease) increase due to change in assumptions used to determine net periodic benefit costs for the year ended December 31, 2006:		
Discount rate	\$ (351)	\$ 579
Expected long-term rate of return on plan assets	\$ (566)	\$ 566
(Decrease) increase due to change in assumptions used to determine benefit obligations for the year ended December 31, 2006:		

Discount rate	\$	(11,929)	\$	15,675
---------------	----	----------	----	--------

Health Care Cost Trend Rates The health care cost trend rates represent the annual rates of change in the cost of health care benefits based on estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances and changes in the health status of the plan participants. For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006 and 2005. The rate was assumed to decrease gradually to 5.0% through 2011 and

Table of Contents

remain constant thereafter. Assumed health care cost trend rates can have a significant effect on the amounts reported for other post-retirement benefit plans.

Differences in the ultimate health care cost trend rates within the range indicated below would have had the following impact on 2006 other post-retirement benefit results (in thousands):

	1 Percentage Point Increase	1 Percentage Point Decrease
Increase (Decrease) from change in health care cost trend rates		
Other post-retirement benefit expense	\$ 20	\$ (19)
Other post-retirement benefit liability	\$ 102	\$ (95)

Recently Issued Accounting Pronouncements

See Note 2 to our consolidated financial statements in Item 8 in this Annual Report on Form 10-K for a full description of recently issued and/or adopted accounting pronouncements.

Results of Operations

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

	2006	2005	2004
Revenues	100.0%	100.0%	100.0%
Cost of revenues	83.7	82.2	81.4
Gross profit	16.3	17.8	18.6
Selling, general and administrative expenses	5.7	5.9	7.6
Noncash option charge			2.7
Amortization expense			
Operating income	10.6	11.9	8.3
Other (income)	(0.4)	(0.5)	(0.3)
Interest expense	1.6	1.7	1.9
Loss on early extinguishment of debt		0.2	0.4
Income before income taxes	9.4	10.5	6.3
Provision for income taxes	3.0	3.9	1.7
Net income	6.4%	6.6%	4.6%

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Revenues. Revenues increased \$164.3 million, or 21.8%, to \$918.8 million for the year ended December 31, 2006 from \$754.5 million for the year ended December 31, 2005. This increase resulted primarily from:

increased acquisition related revenue of approximately \$77.0 million from the full year impact of the acquisitions of Mayflower, Monona, Cabarrus and the partial year impact of C.I.E.B.;

a 10.9% increase in North American Heavy-duty (Class 8) truck production, fluctuations in production levels for other North American end markets and net new business awards resulted in approximately \$88.0 million of increased revenues;

an increase in production levels, fluctuations in content and net new business awards for our European, Australian and Asian markets of approximately \$2.5 million;

unfavorable foreign exchange fluctuations and adjustments of approximately \$3 million.

Table of Contents

Gross Profit. Gross profit increased \$15.3 million, or 11.4%, to \$149.8 million for the year ended December 31, 2006 from \$134.5 million for the year ended December 31, 2005. As a percentage of revenues, gross profit decreased to 16.3% for the year ended December 31, 2006 from 17.8% for the year ended December 31, 2005. This decrease resulted primarily from the result of various raw material cost increases as well as certain operational and other one-time events during the year. We continued to seek material cost reductions, labor efficiencies and general operating cost reductions to generate additional profits during the year ended December 31, 2006.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$7.4 million, or 16.6%, to \$52.0 million for the year ended December 31, 2006 from \$44.6 million for the year ended December 31, 2005. This increase resulted primarily from the full year impact of the acquisitions of Mayflower, Monona and Cabarrus during 2005 as well as increases in wages and the cost of adopting FAS 123(r) during the year ended December 31, 2006.

Amortization Expense. Amortization expense increased to approximately \$414,000 for the year ended December 31, 2006 from approximately \$358,000 for the year ended December 31, 2005. This increase was primarily the result of the full year impact of the Mayflower and Monona acquisitions.

Other (Income). We use forward exchange contracts to hedge foreign currency transaction exposures of our United Kingdom operations. We estimate our projected revenues and purchases in certain foreign currencies or locations and will hedge a portion of the anticipated long or short position. We have not designated any of our forward exchange contracts as cash flow hedges, electing instead to mark-to-market the contracts and record the fair value of the contracts on our consolidated balance sheets, with the offsetting noncash gain or loss recorded in our consolidated statement of operations. The \$3.5 million gain for the year ended December 31, 2006 and the \$3.7 million gain for the year ended December 31, 2005 are primarily related to the noncash change in value of the forward exchange contracts in existence at the end of each period.

Interest Expense. Interest expense increased \$1.6 million to \$14.8 million for the year ended December 31, 2006 from \$13.2 million for the year ended December 31, 2005. This increase was primarily the result of higher average interest rates during the year.

Loss on Early Extinguishment of Debt. In 2006, we repaid approximately \$25.0 million of our U.S. dollar denominated term loan. In connection with this loan repayment, approximately \$0.3 million of deferred fees were written off. In 2005, as part of our 2005 issuance of 8.0% senior notes due 2013, we amended our existing senior credit agreement and wrote off approximately \$1.5 million of deferred fees.

Provision for Income Taxes. Our effective tax rate during the year ended December 31, 2006 was 32.3% compared to 37.1% for 2005. Provision for income taxes decreased \$1.4 million to \$27.7 million for the year ended December 31, 2006, compared to an income tax provision of \$29.1 million for the year ended December 31, 2005. The decrease in effective rate year over year can be primarily attributed to the tax planning initiatives taken during 2006 which favorably impacted tax credits and provision rates.

Net Income. Net income increased \$8.7 million to \$58.1 million for the year ended December 31, 2006, compared to \$49.4 million for the year ended December 31, 2005, primarily as a result of the factors discussed above.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenues. Revenues increased \$374.1 million, or 98.3%, to \$754.5 million for the year ended December 31, 2005 from \$380.4 million for the year ended December 31, 2004. This increase resulted primarily from:

increased acquisition related revenue of approximately \$315 million from the acquisitions of Mayflower, Monona and Cabarrus;

Table of Contents

a 27% increase in North American Heavy-duty (Class 8) truck production, fluctuations in content and production levels for our other North American end markets and net new business awards resulted in approximately \$49 million;

an increase in production levels, fluctuations in content and net new business awards for our European, Australian and Asian markets of approximately \$11 million;

unfavorable foreign exchange fluctuations and adjustments of approximately \$1 million.

Gross Profit. Gross profit increased \$63.7 million, or 90.0%, to \$134.5 million for the year ended December 31, 2005 from \$70.8 million for the year ended December 31, 2004. As a percentage of revenues, gross profit decreased to 17.8% for the year ended December 31, 2005 from 18.6% for the year ended December 31, 2004. This decrease resulted primarily from the acquisitions of Mayflower, Monona and Cabarrus, which experienced lower margins than those we achieved in the prior year. We continued to seek material cost reductions, labor efficiencies and general operating cost reductions to generate additional profits and to offset incremental costs of raw materials and petroleum related products and services experienced during the year ended December 31, 2005.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$15.6 million, or 53.7%, to \$44.6 million for the year ended December 31, 2005 from \$29.0 million for the year ended December 31, 2004. This increase resulted primarily from the acquisitions of Mayflower, Monona and Cabarrus during the year as well as increases in wages and the cost of additional resources to accommodate product innovation and growth in the commercial vehicle sector as well as the cost associated with being a public company.

Stock Compensation Expense. To reward our senior management team for its success in reducing operating costs, integrating businesses and improving processes through cyclical periods, we granted options to purchase an aggregate of 910,869 shares of our common stock to 16 members of our management team in May 2004. The exercise price for such options is \$5.54 per share. As modified, such options have a ten-year term with 100% of such options being currently exercisable. We incurred a compensation charge of \$10.1 million in the second quarter of 2004 as a result of the grant of these options. This compensation charge equaled the difference between \$5.54 and the fair market value of our common stock as of the grant date of these options.

Amortization Expense. Amortization expense increased to approximately \$358,000 for the year ended December 31, 2005 from \$107,000 for the year ended December 31, 2004. This increase was primarily the result of the increase in deferred financing costs from the prior year period, due to fees related to the issuance of our 8.0% senior notes due 2013, during the year.

Other (Income) Expense. We use forward exchange contracts to hedge foreign currency transaction exposures of our United Kingdom operations. We estimate our projected revenues and purchases in certain foreign currencies or locations and will hedge a portion of the anticipated long or short position. We have not designated any of our forward exchange contracts as cash flow hedges, electing instead to mark-to-market the contracts and record the fair value of the contracts on our consolidated balance sheets, with the offsetting noncash gain or loss recorded in our consolidated statement of operations. The \$3.7 million gain for the year ended December 31, 2005 and the \$1.2 million gain for the year ended December 31, 2004 are primarily related to the noncash change in value of the forward exchange contracts in existence at the end of each period.

Interest Expense. Interest expense increased \$6.0 million, or 83.3%, to \$13.2 million for the year ended December 31, 2005 from \$7.2 million for the year ended December 31, 2004. This increase was primarily the result of an increase in total debt due to acquisitions made during the year.

Loss on Early Extinguishment of Debt. As part of our August 2004 initial public offering, we wrote off capitalized debt financing costs which approximated \$1.6 million. As part of our 2005 issuance of 8.0% senior notes due 2013 and amendment of our existing senior credit agreement, we wrote off approximately \$1.5 million of deferred fees.

Table of Contents

Provision for Income Taxes. Our effective tax rate during the year ended December 31, 2005 was 37.1% compared to 27.1% for 2004. Provision for income taxes increased \$22.6 million to \$29.1 million for the year ended December 31, 2005, compared to an income tax provision of \$6.5 million for the year ended December 31, 2004. The increase in effective rate year over year can be primarily attributed to the reversal of the existing valuation allowance in 2004 after consideration of our future profitability.

Net Income. Net income increased \$31.9 million to \$49.4 million for the year ended December 31, 2005, compared to \$17.5 million for the year ended December 31, 2004, primarily as a result of the factors discussed above.

Liquidity and Capital Resources

Cash Flows

For the year ended December 31, 2006, cash provided by operations was \$36.9 million, compared to \$44.2 million in the year ended December 31, 2005. This decrease was primarily the result of the increases in prepaid expenses, accounts receivable and inventories during the year. Cash provided by operations in the year ended December 31, 2004 was \$34.2 million.

Net cash used in investing activities was \$27.6 million for the year ended December 31, 2006 compared to \$188.6 million in the year ended December 31, 2005 and \$8.9 million in the year ended December 31, 2004. The amounts used in the year ended December 31, 2006 primarily reflect capital expenditure purchases and the acquisition of C.I.E.B. During 2005 and 2004, all net cash used in investing activities was for acquisitions and capital expenditures, primarily for equipment and tooling purchases related to new or replacement programs and current equipment upgrades.

Net cash used in financing activities totaled \$28.0 million for the year ended December 31, 2006, compared to net cash provided by of \$188.5 million in the year ended December 31, 2005 and net cash used of \$28.4 million in the year ended December 31, 2004. The net cash used in financing activities in the year ended December 31, 2006 was primarily related to our repayment of our U.S. dollar denominated term loan. The net cash provided for December 31, 2005 was primarily related to the issuance of our 8.0% senior notes and the net cash used during the year ended December 31, 2004 was primarily related to repayments of outstanding borrowings.

Debt and Credit Facilities

As of December 31, 2006, we had an aggregate of \$162.1 million of outstanding indebtedness excluding \$1.8 million of outstanding letters of credit under various financing arrangements. We were in compliance with all of our respective financial covenants under our debt and senior credit facility as of December 31, 2006. The indebtedness consisted of the following:

\$1.5 million under our revolving credit facility, \$10.3 million under our term loan facility and \$0.3 million of capital lease obligations. The weighted average rate on these borrowings, for the year ended December 31, 2006, ranged from approximately 7.1% with respect to the revolving borrowings to approximately 6.8% for the term loan borrowings and;

\$150 million of 8.0% senior notes due 2013.

In August 2004, in connection with our initial public offering, we entered into a senior credit facility, consisting of a \$65.0 million term loan and a \$40.0 million revolving line of credit. We used borrowings under the term loan, together

with proceeds of the offering to repay all of our existing borrowings under our then-existing senior credit facility and to repay all of our then existing subordinated indebtedness.

In February 2005, in connection with the Mayflower acquisition, we amended our senior credit facility to increase the revolving credit facility from \$40.0 million to \$75.0 million and the term loans from \$65.0 million to \$145.0 million. We used borrowings of approximately \$106.4 million under our amended senior credit facility to fund substantially all of the purchase price for the Mayflower acquisition.

Table of Contents

On June 3, 2005, in connection with the Monona acquisition, we amended our senior credit facility to increase the revolving credit facility from \$75.0 million to \$100.0 million. In addition, the amendment increased certain baskets in the lien, investments and asset disposition covenants to reflect our increased size as a result of the Mayflower and Monona acquisitions. We used revolving credit borrowings of approximately \$58.0 million under our amended senior credit facility to fund substantially all of the purchase price for the Monona acquisition.

On July 6, 2005, we completed a secondary equity offering and the offering of the 8.0% senior notes due 2013. We used the net proceeds of these offerings of approximately \$190.8 million primarily to repay a portion of the borrowings under our senior credit facility. In connection with the offering of the 8.0% senior notes due 2013, we entered into an additional amendment to our senior credit facility which provides for, among other things, the incurrence of debt in connection with the offering of the 8.0% senior notes due 2013 and the application of the net proceeds therefrom.

On December 30, 2005, we entered into an additional amendment to our senior credit facility to increase our annual capital expenditure limit from \$25.0 million per year to \$40.0 million per year.

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

The revolving credit facility is available until January 31, 2010 and the term loans are due and payable on December 31, 2010. Based on the provisions of the AICPA's Emerging Issues Task Force (EITF) Issue No. 98-14, *Debtor's Accounting for the Changes in Line-of-Credit or Revolving-Debt Arrangements*, and the provisions of EITF Issue No. 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, approximately \$4.8 million third party fees relating to the senior credit agreement and 8.0% senior notes due 2013 were capitalized at December 31, 2006 and are being amortized over the life of the senior credit facility.

Under the terms of our senior credit facility, availability under the revolving credit facility is subject to the lesser of (i) a borrowing base that is equal to the sum of (a) 80% of eligible accounts receivable plus (b) 50% of eligible inventory; or (ii) \$100.0 million. Borrowings under the senior credit facility bear interest at a floating rate which can be either the prime rate or LIBOR plus the applicable margin to the prime rate and LIBOR borrowings based on our leverage ratio. The senior credit facility contains various financial covenants, including a minimum fixed charge coverage ratio of not less than 1.30, and a minimum ratio of EBITDA to cash interest expense of not less than 2.50, in each case for the twelve month period ending on December 31 of each year, a limitation on the amount of capital expenditures of not more than \$40.0 million in any fiscal year and a maximum ratio of total indebtedness to EBITDA as of the last day of each fiscal quarter as set forth below:

Quarter(s) Ending	Maximum Total Leverage Ratio
12/31/05 through 9/30/06	2.75 to 1.00
12/31/06 and each fiscal quarter thereafter	2.50 to 1.00

The senior credit facility also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, dividends, changes of control, incurring indebtedness, making loans and investments and transactions with affiliates. If we do not comply with such covenants or satisfy such ratios, our lenders could declare a default

under the senior credit facility, and our indebtedness thereunder could be declared immediately due and payable. The senior credit facility is collateralized by substantially all of our assets. The senior credit facility also contains customary events of default.

The 8.0% senior notes due 2013 are senior unsecured obligations and rank *pari passu* in right of payment to all of our existing and future senior indebtedness and are effectively subordinated to our existing and future secured obligations. The 8.0% senior notes due 2013 are guaranteed by all of our domestic subsidiaries.

Table of Contents

The indenture governing the 8.0% senior notes due 2013 contain covenants that limit, among other things, additional indebtedness, issuance of preferred stock, dividends, repurchases of capital stock or subordinated indebtedness, investments, liens, restrictions on the ability of our subsidiaries to pay dividends to us, sales of assets, sale/leaseback transactions, mergers and transactions with affiliates. Upon a change of control, each holder shall have the right to require that we purchase such holder's securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest to the date of repurchase. The indenture governing the 8.0% senior notes due 2013 also contains customary events of default.

In addition, prior to May 2, 2005, we also had \$6.5 million of indebtedness from borrowings financed through the issuance of industrial development bonds relating to our Vonore, Tennessee facility. These borrowings had a final maturity of August 1, 2006 and bore interest at a variable rate which was adjusted on a weekly basis by the placement agent such that the interest rate on the bonds was sufficient to cause the market value of the bonds to be equal to, as nearly as practicable, 100% of their principal amount. On May 2, 2005 we redeemed these bonds for approximately \$6.5 million.

We believe that cash flow from operating activities together with available borrowings under our senior credit facility will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for at least the next twelve months. Capital expenditures for 2007 are expected to be approximately \$23 million.

Contractual Obligations and Commercial Commitments

The following table reflects our contractual obligations as of December 31, 2006:

	Total	Payments Due by Period			More Than 5 Years
		Less Than 1 Year	1-3 Years (In thousands)	3-5 Years	
Long-term debt obligations	\$ 162,114	\$ 2,158	\$ 5,420	\$ 4,536	\$ 150,000
Estimated interest payments	43,411	12,753	12,501	12,157	6,000
Operating lease obligations	56,401	7,430	13,484	10,244	25,243
Pension and other post-retirement funding	34,918	2,279	5,162	6,262	21,215
Total	\$ 296,844	\$ 24,620	\$ 36,567	\$ 33,199	\$ 202,458

Since December 31, 2006, there have been no material changes outside the ordinary course of business to our contractual obligations as set forth above.

In addition to the obligations noted above, we have obligations reported as other long-term liabilities that consist primarily of facility closure and consolidation costs, defined benefit plan and other post-retirement benefit plans and other items. We also enter into agreements with our customers at the beginning of a given platform's life to supply products for the entire life of that vehicle platform, which is typically five to seven years. These agreements generally provide for the supply of a customer's production requirements for a particular platform, rather than for the purchase of a specific quantity of products. Accordingly, our obligations under these agreements are not reflected in the

contractual obligations table above.

As of December 31, 2006, we were not party to significant purchase obligations for goods or services.

Off-Balance Sheet Arrangements

We use standby letters of credit to guarantee our performance under various contracts and arrangements, principally in connection with our workers' compensation liabilities and for leases on equipment and facilities. These letter of credit contracts are usually extended on a year-to-year basis. As of December 31, 2006, we had outstanding letters of credit of \$1.8 million. We do not believe that these letters of credit will be required to be drawn.

We currently have no non-consolidated special purpose entity arrangements.

Table of Contents

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

We are exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes. We do enter into financial instruments, from time to time, to manage and reduce the impact of changes in foreign currency exchange rates and interest rates and to hedge a portion of future anticipated currency transactions. The counterparties are primarily major financial institutions.

We manage our interest rate risk by balancing the amount of our fixed rate and variable rate debt. For fixed rate debt, interest rate changes affect the fair market value of such debt but do not impact earnings or cash flows. Conversely for variable rate debt, interest rate changes generally do not affect the fair market value of such debt, but do impact future earnings and cash flows, assuming other factors are held constant. Approximately \$11.8 million and \$40.6 million of our debt was variable rate debt at December 31, 2006 and 2005, respectively. Holding other variables constant (such as foreign exchange rates and debt levels), a one percentage point change in interest rates would be expected to have an impact on pre-tax earnings and cash flows for the next year of approximately \$0.1 million and \$0.4 million, respectively. The impact on the fair market value of our debt at December 31, 2006 and 2005 would have been insignificant.

Foreign Currency Risk

Foreign currency risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. We use forward exchange contracts to hedge foreign currency translation exposures of our United Kingdom operations. 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 position. The contracts typically run from three months up to three years. These contracts are marked-to-market and the fair value is included in assets (liabilities) in our consolidated balance sheets, with the offsetting noncash gain or loss included in our consolidated statements of operations. We do not hold or issue foreign exchange options or forward contracts for trading purposes.

Outstanding foreign currency forward exchange contracts at December 31, 2006 are more fully described in the notes to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K. The fair value of these contracts at December 31, 2006 and 2005 amounted to \$8.5 million and \$4.3 million, respectively, which is reflected in other assets in our consolidated balance sheets. None of these contracts have been designated as cash flow hedges; thus, the change in fair value at each reporting date is reflected as a noncash charge (income) in our consolidated statement of operations. We may designate future forward exchange contracts as cash flow hedges.

Our primary exposures to foreign currency exchange fluctuations are pound sterling/Eurodollar and pound sterling/Japanese yen. At December 31, 2006, the potential reduction in earnings from a hypothetical instantaneous 10% adverse change in quoted foreign currency spot rates applied to foreign currency sensitive instruments is limited by the assumption that all of the foreign currencies to which we are exposed would simultaneously decrease by 10% because such synchronized changes are unlikely to occur. The effects of the forward exchange contracts have been included in the above analysis; however, the sensitivity model does not include the inherent risks associated with the anticipated future transactions denominated in foreign currency.

Foreign Currency Transactions

A portion of our revenues during the year ended December 31, 2006 were derived from manufacturing operations outside of the United States. The results of operations and the financial position of our operations in these other countries are primarily measured in their respective currency and translated into U.S. dollars. A portion of the expenses generated in these countries is in currencies different from which revenue is generated. As discussed above, from time to time, we enter into forward exchange contracts to mitigate a portion of this

Table of Contents

currency risk. The reported income of these operations will be higher or lower depending on a weakening or strengthening of the U.S. dollar against the respective foreign currency.

A portion of our assets at December 31, 2006 are based in our foreign operations and are translated into U.S. dollars at foreign currency exchange rates in effect as of the end of each period, with the effect of such translation reflected as a separate component of stockholders' investment. Accordingly, our stockholders' investment will fluctuate depending upon the weakening or strengthening of the U.S. dollar against the respective foreign currency.

Effects of Inflation

Inflation potentially affects us in two principal ways. First, a portion of our debt is tied to prevailing short-term interest rates that may change as a result of inflation rates, translating into changes in interest expense. Second, general inflation can impact material purchases, labor and other costs. In many cases, we have limited ability to pass through inflation-related cost increases due to the competitive nature of the markets that we serve. In the past few years, however, inflation has not been a significant factor.

Table of Contents

Item 8. *Financial Statements and Supplementary Data*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Documents Filed as Part of this Annual Report on Form 10-K

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	51
<u>Consolidated Balance Sheets as of December 31, 2006 and 2005</u>	52
<u>Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004</u>	53
<u>Consolidated Statements of Stockholders' Investment for the years ended December 31, 2006, 2005 and 2004</u>	54
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004</u>	55
<u>Notes to Consolidated Financial Statements</u>	56
<u>Item 15 Exhibits and Financial Statement Schedules</u>	101

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Commercial Vehicle Group, Inc.

We have audited the accompanying consolidated balance sheets of Commercial Vehicle Group, Inc. and subsidiaries (the Company) (formerly Bostrom Holding, Inc., a Delaware corporation) as of December 31, 2006 and 2005 and the related consolidated statements of operations, stockholders' investment, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index to Item 8. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Commercial Vehicle Group, Inc. and subsidiaries as of December 31, 2006 and 2005 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 2 and 14 to the consolidated financial statements, in 2006, the Company changed its method of accounting for defined benefit pension and other post-retirement benefit plans and as discussed in Note 13 to the consolidated financial statements, in 2006, the Company changed its method of accounting for share-based compensation.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota
March 13, 2007

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****December 31, 2006 and 2005**

	2006 (In thousands, except share and per share amounts)	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,821	\$ 40,641
Accounts receivable, net of reserve for doubtful accounts of \$5,536 and \$6,087, respectively	123,471	114,116
Inventories, net	88,723	69,053
Prepaid expenses	24,272	4,724
Deferred income taxes	8,819	12,571
Total current assets	265,106	241,105
PROPERTY, PLANT AND EQUIPMENT		
Land and buildings	30,203	27,310
Machinery and equipment	120,416	93,912
Construction in progress	17,414	15,827
Less accumulated depreciation	(77,645)	(56,634)
Property, plant and equipment, net	90,388	80,415
GOODWILL	134,766	125,607
INTANGIBLE ASSETS, net of accumulated amortization of \$840 and \$451, respectively	84,188	84,577
OTHER ASSETS, net	16,374	12,179
TOTAL ASSETS	\$ 590,822	\$ 543,883
LIABILITIES AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 2,158	\$ 5,309
Accounts payable	86,610	73,709
Accrued liabilities	40,970	42,983
Total current liabilities	129,738	122,001
LONG-TERM DEBT, net of current maturities	159,956	185,700
DEFERRED TAX LIABILITIES	10,611	8,802
PENSION AND OTHER POST-RETIREMENT BENEFITS	22,188	20,621
OTHER LONG-TERM LIABILITIES	3,424	4,682

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

Total liabilities	325,917	341,806
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' INVESTMENT:		
Preferred stock \$.01 par value; 5,000,000 shares authorized; no shares issued and outstanding; common stock \$.01 par value; 30,000,000 shares authorized; 21,368,831 and 21,145,954 shares issued and outstanding, respectively		
	214	211
Treasury stock purchased from employees; 5,836 shares	(115)	
Additional paid-in capital	174,044	169,252
Retained earnings	92,007	33,957
Accumulated other comprehensive loss	(1,245)	(1,343)
Total stockholders' investment	264,905	202,077
TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT	\$ 590,822	\$ 543,883

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

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
	(In thousands, except per share amounts)		
REVENUES	\$ 918,751	\$ 754,481	\$ 380,445
COST OF REVENUES	768,913	620,031	309,696
Gross Profit	149,838	134,450	70,749
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	51,950	44,564	39,110
AMORTIZATION EXPENSE	414	358	107
Operating Income	97,474	89,528	31,532
OTHER INCOME	(3,468)	(3,741)	(1,247)
INTEREST EXPENSE	14,829	13,195	7,244
LOSS ON EARLY EXTINGUISHMENT OF DEBT	318	1,525	1,605
Income Before Provision for Income Taxes	85,795	78,549	23,930
PROVISION FOR INCOME TAXES	27,745	29,138	6,481
NET INCOME	\$ 58,050	\$ 49,411	\$ 17,449
EARNINGS PER COMMON SHARE:			
Basic	\$ 2.74	\$ 2.54	\$ 1.13
Diluted	\$ 2.69	\$ 2.51	\$ 1.12
WEIGHTED AVERAGE SHARES OUTSTANDING:			
Basic	21,151	19,440	15,429
Diluted	21,545	19,697	15,623

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

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT**
Years Ended December 31, 2006, 2005 and 2004

	Common Stock Shares	Common Stock Amount	Treasury Stock	Stock Subscription Receivable	Additional Paid-In Capital	Retained Earnings (Accum. Deficit)	Deferred Comp.	Accum. Other Comp. Income/ (Loss)	Total
(In thousands, except share data)									
BALANCE									
December 31, 2003	13,778,599	\$ 138	\$	\$ (430)	\$ 76,803	\$ (43,028)	\$	\$ 1,323	\$ 34,800
Issuance of common stock	4,072,875	41			46,393				46,434
Stock subscriptions received				255					255
Exercise of stock purchase warrants in connection with initial public offering	136,023	1			464				465
Share-based compensation expense						10,125			10,125
Comprehensive income: net income						17,449			17,449
Foreign currency translation adjustment								2,056	2,056
Minimum pension liability adjustment, net of tax								(544)	(544)
Total comprehensive income									18,961
BALANCE									
December 31, 2004	17,987,497	\$ 180	\$	\$ (175)	\$ 123,660	\$ (15,454)	\$	\$ 2,835	\$ 111,041
Issuance of common stock	2,671,229	26			43,710				43,736
Exercise of common stock under stock option and equity incentive plans	319,928	3			1,882				1,885
Issuance of restricted stock	167,300	2			3,262		(3,262)		
Stock subscriptions received				175					175
Comprehensive income:									

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

Net income					49,411				49,411
Foreign currency translation adjustment							(3,645)		(3,645)
Minimum pension liability adjustment, net of tax							(533)		(533)
Total comprehensive income									45,233
BALANCE									
December 31, 2005	21,145,954	\$ 211	\$	\$	\$ 172,514	\$ 33,957	\$ (3,262)	\$ (1,343)	\$ 202,072
Exercise of common stock under stock option									
and equity incentive plans	341,685	4			2,141				2,145
Issuance of restricted stock	54,328	1							
Effect of accounting change - SFAS 123(r)	(167,300)	(2)			(3,262)		3,262		(167,300)
Treasury stock purchased from employees at cost	(5,836)		(115)						(5,951)
Share-based compensation expense					2,006				2,006
Research and development tax benefit									
Other non-recurring transactions					645				645
Comprehensive income:									
Net income					58,050				58,050
Foreign currency translation adjustment								3,874	3,874
Minimum pension liability adjustment, net of tax								(304)	(304)
Total comprehensive income									61,620
Adjustment to initially apply FASB Statement No. 158, net of tax								(3,472)	(3,472)
BALANCE									
December 31, 2006	21,368,831	\$ 214	\$ (115)	\$	\$ 174,044	\$ 92,007	\$	\$ (1,245)	\$ 264,902

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

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****Years Ended December 31, 2006, 2005 and 2004**

	2006	2005	2004
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 58,050	\$ 49,411	\$ 17,449
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,983	12,064	7,567
Noncash amortization of debt financing costs	895	848	522
Loss on early extinguishment of debt	318	1,525	1,031
Shared-based compensation expense	2,006		10,125
Gain on sale of assets	(665)	(7)	
Pension and other post-retirement curtailment gain	(3,865)	(3,097)	
Deferred income tax provision	9,417	7,248	1,340
Noncash gain on forward exchange contracts	(4,203)	(3,793)	(1,291)
Noncash interest expense on subordinated debt			481
Change in other operating items:			
Accounts receivable	(4,369)	(22,013)	(4,744)
Inventories	(16,603)	(11,571)	(6,243)
Prepaid expenses	(21,819)	9,958	(2,360)
Accounts payable and accrued liabilities	2,213	10,145	11,383
Other assets and liabilities	564	(6,562)	(1,083)
Net cash provided by operating activities	36,922	44,156	34,177
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(19,327)	(15,957)	(8,907)
Proceeds from disposal/sale of property plant and equipment	352		
Proceeds from disposal/sale of other assets	2,032		
Post-acquisition and acquisition payments, net of cash received	(9,452)	(170,851)	
Other assets and liabilities	(1,230)	(1,761)	
Net cash (used in) investing activities	(27,625)	(188,569)	(8,907)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock		43,914	46,640
Proceeds from issuance of common stock under equity incentive plans	2,140	1,887	465
Purchases of treasury stock from employees	(115)		
Excess tax benefit from equity incentive plans	645		
Repayment of revolving credit facility	(74,711)	(207,449)	(80,575)
Borrowings under revolving credit facility	72,398	206,778	58,092
Repayments of long-term borrowings	(28,210)	(238,336)	(116,031)

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

Long-term borrowings		227,459	66,061
Repayment of subordinated debt			(3,112)
Proceeds from issuance of 8% senior notes		150,000	
Payments on capital lease obligations	(99)	(46)	(15)
Debt issuance costs and other, net		4,340	48
Net cash (used in) provided by financing activities	(27,952)	188,547	(28,427)
EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,165)	(4,889)	1,067
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20,820)	39,245	(2,090)
CASH AND CASH EQUIVALENTS:			
Beginning of period	40,641	1,396	3,486
End of period	\$ 19,821	\$ 40,641	\$ 1,396
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	\$ 13,869	\$ 6,340	\$ 7,564
Cash paid for income taxes, net	\$ 29,197	\$ 24,603	\$ 2,767
Unpaid purchases of property and equipment included in accounts payable	\$ 3,061	\$ 4,712	\$

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

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006, 2005 and 2004

1. Organization

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

2. Significant Accounting Policies

Principles of Consolidation The accompanying consolidated financial statements include the accounts of our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant estimates are used for such items as allowance for doubtful accounts, inventory reserves, warranty, pension and post retirement benefit liabilities, contingent liabilities, goodwill and intangible assets impairment and depreciable lives of property and equipment. Actual results may differ materially from those estimates.

Cash and Cash Equivalents Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less. Cash equivalents are stated at cost, which approximates fair value.

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 threshold, based upon the aging categories of accounts receivable. Past due status is based upon the due date of the original amounts outstanding. When items are ultimately deemed uncollectible, they are charged off against the reserve previously established in the allowance for doubtful accounts.

Inventories We maintain our inventory primarily for the manufacture of goods for sale to our customers. Inventory is composed of three categories: Raw Materials, Work in Process, and Finished Goods. These categories are generally defined as follows: Raw Materials consist of materials that have been acquired and are available for the production cycle; Work in Process is composed of materials that have been moved into the production process and have some measurable amount of labor and overhead added; Finished Goods are materials with added labor and overhead that have completed the production cycle and are awaiting sale and delivery to customers.

Inventories are valued at the lower of first-in, first-out (FIFO) cost or market. Cost includes applicable material, labor and overhead. We value our finished goods inventory at a standard cost that is periodically adjusted to approximate

actual cost. 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 current market volumes. Excess and obsolete provisions may vary by product depending upon future potential use of the product.

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment Property, plant and equipment are stated at cost, net of accumulated depreciation. For financial reporting purposes, depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	15 to 40 years
Machinery and equipment	3 to 20 years
Tools and dies	5 years
Computer hardware and software	3 years

Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures for major betterments and renewals that extend the useful lives of property, plant and equipment are capitalized and depreciated over the remaining useful lives of the asset. When assets are retired or sold, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the results of operations. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the term of the lease, whichever is shorter. Accelerated depreciation methods are used for tax reporting purposes.

We follow the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which provides a single accounting model for impairment of long-lived assets. We had no impairments during 2006, 2005, or 2004.

Intangible Assets Indefinite-Lived

Basis for Accounting Treatment

Our indefinite-lived intangible assets consist of customer relationships acquired in the 2005 acquisitions of Mayflower and Monona. We have accounted for these customer relationships as indefinite-live intangible assets, which we believe is appropriate based upon the following circumstances and conditions under which we operate:

Sourcing, Barriers to Entry and Competitor Risks

The customer sourcing decision for the Mayflower and Monona businesses is heavily predicated on price, quality, delivery and the overall customer relationship. Absent a significant change in any or all of these factors, it is unlikely that a customer would source production to an alternate supplier. In addition, the factors listed below impose a high barrier for new competitors to enter into this industry. Historical experience indicates that Mayflower and Monona have not lost any primary customers and/or relationships due to these factors and such loss is not anticipated in the foreseeable future for the following reasons:

Costs associated with setting up a new production line, including tooling costs, are typically cost prohibitive in a competitive pricing environment;

The risk associated with potential production delays and a disruption to the supply chain typically outweighs any potential economic benefit;

Significant initial outlays of capital and institutional production knowledge represent a significant barrier to entry. Due to the asset-intensive nature of the businesses, a new competitor would require a substantial amount of initial capital;

Changeover costs are high both from an economic and risk standpoint;

The highly complex nature of successfully producing electronic wiring harnesses and complete cab structures in accordance with OEM quality standards makes it difficult for a competitor to enter the business; and

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

There is significant risk in operating the businesses as a result of the highly customized nature of the business. For example, production runs in the commercial vehicle business are significantly smaller and are more build to order in nature which requires the systems, expertise, equipment and logistics to be successful.

These costs and risks are the primary prohibiting factors which preclude our customers from sourcing their business elsewhere at any given time.

Duration and Strength of Existing Customer Relationships/Concentrations of Revenue

Mayflower and Monona have long-standing relationships with their existing customers and have experienced de minimis historical attrition. These relationships have endured over time and accordingly, an assumption of prospective attrition is inconsistent with this historical experience and management's expectations. Both Mayflower and Monona have a limited customer base, consisting of three primary customers, that has existed for many years, and we had pre-existing long-standing relationships with the same primary customers prior to the acquisitions of Mayflower and Monona, which in most cases have exceeded a period of 40 years. We believe the addition of Mayflower and Monona further strengthens our existing customer relationships with such customers. Specifically:

Mayflower and Monona's relationships with their customers' key decision-making personnel are mature and stable.

Mayflower's and Monona's customers typically make purchasing decisions through a team approach versus a single decision maker. Mayflower and Monona have historically maintained strong relationships with individuals at all levels of the decision making process including the engineering, operations and purchasing functions in order to successfully minimize the impact of any employee turnover at the customer level.

The top three customers of Mayflower and Monona have been established customers for a substantial period of time.

Mayflower has had relationships with Volvo/Mack, Freightliner and International since 1965, 1997 and 2001, respectively. We, and/or our predecessor entities, had pre-existing relationships with these same customers since 1949, 1954 and 1950, respectively. These customers comprised approximately 88% and 85% of Mayflower's revenues for fiscal years 2006 and 2005, respectively.

Monona has had relationships with Deere & Co., Caterpillar and Oshkosh since 1969, 1970 and 1985, respectively. We, and/or our predecessor entities, had pre-existing relationships with these same customers since 1987, 1958 and 1950, respectively. These customers comprised approximately 85% and 88% of Monona's revenues for fiscal years 2006 and 2005, respectively.

Valuation Methodology

For valuation purposes, the income approach using the discounted cash flow method was employed for the purpose of evaluating the Mayflower and Monona customer relationship intangible assets. Under this approach, we determined that the fair value of the Mayflower and Monona customer relationship intangible assets at their dates of acquisition was \$45.9 million and \$28.9 million, respectively.

Significant assumptions used in the valuation and determination of an indefinite useful life for these customer relationship intangible assets included the following:

The revenue projections that we relied upon to substantiate the economic consideration paid for the businesses is almost exclusively tied to the existing customer base. With regard to the valuation process,

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

we projected less than 1% of total revenue in 2005 and 2006 to be lost due to core customer attrition and no core customer attrition thereafter.

Contributory asset charges were deducted for assets that contribute to income generation including: (i) net working capital; (ii) personal property; (iii) real property; (iv) tradename and trademarks; and (v) an assembled workforce.

The cash flows associated with the customer relationships acquired in the Mayflower and Monona transactions were discounted at a rate of return of 25.0% and 29.5%, respectively, which is approximately equal to the equity rate of return.

Intangible Asset Impairment Accounting Treatment

If Mayflower and/or Monona were to prospectively lose any of their customers, in accordance with the provisions of paragraphs 16 and 17 of SFAS No. 142, *Goodwill and Other Intangible Assets*, we would perform an intangible asset impairment test to determine the impact of the loss on the customer relationship intangible asset and if impairment was indicated, we would record an impairment loss in our consolidated statement of operations.

Other Assets Other assets primarily consist of the fair value of our foreign exchange forward contracts of approximately \$8.5 million at December 31, 2006 and \$4.3 million at December 31, 2005 and debt financing costs of approximately \$4.8 million at December 31, 2006 and approximately \$6.0 million at December 31, 2005, which are being amortized over the term of the related obligations.

Revenue Recognition Product revenue is derived from sales of our various manufactured products. Our revenue recognition policy is in accordance with the SEC's SAB No. 101, *Revenue Recognition in Financial Statements*, SAB No. 104, *Revenue Recognition*, and other authoritative accounting literature. In accordance with the provisions of such authoritative accounting literature, we recognize revenue when 1) delivery has occurred or services have been rendered, 2) persuasive evidence of an arrangement exists, 3) there is a fixed or determinable price, and 4) collectibility is reasonably assured. Our products are generally shipped from our facilities to our customers, which is when title passes to the customer for substantially all of our revenues.

Provisions for anticipated contract losses are recognized at the time they become evident. In that regard, in certain instances, we may be committed under existing agreements to supply product to our customers at selling prices that are not sufficient to cover the cost to produce such product. In such situations, we record a provision for the estimated future amount of such losses. Such losses are recognized at the time that the loss is probable and reasonably estimable and are recorded at the minimum amount necessary to fulfill our obligations to our customers. We had no such recorded loss as of December 31, 2006, and \$0.1 million and \$0.6 million at December 31, 2005 and 2004, respectively. These amounts, as they relate to the year ended December 31, 2005 are included within accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheets.

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 record provisions for estimated future customer warranty costs based on historical trends and current economic factors. These amounts, as they relate to the years ended December 31, 2006 and 2005 are

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

included within accrued expenses in the accompanying consolidated balance sheets. The following presents a summary of the warranty provision for the years ended December 31 (in thousands):

	2006	2005
Balance Beginning of the year	\$ 7,117	\$ 2,408
Increase due to acquisitions	12	5,183
Additional provisions recorded	3,391	2,074
Deduction for payments made	(5,366)	(2,515)
Currency translation adjustment	43	(33)
Balance End of year	\$ 5,197	\$ 7,117

Income Taxes We account for income taxes following the provisions of SFAS No. 109, *Accounting for Income Taxes*, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the our financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax laws and rates.

Comprehensive (Loss) We follow the provisions of SFAS No. 130, *Reporting Comprehensive Income*, which established standards for reporting and display of comprehensive income and its components. Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive (loss) represents net income adjusted for foreign currency translation adjustments, minimum pension liability and the deferred gain (loss) on certain derivative instruments utilized to hedge certain of our interest rate exposures. In accordance with SFAS No. 130, we have chosen to disclose comprehensive (loss) in the consolidated statements of stockholders' investment. The components of accumulated other comprehensive (loss) consisted of the following as of December 31 (in thousands):

	2006	2005
Foreign currency translation adjustment	\$ 5,457	\$ 1,583
Pension liability	(6,702)	(2,926)
	\$ (1,245)	\$ (1,343)

Fair Value of Financial Instruments At December 31, 2006, our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt, unless otherwise noted. 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 the interest cost associated with such instruments.

Concentrations of Credit Risk Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable. We place our cash equivalents with high credit-quality financial institutions. We sell products to various companies throughout the world in the ordinary course of business. We routinely assess the financial strength of our customers and maintain

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

allowances for anticipated losses. Customers that accounted for a significant portion of consolidated revenues for each of the three years ended December 31 were as follows:

	2006	2005	2004
International	22%	19%	9%
PACCAR	17	17	28
Freightliner	13	16	17
Volvo/Mack	13	14	6
Caterpillar	8	7	5

As of December 31, 2006 and 2005, receivables from these customers represented approximately 67% and 72% of total receivables, respectively.

Foreign Currency Translation Our functional currency is the local currency. Accordingly, all assets and liabilities of our foreign subsidiaries are translated using exchange rates in effect at the end of the period and revenue and costs are translated using average exchange rates for the period. The related translation adjustments are reported in accumulated other comprehensive income in stockholders' investment. Translation gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in the results of operations.

Foreign Currency Forward Exchange Contracts We use forward exchange contracts to hedge certain of our foreign currency transaction exposures of our United Kingdom operations. 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 position. The contract duration is typically between three months and three years. These contracts are marked-to-market and the fair value is included in assets or liabilities in the accompanying consolidated balance sheets, with the offsetting noncash gain or loss included in the accompanying consolidated statements of operations. We do not hold or issue foreign exchange options or forward contracts for trading purposes. The following table summarizes the notional amount of our open foreign exchange contracts at December 31, 2006 (in thousands):

	Local Currency Amount	U.S. \$ Equivalent	U.S. \$ Equivalent Fair Value
Commitments to sell currencies:			
U.S. Dollar	(715)	\$ (715)	\$ (715)
Eurodollar	36,286	50,768	48,516
Swedish krona	15,000	2,194	2,197
Japanese yen	3,525,000	37,476	31,291
Australian Dollar	2,850	2,273	2,238

The difference between the U.S. \$ equivalent and U.S. \$ equivalent fair value of approximately \$8.5 million and \$4.3 million is included in other assets in the consolidated balance sheet at December 31, 2006 and 2005, respectively.

Recently Issued Accounting Pronouncements In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* an amendment of SFAS No. 133 and No. 140, which is effective for fiscal years beginning after September 15, 2006. The statement was issued to clarify the application of SFAS No. 133 to beneficial interests in securitized financial assets and to improve the consistency of accounting for similar financial instruments, regardless of the form of the instruments. We have evaluated the new statement and have determined that it will not have a significant impact on our consolidated financial position and results of operations.

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets – an amendment of SFAS No. 140*, which is effective for fiscal years beginning after September 15, 2006. This statement was issued to simplify the accounting for servicing rights and to reduce the volatility that results from using different measurement attributes. We have evaluated the new statement and have determined that it will not have a significant impact on our consolidated financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements, uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. FIN 48 also revises disclosure requirements to include an annual tabular roll forward of unrecognized tax benefits. The provisions of this interpretation are required to be adopted for fiscal periods beginning after December 15, 2006. We will be required to apply the provisions of FIN 48 to all tax positions upon initial adoption in the first quarter 2007, with any cumulative effect adjustment to be recognized as an adjustment to retained earnings. We are currently in the process of determining the impact of the adoption of this authoritative guidance on our consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, of adopting the provisions of SFAS No. 157 on our consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(r)*. SFAS No. 158 requires an employer to recognize the funded status of defined benefit pension and other post-retirement benefit plans as an asset or liability in our consolidated balance sheets and to recognize changes in that funded status in the year in which the changes occur through accumulated other comprehensive income in stockholders' investment. SFAS No. 158 also requires that, beginning in 2008, our assumptions used to measure our annual defined benefit pension and other post-retirement benefit plans be determined as of the balance sheet date, and all plan assets and liabilities be reported as of that date. Currently, the assumptions used to measure our annual defined benefit pension and other post-retirement benefit plan expenses are determined as of October 1 or December 31 (measurement dates) for our various plans, and all plan assets and liabilities are generally reported as of those dates. In accordance with the provisions of SFAS No. 158, prior year amounts have not been adjusted. We adopted SFAS No. 158 as of December 31, 2006 and recognized the funded status of our defined benefit pension and other post-retirement benefit plans in our consolidated financial statements, based upon the most recent valuations of our defined benefit pension and other post-retirement benefit obligations. The financial impact of the adoption increased liabilities by approximately \$5.4 million and reduced accumulated other comprehensive income, a component of stockholders' investment, by a net after-tax amount of approximately \$3.5 million, based on our current assumptions of discount rate and return on plan assets. The adoption of SFAS No. 158 did not have a significant impact on our credit or debt ratios or financing covenants. See Note 14 to our consolidated financial statements for further information regarding

the adoption of this authoritative literature.

In September 2006, the United States Securities and Exchange Commission (SEC) issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year*

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Financial Statements. SAB 108 is effective for fiscal years ending on or after November 15, 2006 and addresses how financial statement errors should be considered from a materiality perspective and corrected. The literature provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Historically there have been two common approaches used to quantify such errors: (i) the rollover approach, which quantifies the error as the amount by which the current year income statement is misstated, and (ii) the iron curtain approach, which quantifies the error as the cumulative amount by which the current year balance sheet is misstated. The SEC Staff believes that companies should quantify errors using both approaches and evaluate whether either of these approaches results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. We have evaluated the impact of adopting the provisions of SAB 108 and have determined that it had no impact on our consolidated financial position and results of operations.

3. Business Combinations

On November 29, 2006, we acquired all of the outstanding common stock of C.I.E.B. for approximately \$8.8 million, and C.I.E.B. became an indirect wholly-owned subsidiary of CVG. C.I.E.B. is a seat manufacturer primarily for the commercial bus and truck markets. From the date of acquisition through December 31, 2006, C.I.E.B. recorded revenues of approximately \$1.0 million and operating income of approximately \$0.1 million. The C.I.E.B. acquisition was financed with borrowings from our revolving credit facility. The operating results of C.I.E.B. have been included in our 2006 consolidated financial statements since the date of acquisition. On a pro forma basis, had the C.I.E.B. acquisition been included in our consolidated financial statements for the full year 2006, our revenues would have increased by approximately \$9.6 million and operating income would have increased by approximately \$1.1 million.

The C.I.E.B. acquisition was accounted for by the purchase method of accounting. Under purchase accounting, the preliminary purchase price is allocated to the tangible and intangible assets and liabilities of C.I.E.B. based upon their respective fair values. We continue to evaluate the purchase price allocation, including intangible assets, contingent liabilities and property, plant and equipment, and expect to revise the purchase price allocation as better information becomes available. The preliminary purchase price and costs associated with the C.I.E.B. acquisition exceeded the preliminary fair value of the net assets acquired by approximately \$5.9 million. Our valuation of goodwill as of December 31, 2006 is as follows (in thousands):

Contract purchase price	\$ 9,332
Working capital and other adjustments	(514)
Preliminary purchase price (cash consideration)	8,818
Transaction costs and other adjustments	214
Net assets at historical cost	(3,151)
Excess of purchase price over net assets acquired	\$ 5,881

Under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations*, the preliminary purchase price as shown above is allocated to C.I.E.B.'s tangible and intangible assets and

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

liabilities based on their estimated fair values as of the date of the acquisition. The preliminary purchase price allocation as of December 31, 2006 was as follows (in thousands):

Accounts receivable	\$ 1,834
Inventories	1,284
Other current assets	57
Property, plant and equipment, net	1,797
Goodwill and other intangibles	5,881
Current liabilities	(1,914)
Other long term liabilities	(121)
Net assets acquired	\$ 8,818

The following pro forma information presents the result of operations as if the 2005 acquisitions of Mayflower, Monona, Cabarrus and the 2006 acquisition of C.I.E.B. had taken place at the beginning of each period presented below. The pro forma results are not necessarily indicative of the financial position or result of operations had the acquisitions taken place on the dates indicated. In addition, the pro forma results are not necessarily indicative of the future financial or operating results.

	2006 (Unaudited) (In thousands, except per	2005 (Unaudited) (In thousands, except per
	share data)	
Revenue	\$ 928,302	\$ 838,545
Operating income	\$ 98,543	\$ 99,235
Net income	\$ 58,420	\$ 53,242
Earnings Per Share:		
Basic	\$ 2.76	\$ 2.74
Diluted	\$ 2.71	\$ 2.70

4. Inventories, net

Inventories consisted of the following as of December 31 (in thousands):

	2006	2005
Raw materials	\$ 61,617	\$ 46,218
Work in process	14,436	12,571
Finished goods	17,314	13,655

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

Less: excess and obsolete	(4,644)	(3,391)
	\$ 88,723	\$ 69,053

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Accrued Liabilities**

Accrued liabilities consisted of the following as of December 31 (in thousands):

	2006	2005
Compensation and benefits	\$ 18,277	\$ 16,069
Warranty costs	5,197	7,117
Product liability	165	286
Interest	6,104	5,974
Income and other taxes	883	490
Facility closure and consolidation costs		1,605
Freight	482	312
Other	9,862	11,130
	\$ 40,970	\$ 42,983

6. Restructuring and Integration

Restructuring In 2000, we recorded a \$5.6 million restructuring charge as part of our cost and efficiency initiatives, closing two manufacturing facilities, two administrative centers and reorganizing our manufacturing and administrative functions. Approximately \$1.7 million of the charge was related to employee severance and associated benefits for the 225 terminated employees, approximately \$2.6 million related to lease and other contractual commitments associated with the facilities and approximately \$1.3 million of asset impairments related to the write-down of assets. All employees were terminated by 2001. The contractual commitments continued through mid-2005.

In 2001, we continued our cost and efficiency initiatives and closed a third manufacturing facility. Of the total \$0.4 million restructuring charge, approximately \$0.1 million related to employee severance and associated benefits for 77 employees and approximately \$0.3 million related to lease and other contractual commitments associated with the facility. All employees were terminated by 2002. As of December 31, 2005, we completed our restructuring activities as described above.

A summary of these restructuring activities for the years ended December 31, 2006 and 2005 is as follows (in thousands):

Employee Costs	Facility Exit and Other Contractual Costs	Total
---------------------------	--	--------------

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

Balance	December 31, 2004	\$	\$	278	\$ 278
Usage/cash payments				(278)	(278)

Balance December 31, 2005
Usage/cash payments

Balance	December 31, 2006	\$	\$	\$
---------	-------------------	----	----	----

Integration In connection with the acquisitions of Bostrom plc and the predecessor to CVS, facility consolidation plans were designed and implemented to reduce the cost structure and to better integrate the acquired operations. Purchase liabilities recorded as part of the acquisitions included approximately \$3.3 million for costs associated with the shutdown and consolidation of certain acquired facilities and severance and other contractual costs. At December 31, 2006, we had principally completed our actions under these plans,

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

other than certain contractual commitments, which continue through 2008. Summarized below is the activity related to these actions (in thousands):

	Employee Costs	Facility Exit and Other Contractual Costs	Total
Balance December 31, 2004	\$	\$ 423	\$ 423
Usage/cash payments		(106)	(106)
Balance December 31, 2005		317	317
Usage/cash payments		(70)	(70)
Balance December 31, 2006	\$	\$ 247	\$ 247

In connection with the June 8, 2005 acquisition of Monona, plans were established to realign certain operations in an effort to achieve synergies between us and Monona, including the closure of our Spring Green, Wisconsin operations and the administrative office located in Naperville, Illinois. Purchase liabilities recorded as part of the acquisition include approximately \$0.9 million related to employee severance and associated benefits for approximately 100 employees and approximately \$1.1 million related to facility exit, transition and other estimated costs. These activities were substantially complete as of December 31, 2006. Summarized below is the activity related to these actions (in thousands):

	Employee Costs	Facility Exit and Other Contractual Costs	Total
Balance December 31, 2004	\$	\$	\$
Additional reserves	946	1,067	2,013
Balance December 31, 2005	946	1,067	2,013
Usage/cash payments	(886)	(1,067)	(1,953)
Balance December 31, 2006	\$ 60	\$	\$ 60

7. Debt

Debt consisted of the following at December 31 (in thousands):

	2006	2005
Revolving credit facilities bore interest at a weighted average of 7.1% as of December 31, 2006 and 6.6% as of December 31, 2005 due 2010	\$ 1,469	\$ 3,446
Term loans, with principal and interest payable quarterly, bore interest at a weighted average rate of 6.8% as of December 31, 2006 and 6.3% as of December 31, 2005 due 2010	10,295	37,152
8.0% senior notes due 2013	150,000	150,000
Other	350	411
	162,114	191,009
Less current maturities	2,158	5,309
	\$ 159,956	\$ 185,700

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Future maturities of debt as of December 31, 2006 are as follows (in thousands):

Year Ending December 31,

2007	\$ 2,158
2008	2,553
2009	2,867
2010	4,534
2011	2
Thereafter	150,000

Credit Agreement We account for amendments to our revolving credit facility under the provisions of EITF Issue No. 98-14, *Debtor's Accounting for the Changes in Line-of-Credit or Revolving-Debt Arrangements* (EITF 98-14), and our term loan and 8.0% senior notes under the provisions of EITF Issue No. 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments* (EITF 96-19). Historically, we have periodically amended the terms of our revolving credit facility and term loan to increase or decrease the individual and collective borrowing base of the instruments on an as needed basis. We have not modified the terms of our 8.0% senior notes subsequent to the original offering date. In connection with an amendment of our revolving credit facility, bank fees incurred are deferred and amortized over the term of the new arrangement and, if applicable, any outstanding deferred fees are expensed proportionately or in total, as appropriate per the guidance of EITF 98-14. In connection with an amendment of our term loan, under the terms of EITF 96-19, bank and any third-party fees are either expensed as an extinguishment of debt or deferred and amortized over the term of the agreement based upon whether or not the old and new debt instruments are substantially different.

In connection with our August 2004 initial public offering (IPO), we entered into a \$105.0 million senior credit agreement, consisting of a \$40.0 million revolving credit facility and a \$65.0 million term loan. We used borrowings under the term loan, together with proceeds of the IPO to repay all amounts outstanding under our then-existing senior credit agreement and our then-existing subordinated indebtedness. In connection with this senior credit agreement, we recorded a loss on early extinguishment of debt of approximately \$1.6 million, relating to outstanding deferred fees from our prior debt agreements.

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

In connection with the June 2005 acquisition of Monona, we amended our senior credit agreement to increase the revolving credit facility from approximately \$75.0 million to \$100.0 million. We used borrowings of approximately \$58.0 million under our amended senior credit agreement to fund substantially all of the purchase price of the Monona acquisition. The revolving credit facility is available until January 31, 2010 and the term loan is due and payable on

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

December 31, 2010. This amendment increased certain baskets in the lien, investments and asset disposition covenants to reflect our increased size as a result of the Mayflower and Monona acquisitions. In connection with this change in our senior credit agreement, we incurred bank fees totaling approximately \$0.4 million that were deferred and are being amortized over the term of the agreement (until 2010).

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the July 2005 secondary public equity offering and private offering of \$150.0 million aggregate principal amount of 8.0% senior notes due 2013, we entered into additional amendments to the senior credit agreement that provided for, among other things, the occurrence of these offerings. The net proceeds of approximately \$190.8 million from these offerings were primarily used to repay indebtedness under the senior credit agreement. Concurrent with the repayment of the outstanding debt, our total borrowing base under the amended senior credit agreement was reduced to approximately \$140.0 million. Accordingly, we expensed \$1.5 million of unamortized deferred financing fees as a loss on early extinguishment of debt. In connection with the July 2005 8.0% senior notes offering, we incurred third-party fees totaling approximately \$4.3 million that were deferred and are being amortized over the term of the notes (until 2013).

In December 2005, we amended our senior credit agreement to increase our annual capital expenditure limit from approximately \$25.0 million per annum to \$40.0 million per annum in connection with our growth and development strategy.

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

As of December 31, 2006, approximately \$4.8 million in deferred fees relating to previous amendments of our senior credit agreement and fees related to the 8.0% senior note offering were outstanding and are being amortized over the life of the agreements.

The senior credit agreement provides us with the ability to denominate a portion of our borrowings in foreign currencies. As of December 31, 2006, none of the revolving credit facility borrowings and none of the term loan were denominated in U.S. dollars, and approximately \$1.5 million of the revolving credit facility borrowings and approximately \$10.3 million of the term loan were denominated in British pounds sterling.

Prior to May 2, 2005, we also had \$6.5 million of indebtedness from borrowings financed through the issuance of industrial development bonds relating to our Vonore, Tennessee facility. These borrowings had a final maturity of August 1, 2006 and bore interest at a variable rate which was adjusted on a weekly basis by the placement agent such that the interest rate on the bonds was sufficient to cause the market value of the bonds to be equal to, as nearly as practicable, 100% of their principal amount. On May 2, 2005 we redeemed these bonds for approximately \$6.5 million.

Terms, Covenants and Compliance Status Our senior credit agreement contains various restrictive covenants, including limiting indebtedness, rental obligations, investments and cash dividends, and also requires the maintenance of certain financial ratios, including fixed charge coverage and funded debt to EBITDA as defined by our senior credit agreement. We were in compliance with respect to these covenants as of December 31, 2006. Under this agreement, borrowings bear interest at various rates plus a margin based on certain financial ratios. Borrowings under the senior credit agreement are secured by specifically identified assets, comprising in total, substantially all assets. Additionally, as of December 31, 2006, we had outstanding letters of credit of approximately \$1.8 million.

8. Goodwill and Intangible Assets

Goodwill represents the excess of acquisition purchase price over the fair value of net assets acquired. In July 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Intangible Assets*. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed annually or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have indefinite lives will continue to be

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amortized over their useful lives, but with no maximum life. Prior to the adoption of SFAS No. 142 on January 1, 2002, goodwill was being amortized on a straight-line basis over 40 years.

We review goodwill and 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 SFAS No. 142. We review definite-lived intangible assets in accordance with the provisions of SFAS No. 142 and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of our reporting unit to our carrying value. Our reporting unit is consistent with the reportable segment identified in Note 10 to our consolidated financial statements contained in this Annual Report on Form 10-K for the year ended December 31, 2006. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds the implied fair value, then we would record an impairment loss equal to the difference. SFAS No. 142 also requires that the fair value of the purchased intangible assets with indefinite lives be estimated and compared to the carrying value. We estimate the fair value of these intangible assets using an income approach. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value. In this regard, management considers the following indicators in determining if events or changes in circumstances have occurred indicating that the recoverability of the carrying amount of indefinite-lived and amortizing intangible assets should be assessed: (1) a significant decrease in the market value of an asset; (2) a significant change in the extent or manner in which an asset is used or a significant physical change in an asset; (3) a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator; (4) an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset; and (5) a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue. Our annual goodwill and indefinite-lived (SFAS No. 142) and definite-life intangible asset (SFAS No. 144) impairment analysis was performed during the second quarter of fiscal 2006 and did not result in an impairment charge.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. The valuation approaches we use include the Income Approach (the Discounted Cash Flow Method) and the Market Approach (the Guideline Company and Transaction Methods) to estimate the fair value of the reporting unit; earnings are emphasized in the Discounted Cash Flow, Guideline Company, and the Transaction Methods. In addition, these methods utilize market data in the derivation of a value estimate and are forward-looking in nature. The Discounted Cash Flow Method utilizes a market-derived rate of return to discount anticipated performance, while the Guideline Company Method and the Transaction Method incorporate multiples that are based on the market's assessment of future performance. Actual future results may differ materially from those estimates.

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Principal Factors Contributing to the Recognition of Goodwill

Mayflower:

The primary reasons for the acquisition of Mayflower and the principal factors that contributed to a purchase price that resulted in the recognition of goodwill were:

Mayflower is the only non-captive producer of complete steel and aluminum truck cabs for the commercial vehicle sector in North America;

We believe the acquisition allows us to be the only supplier worldwide to offer complete cab systems in sequence, integrating interior trim and seats with the cab structure;

We believe the acquisition gives us a leading position in North American cab structures and complete cab assemblies, as well as full service cab and sleeper engineering and development capabilities; and

Mayflower broadens our revenue base at International, Volvo/Mack and Freightliner and enhances our cross-selling opportunities.

Monona:

The primary reasons for the acquisition of Monona and the principal factors that contributed to a purchase price that resulted in the recognition of goodwill were:

Monona operates in the U.S. and Mexico which enhances our international footprint, solidifies our domestic footprint and allows for cost savings opportunities;

We believe Monona will enhance our ability to offer comprehensive cab systems to our customers and expands our electronic assembly capabilities; and

Monona broadens our revenue base at Caterpillar, Oshkosh and Deere & Co. and enhances our cross-selling opportunities.

Cabarrus:

The primary reasons for the acquisition of Cabarrus and the principal factors that contributed to a purchase price that resulted in the recognition of goodwill were:

Cabarrus offers injection molding capabilities and expertise which enhances our molding and plastics product portfolio; and

We believe Cabarrus offers cross-selling opportunities as well as the capability to in-source products for cost savings opportunities.

C.I.E.B.:

The primary reasons for the acquisition of C.I.E.B. and the principal factors that contributed to a purchase price that resulted in the recognition of goodwill were:

C.I.E.B. provides us with a wide variety of bus and truck seats, complements our existing product offering and provides us with a well positioned platform to utilize as a building block for our global expansion and sourcing efforts.

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our intangible assets as of December 31, 2006 and 2005 were comprised of the following, respectively (in thousands):

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

		December 31, 2005		
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:				
Tradenames/Trademarks	30 years	\$ 9,790	\$ (263)	\$ 9,527
Licenses	7 years	438	(188)	250
		\$ 10,228	\$ (451)	\$ 9,777
Indefinite-lived intangible assets:				
Goodwill		\$ 125,607	\$	\$ 125,607
Customer relationships		74,800		74,800
		\$ 200,407	\$	\$ 200,407

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

Total consolidated goodwill and intangible assets	\$ 210,184
---	------------

The aggregate intangible asset amortization expense was approximately \$0.4 million and \$0.3 million, for the fiscal years ended December 31, 2006 and 2005, respectively.

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

2007	\$ 389
2008	\$ 389
2009	\$ 389
2010	\$ 326
2011	\$ 326

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The changes in the carrying amounts of goodwill for the fiscal year ended December 31, 2006, were comprised of the following (in thousands):

Balance December 31, 2005	\$ 125,607
Increase due to acquisition	5,881
Post-acquisition adjustments	634
Asset sale	(357)
Currency translation adjustment	3,001
Balance December 31, 2006	\$ 134,766

9. Accounting for Income Taxes

Pre-tax income consisted of the following for the years ended December 31 (in thousands):

	2006	2005	2004
Domestic	\$ 76,336	\$ 70,673	\$ 17,996
Foreign	9,459	7,876	5,934
Total	\$ 85,795	\$ 78,549	\$ 23,930

A reconciliation of income taxes computed at the statutory rates to the reported income tax provision for the years ended December 31 is as follows (in thousands):

	2006	2005	2004
Federal provision at statutory rate	\$ 30,028	\$ 27,492	\$ 8,136
U.S. tax on foreign income	272	702	779
Foreign provision in excess (less) than U.S. tax rate	(231)	(242)	(20)
State taxes, net of federal benefit	1,864	1,625	1,087
Extraterritorial income exclusion	(2,169)	(55)	(37)
Manufacturer's tax credit deduction	(610)	(420)	
Other	(175)	914	344
Valuation allowance	41		(3,808)
R&D tax credit	(1,275)	(878)	
Provision for income taxes	\$ 27,745	\$ 29,138	\$ 6,481

The provision for income taxes for the years ended December 31 is as follows (in thousands):

	2006	2005	2004
Current	\$ 18,328	\$ 21,890	\$ 5,141
Deferred	9,417	7,248	1,340
Provision for income taxes	\$ 27,745	\$ 29,138	\$ 6,481

Table of Contents**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of deferred income tax assets and liabilities as of December 31 is as follows (in thousands):

	2006	2005
Current deferred tax assets:		
Accounts receivable	\$ 1,560	\$ 1,690
Inventories	2,950	1,913
Warranty costs	2,550	3,465
Foreign exchange contracts	(2,947)	(1,509)
Stock options	1,478	2,412
Accrued benefits	1,830	2,639
Other accruals not currently deductible for tax purposes	1,398	1,961
Net current deferred assets	\$ 8,819	\$ 12,571
Noncurrent deferred tax liabilities:		
Amortization and fixed assets	\$ (24,212)	\$ (19,506)
Pension obligation	7,629	6,160
Net operating loss carryforwards	1,548	2,511
Foreign tax credit carryforwards	3,818	1,928
Valuation allowance	(41)	
Other accruals not currently deductible for tax purposes	647	105
Net noncurrent deferred tax (liabilities)	\$ (10,611)	\$ (8,802)

As of December 31, 2006, we had approximately \$2.6 million of federal and \$16.5 million of state net operating loss carryforwards related to our U.S. operations. Utilization of these losses is subject to the tax laws of the applicable tax jurisdiction and our legal organizational structure, and may be limited by the ability of certain subsidiaries to generate taxable income in the associated tax jurisdiction. Our net operating loss carryforwards expire beginning in 2016 and continue through 2025. The deferred income tax provision consists of the change in the deferred income tax assets, adjusted for the impact of the tax benefit on the cumulative effect of the change in accounting and the tax impact of certain of the other comprehensive income (loss) items. Deferred taxes have not been provided on unremitted earnings of certain foreign subsidiaries that arose in fiscal years ending on or before December 31, 2006. It is not practical to determine the additional tax, if any, that would result from the remittance of these amounts.

We operate in multiple jurisdictions and are routinely under audit by federal, state and international tax authorities. Exposures exist related to various filing positions which may require an extended period of time to resolve and may result in income tax adjustments by the taxing authorities. Reserves for these potential exposures have been established which represent management's best estimate of the probable adjustments. On a quarterly basis, management evaluates the reserve amounts in light of any additional information and adjusts the reserve balances as necessary to reflect the best estimate of the probable outcomes. Management believes that we have established the appropriate reserve for these estimated exposures. However, actual results may differ from these estimates. The

resolution of these matters in a particular future period could have an impact on our consolidated statement of operations and provision for income taxes.

10. Segment Reporting

In accordance with the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, our operating components constitute a single operating segment due to the manner in which our key decisions are made as well as the manner in which our operating components collectively

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

support similar markets and customers, utilize similar manufacturing and assembly processes and utilize the same centralized network of personnel.

The following table presents revenues and long-lived assets for each of the geographic areas in which we operate (in thousands):