

Commercial Vehicle Group, Inc.

Form 10-Q

November 06, 2009

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

**Form 10-Q**

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

**For the quarterly period ended September 30, 2009**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 001-34365**

**COMMERCIAL VEHICLE GROUP, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-1990662**

(I.R.S. Employer  
Identification No.)

**7800 Walton Parkway  
New Albany, Ohio**

(Address of principal executive offices)

**43054**

(Zip Code)

**(614) 289-5360**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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



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

**PART**

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

(LOSS) EARNINGS PER COMMON SHARE:

Basic	\$ (0.73)	\$ (0.12)	\$ (2.66)	\$ 0.04
Diluted	\$ (0.73)	\$ (0.12)	\$ (2.66)	\$ 0.04

WEIGHTED AVERAGE SHARES

OUTSTANDING:

Basic	21,747	21,537	21,747	21,537
Diluted	21,747	21,537	21,747	21,700

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

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

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

Total stockholders' (deficit) investment	(6,106)	43,942
<b>TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>	<b>\$ 275,352</b>	<b>\$ 354,761</b>

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

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

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

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

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

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**COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Description of Business and Basis of Presentation**

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

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

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

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

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

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

**2. Recently Issued Accounting Pronouncements**

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

serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

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

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

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

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

**3. Fair Value Measurement**

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

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

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

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

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

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

	September 30, 2009				December 31, 2008			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivative assets <sup>(1)</sup>	\$ 3	\$	\$ 3	\$	\$ 32	\$	\$ 32	\$
Deferred compensation <sup>(2)</sup>	1,500	1,500			1,223	1,223		
Total assets	\$ 1,503	\$ 1,500	\$ 3	\$	\$ 1,255	\$ 1,223	\$ 32	\$
Derivative liabilities <sup>(1)</sup>	\$ 8,180	\$	\$ 8,180	\$	\$ 15,331	\$	\$ 15,331	\$

(1) Based on observable market transactions of spot and forward rates.

(2) Deferred compensation

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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value of approximately \$4.2 million, resulting in an impairment charge of approximately \$3.4 million recorded in the second fiscal quarter of 2009.

**4. Restructuring Activities**

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

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

**5. Share-Based Compensation***Stock Option Grants and Restricted Stock Awards*

In November 2005, 168,700 shares of restricted stock and in November 2006, 207,700 shares of restricted stock were awarded by our compensation committee under our Amended and Restated Equity Incentive Plan. Restricted stock is a grant of shares of common stock that may not be sold, encumbered or disposed of, and that may be forfeited in the event of certain terminations of employment prior to the end of a restricted period set by the compensation committee. The shares of restricted stock granted in November 2005 vest ratably in three equal annual installments commencing on October 20, 2006. The shares of restricted stock granted in November 2006 vest ratably in three equal annual installments commencing on October 20, 2007. A participant granted restricted stock generally has all of the rights of a stockholder, unless the compensation committee determines otherwise.

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

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

In November 2008, 798,450 shares of restricted stock were awarded by our compensation committee under our Second Amended and Restated Equity Incentive Plan. The shares of restricted stock granted in November 2008 vest in

three equal annual installments commencing on October 20, 2009.

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

As of September 30, 2009, there was approximately \$2.0 million of unearned compensation expense related to non-vested share-based compensation arrangements granted under the Plan. This expense is subject to future adjustments for vesting and forfeitures and will be recognized on a straight-line basis over the remaining period of one month for the November 2006, February 2007 and March 2007 awards, 13 months for the October 2007 awards and 25 months for the November 2008 awards, respectively.

We currently estimate the forfeiture rates for the November 2006, February/March 2007, October 2007 and November 2008 restricted stock awards at 11.2%, 0%, 6.9% and 5.0%, respectively, for all participants in the plan. The following table summarizes information about the non-vested restricted stock grants as of September 30, 2009:

	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2008	1,072	\$ 8.49
Granted		
Vested		
Forfeited	(72)	5.02
Nonvested at September 30, 2009	1,000	\$ 8.67

As of September 30, 2009, 1.3 million shares of the 3.2 million shares authorized for issuance were available for issuance under the Plan, including cumulative forfeitures.

**6. Stockholders Investment**

*Common Stock* Our authorized capital stock consists of 30,000,000 shares of common stock with a par value of \$0.01 per share.

*Preferred Stock* Our authorized capital stock consists of 5,000,000 shares of preferred stock with a par value of \$0.01 per share, with no shares outstanding as of September 30, 2009.

*Earnings Per Share* Basic earnings per share is determined by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share, and all other diluted per share amounts presented, is determined by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period as determined by the Treasury Stock Method, as amended, in compensation stock compensation accounting guidance. Potential common shares are included in the diluted earnings per share calculation when dilutive. Diluted earnings per share for the three and nine months ended September 30, 2009 and 2008 includes the effects of potential common shares consisting of common stock issuable upon exercise of outstanding stock options when dilutive (in thousands, except per share amounts):

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	2009	2008	2009	2008
Net (loss) income applicable to common shareholders basic and diluted	\$ (15,882)	\$ (2,603)	\$ (57,799)	\$ 952
Weighted average number of common shares outstanding	21,747	21,537	21,747	21,537
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Dilutive effect of outstanding stock options and restricted stock grants after application of the Treasury Stock Method

Dilutive shares outstanding	21,747	21,537	21,747	21,700
Basic (loss) earnings per share	\$ (0.73)	\$ (0.12)	\$ (2.66)	\$ 0.04
Diluted (loss) earnings per share	\$ (0.73)	\$ (0.12)	\$ (2.66)	\$ 0.04

For the three months ended September 30, 2009, diluted loss per share did not include approximately 491 thousand outstanding non-vested restricted stock and approximately 426 thousand warrants, as the effect would have been

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antidilutive. For the three months ended September 30, 2008, diluted loss per share excludes approximately 106 thousand outstanding stock options and 105 thousand non-vested restricted stock, as the effect would have been antidilutive. For the nine months ended September 30, 2009, diluted loss per share did not include approximately 209 thousand outstanding non-vested restricted stock and approximately 142 thousand warrants, as the effect would have been antidilutive.

*Dividends* We have not declared or paid any cash dividends in the past. The terms of our Loan and Security Agreement restricts the payment or distribution of our cash or other assets, including cash dividend payments.

*Stockholder Rights Plan* In May 2009, our board of directors adopted a Stockholder Rights Plan ( Rights Plan ) intended to protect stockholders from coercive or otherwise unfair takeover tactics.

Under the Rights Plan, with certain exceptions, the rights will become exercisable only if a person or group acquires 20 percent or more of our outstanding common stock or commences a tender or exchange offer that could result in ownership of 20 percent or more of our common stock. The Rights Plan has a term of 10 years and will expire on May 20, 2019, unless the rights are earlier redeemed or terminated by the board of directors.

*Common Stock Warrants* On August 4, 2009, we issued 745,000 warrants to purchase common stock. The units were issued pursuant to a warrant and unit agreement with U.S. Bank National Association, as unit agent and warrant agent. Each warrant was issued as part of a unit consisting of (i) \$1,000 principal amount of 11%/13% third lien senior secured notes due 2013 and (ii) 17.68588 warrants. The units are immediately separable.

Each warrant entitles the holder thereof to purchase one share of our common stock at an exercise price of \$0.35 per share. The warrants provide for mandatory cashless exercise. The number of shares for which a warrant may be exercised and the exercise price are subject to adjustment in certain events. The warrants are exercisable at any time on or after separation and prior to their expiration on August 4, 2019.

**7. Accounts Receivable**

Trade accounts receivable are stated at historical value less an allowance for doubtful accounts, which approximates fair value. This estimated allowance is based primarily on management's evaluation of specific balances as the balances become past due, the financial condition of 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.

**8. Inventories**

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

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Raw materials	\$ 44,319	\$ 57,954
Work in process	8,992	19,763
Finished goods	11,938	19,437
Less excess and obsolete	(7,264)	(6,372)
	<b>\$ 57,985</b>	<b>\$ 90,782</b>

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.

**9. Intangible Assets**

We review indefinite-lived intangible assets for impairment annually in the second fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable. The accounting guidance requires that

the

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fair value of the purchased intangible assets with indefinite lives be estimated and compared to the carrying value. Determining the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions. We base our fair value estimates on assumptions we believe to be reasonable, but that are inherently uncertain. To estimate the fair value of these intangible assets, we use an income approach, which utilizes a market derived rate of return to discount anticipated performance. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value.

We review definite-lived intangible and long-lived assets for recoverability whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. A determination is made by management to ascertain whether property and equipment and certain definite-lived intangibles have been impaired based on the sum of expected future undiscounted cash flows from operating activities. If the estimated net cash flows are less than the carrying amount of such assets, we will recognize an impairment loss in an amount necessary to write down the assets to fair value as determined from expected discounted future cash flows.

Our annual indefinite-lived intangible asset analysis was performed during the second quarter of fiscal 2009. We determined that because the carrying value of our customer relationships exceeded the fair value, we recorded an impairment of approximately \$7.0 million during the second fiscal quarter.

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

	September 30, 2009				December 31, 2008			
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:								
Tradenames/Trademarks	30 years	\$ 9,790	\$ (1,486)	\$ 8,304	30 years	\$ 9,790	\$ (1,242)	\$ 8,548
Licenses	7 years	438	(422)	16	7 years	438	(376)	62
		\$ 10,228	\$ (1,908)	\$ 8,320		\$ 10,228	\$ (1,618)	\$ 8,610
Indefinite-lived intangible assets:								
Customer relationships		19,000		19,000		26,000		26,000
		\$ 19,000	\$	\$ 19,000		\$ 26,000	\$	\$ 26,000
Total intangible assets				\$ 27,320				\$ 34,610

Based upon the decline in the North American Class 8 build rate from the prior year and lower demand in our construction, OEM bus, aftermarket, military, service and other specialty product markets, which negatively impacted our revenues, we determined that an impairment indicator existed during the second fiscal quarter. We recorded an impairment of approximately \$3.4 million on our long-lived assets as the carrying value of the assets exceeded their fair value during the second fiscal quarter.

The aggregate intangible asset amortization expense was approximately \$0.1 million and \$0.4 million for the three months ended September 30, 2009 and 2008, respectively, and approximately \$0.3 million and \$0.9 million for the nine months ended September 30, 2009 and 2008, respectively.

The estimated intangible asset amortization expense for the fiscal year ending December 31, 2009, and for the five succeeding years is as follows (in thousands):

<b>Fiscal Year Ended December 31,</b>	<b>Estimated Amortization Expense</b>
2009	\$389
2010	\$326
2011	\$326
2012	\$326
2013	\$326
2014	\$326



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Debt consisted of the following (in thousands):

	September 30, 2009	December 31, 2008
Revolving credit facilities bore interest at a weighted average of 6.2% as of September 30, 2009 and 7.5% as of December 31, 2008	\$	\$ 14,800
8.0% senior notes due 2013	97,810	150,000
15% second lien term loan (\$16,800 principal amount, net of \$4,391 of original issue discount)	12,409	
11%/13% third lien senior secured notes (\$42,124 principal amount and \$8,386 of issuance premium)	50,510	
Paid-in-kind interest on 11%/13% third lien senior secured notes	125	
Other	5	95
	160,859	164,895
Less current maturities		14,881
	\$ 160,859	\$ 150,014

*Credit Agreement* We account for modifications to our debt under accounting guidance for debt modification. We have not amended the terms of our 8.0% senior notes subsequent to the original offering date. In connection with an amendment of a 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. In connection with an amendment of our term debt, bank and any third-party fees would be either expensed or deferred and amortized over the term of the agreement based upon whether or not the old and new debt instruments are substantially different.

On January 7, 2009, we and certain of our direct and indirect U.S. subsidiaries, as borrowers (the borrowers), entered into a Loan and Security Agreement with Bank of America, N.A., as agent and lender, which provides for a three-year asset-based revolving credit facility with an aggregate principal amount of up to \$37.5 million (after giving effect to the Second Amendment described below), which is subject to an availability block and the borrowing base limitations described below. Up to an aggregate of \$10.0 million is available to the borrowers for the issuance of letters of credit, which reduce availability under the revolving credit facility. Approximately \$0.8 million of third party fees relating to the prior senior credit agreement were expensed as loss on early extinguishment of debt and the remaining \$2.3 million of third party fees relating to the Loan and Security Agreement were capitalized and were being amortized over its remaining life. Set forth below is a description of the material terms and conditions of the Loan and Security Agreement:

On January 7, 2009, we borrowed \$26.8 million under the revolving credit facility and used that amount to repay in full our borrowings under our prior senior credit agreement and to pay fees and expenses related to the Loan and Security Agreement. We use the revolving credit facility to fund ongoing operating and working capital requirements. On March 12, 2009, we entered into a first amendment to the Loan and Security Agreement (the First Amendment). Pursuant to the terms of the First Amendment, the lenders consented to changing the thresholds in the minimum EBITDA (as defined in the Loan and Security Agreement, as amended) covenant. In addition, the First Amendment provided for (i) an increase in the applicable margin for interest rates on amounts borrowed by the domestic borrowers of 1.50%, (ii) a limitation on permitted capital expenditures in 2009 and (iii) a temporary decrease in domestic availability until such time as the domestic borrowers demonstrate a fixed charge coverage ratio of at least 1.0:1.0 for any fiscal quarter ending on or after March 31, 2010. Approximately \$0.4 million of third party fees relating to the

First Amendment were capitalized and were being amortized over its remaining life.

As of September 30, 2009, approximately \$4.2 million in deferred fees relating to the Loan and Security Agreement and fees related to the 8.0% senior notes offering were outstanding and were being amortized over the life of the agreements.

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As of September 30, 2009, we did not have borrowings under the Loan and Security Agreement. In addition, as of September 30, 2009, we had outstanding letters of credit of approximately \$1.7 million and borrowing availability of \$35.8 million under the Loan and Security Agreement, which is subject to a \$10.0 million availability block.

On August 4, 2009, we entered into a second amendment to the Loan and Security Agreement (the **Second Amendment** ). Approximately \$0.5 million of third party fees relating to the Loan and Security Agreement were expensed as a loss on early extinguishment of debt and the remaining \$0.6 million of third party fees relating to the Loan and Security Agreement were capitalized and are being amortized over its remaining life. Pursuant to the terms of the Second Amendment, the lender consented to the notes exchange described below, including the issuance of the 11%/13% Third Lien Senior Secured Notes due 2013 (the **third lien notes** ) and the second lien term loan described below.

The Second Amendment included a reduction in size of the commitment from \$47.5 million to \$37.5 million and provided that borrowings under the Loan and Security Agreement are subject to an availability block of \$10.0 million, until we deliver a compliance certificate for any fiscal quarter ending March 31, 2010 or thereafter demonstrating a fixed charge coverage ratio of at least 1.1 to 1.0 for the most recent four fiscal quarters, at which time the availability block will be \$7.5 million at all times while the fixed charge coverage ratio is at least 1.1 to 1.0.

The aggregate amount of loans permitted to be made to the borrowers under the Loan and Security Agreement may not exceed a borrowing base consisting of the lesser of: (a) \$37.5 million, minus the availability block and domestic letters of credit, and (b) the sum of eligible accounts receivable and eligible inventory of the borrowers, minus the availability block and certain availability reserves. Borrowings under the Loan and Security Agreement are denominated in U.S. dollars. The weighted average interest rate on borrowings under the Loan and Security Agreement was approximately 6.2% for the nine months ended September 30, 2009.

The Second Amendment further provided that we need not comply with any minimum EBITDA requirement or fixed charge coverage ratio requirement for as long as we maintain at least \$5.0 million of borrowing availability (after giving effect to the \$10.0 million availability block) under the Loan and Security Agreement. If borrowing availability (after giving effect to the \$10.0 million availability block) is less than \$5.0 million for three consecutive business days or less than \$2.5 million on any day, we will be required to comply with revised monthly minimum EBITDA requirements for 2009 set forth below and a fixed charge coverage ratio of 1.0:1.0 for fiscal quarters ending on or after March 31, 2010, and will be required to continue to comply with these requirements until we have borrowing availability (after giving effect to the \$10.0 million availability block) of \$5.0 million or greater for 60 consecutive days.

The revised monthly minimum EBITDA requirements for 2009, if applicable, would require us to maintain cumulative EBITDA, as defined in the Loan and Security Agreement, as amended, calculated monthly starting on September 30, 2009, for each of the following periods as of the end of each fiscal month specified below (in thousands):

<b>Period Ending on or Around</b>	<b>EBITDA (as defined in the Loan and Security Agreement, as amended)</b>
July 1, 2009 through September 30, 2009	\$ 1,256
July 1, 2009 through October 31, 2009	\$ 3,422
July 1, 2009 through November 30, 2009	\$ 5,756
July 1, 2009 through December 31, 2009	\$ 7,191

The Second Amendment also included a waiver of our covenant default resulting from our failure to be in compliance with the minimum EBITDA requirement in the Loan and Security Agreement, as in effect prior to the Second Amendment, on June 30, 2009.

Because we had borrowing availability in excess of \$5.0 million (after giving effect to the \$10.0 million availability block) from August 4, 2009 through September 30, 2009, we were not required to comply with the monthly minimum EBITDA covenant during the quarter ended September 30, 2009.

The Second Amendment included amendments to permit us to engage in asset securitization transactions involving accounts receivable, and eliminates our ability to add certain of our direct and indirect UK subsidiaries as borrowers under the Loan and Security Agreement.

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The Loan and Security Agreement, as amended, includes a limitation on the amount of capital expenditures of not more than \$4.3 million for the period from January 1, 2009 through June 30, 2009, and not more than \$9.7 million for the fiscal year ending December 31, 2009.

The Loan and Security Agreement also contains other customary restrictive covenants, including, without limitation: limitations on the ability of the borrowers and their subsidiaries to incur additional debt and guarantees; grant liens on assets; pay dividends or make other distributions; make investments or acquisitions; dispose of assets; make payments on certain indebtedness; merge, combine with any other person or liquidate; amend organizational documents; file consolidated tax returns with entities other than other borrowers or their subsidiaries; make material changes in accounting treatment or reporting practices; enter into restrictive agreements; enter into hedging agreements; engage in transactions with affiliates; enter into certain employee benefit plans; and amend subordinated debt or the indentures governing the third lien notes and the 8% senior notes due 2013. In addition, the Loan and Security Agreement contains customary reporting and other affirmative covenants. We were in compliance with these covenants as of September 30, 2009.

The Loan and Security Agreement contains customary events of default, including, without limitation: nonpayment of obligations under the Loan and Security Agreement when due; material inaccuracy of representations and warranties; violation of covenants in the Loan and Security Agreement and certain other documents executed in connection therewith; breach or default of agreements related to debt in excess of \$5.0 million that could result in acceleration of that debt; revocation or attempted revocation of guarantees, denial of the validity or enforceability of the loan documents or failure of the loan documents to be in full force and effect; certain judgments in excess of \$2.0 million; the inability of an obligor to conduct any material part of its business due to governmental intervention, loss of any material license, permit, lease or agreement necessary to the business; cessation of an obligor's business for a material period of time; impairment of collateral through condemnation proceedings; certain events of bankruptcy or insolvency; certain ERISA events; and a change in control of CVG.

The Loan and Security Agreement requires us to make mandatory prepayments with the proceeds of certain asset dispositions and upon the receipt of insurance or condemnation proceeds to the extent we do not use the proceeds for the purchase of assets useful in our business.

In accordance with accounting guidance for debt, we have classified our Loan and Security Agreement, which has a maturity date of more than one year from the balance sheet date, as a current liability since it includes a lockbox arrangement and a subjective acceleration clause.

*Terms, Covenants and Compliance Status* Our Loan and Security Agreement contains financial covenants, including minimum EBITDA and a minimum fixed charge coverage ratio commencing with the fiscal quarter ending March 31, 2010 if we do not maintain certain availability requirements. The Second Amendment also included a waiver of our covenant default resulting from our failure to be in compliance with the minimum EBITDA requirement in the Loan and Security Agreement, as in effect prior to the Second Amendment, on June 30, 2009. Because we had borrowing availability in excess of \$5.0 million (after giving effect to the \$10.0 million availability block) from August 4, 2009 through September 30, 2009, we were not required to comply with the monthly minimum EBITDA covenant during the quarter ended September 30, 2009.

Under the Loan and Security Agreement, borrowings bear interest at various rates plus a margin based on certain financial ratios. The borrowers' obligations under the Loan and Security Agreement are secured by a first-priority lien (subject to certain permitted liens) on substantially all of the tangible and intangible assets of the borrowers, as well as 100% of the capital stock of the direct domestic subsidiaries of each borrower and 65% of the capital stock of each foreign subsidiary directly owned by a borrower. Each of CVG and each other borrower is jointly and severally liable for the obligations under the Loan and Security Agreement and unconditionally guarantees the prompt payment and performance thereof.

We continue to operate in a challenging economic environment, and our ability to comply with the new covenants in the Loan and Security Agreement may be affected in the future by economic or business conditions beyond our control. Based on our current forecast, we believe that we will be able to maintain compliance with the minimum EBITDA covenant, the fixed charge coverage ratio covenant or the minimum availability requirement, if applicable, and other covenants in the Loan and Security Agreement for the next twelve months; however, no assurances can be

given that we will be able to comply. We base our forecasts on historical experience, industry forecasts and various other assumptions that we believe are reasonable under the circumstances. If actual results are substantially different than our current forecast, or if we do not realize a significant portion of our planned cost savings or generate sufficient cash, we could be

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required to comply with our financial covenants, and there is no assurance that we would be able to comply with such financial covenants. If we do not comply with the financial and other covenants in the Loan and Security Agreement, and we are unable to obtain necessary waivers or amendments from the lender, we would be precluded from borrowing under the Loan and Security Agreement, which would have a material adverse effect on our business, financial condition and liquidity. If we are unable to borrow under the Loan and Security Agreement, we will need to meet our capital requirements using other sources. Due to current economic conditions, alternative sources of liquidity may not be available on acceptable terms if at all. In addition, if we do not comply with the financial and other covenants in the Loan and Security Agreement, the lender could declare an event of default under the Loan and Security Agreement, and our indebtedness thereunder could be declared immediately due and payable, which would also result in an event of default under the second lien term loan, the 11%/13% Third Lien Senior Secured Notes due 2013 and the 8% senior notes due 2013. Any of these events would have a material adverse effect on our business, financial condition and liquidity.

*Second Lien Credit Agreement.* Concurrently with the notes exchange described below, on August 4, 2009, CVG and certain of its domestic subsidiaries entered into a Loan and Security Agreement (the *Second Lien Credit Agreement*) with Credit Suisse, as agent, and certain financial institutions, as lenders, providing for a term loan (the *second lien term loan*) in principal amount of \$16.8 million, for proceeds of approximately \$13.1 million (representing a discount of approximately 21.9%). We used these proceeds to repay borrowings under the Loan and Security Agreement with Bank of America, N.A., and to pay approximately \$3.1 million of transaction fees and expenses relating to the notes exchange, the issuance of the units consisting of the third lien notes and warrants, the *Second Lien Credit Agreement* and the *Second Amendment*.

The second lien term loan bears interest at the fixed per annum rate of 15% until it matures on November 1, 2012. During an event of default, if the required lenders so elect, the interest rate applied to any outstanding obligations will be equal to the otherwise applicable rate plus 2.0%.

The *Second Lien Credit Agreement* provides that the second lien term loan is a senior secured obligation of CVG. CVG's obligations under the *Second Lien Credit Agreement* are guaranteed by the guarantors. The obligations of CVG and the guarantors under the *Second Lien Credit Agreement* are secured by a second-priority lien on substantially all of the tangible and intangible assets of CVG and certain of its domestic subsidiaries, and a pledge of 100% of the capital stock of certain of CVG's domestic subsidiaries and 65% of the capital stock of each foreign subsidiary directly owned by a domestic subsidiary.

The *Second Lien Credit Agreement* contains restrictive covenants, including, without limitation, limitations on the ability of CVG and its subsidiaries to: incur additional debt and guarantees; grant liens on assets; pay dividends or make other distributions; make investments or acquisitions; transfer or dispose of capital stock; dispose of assets; make payments on certain indebtedness; merge or combine with any other person or liquidate; engage in transactions with affiliates; engage in certain lines of business; enter into sale/leaseback transactions; and amend subordinated debt, the indenture governing the 8% senior notes or the indenture governing the third lien notes. In addition, the *Second Lien Credit Agreement* contains reporting covenants. The debt covenant in the *Second Lien Credit Agreement* limits our ability to borrow under the Loan and Security Agreement with Bank of America, N.A, to not more than \$27.5 million at any one time, unless we demonstrate compliance with the fixed charge coverage ratio and minimum EBITDA (as defined in the Loan and Security Agreement) covenant contained in the Loan and Security Agreement. The *Second Lien Credit Agreement* contains events of default, including, without limitation: nonpayment of obligations under the *Second Lien Credit Agreement* when due; material inaccuracy of representations and warranties; violation of covenants in the *Second Lien Credit Agreement* and certain other documents executed in connection therewith; default or acceleration of agreements related to debt in excess of \$10.0 million; certain events of bankruptcy or insolvency; judgment or decree entered against CVG or a guarantor for the payment of money in excess of \$10.0 million; denial of the validity or enforceability of the second lien loan documents or any guaranty thereunder or failure of the second lien loan documents or any guaranty thereunder to be in full force and effect; and a change in control of CVG. All provisions regarding remedies in an event of default are subject to the intercreditor agreements entered into in connection with the issuance of the third lien notes and the second lien term loan described below (the *Intercreditor Agreements*).

Amounts outstanding under the second lien term loan may be prepaid from time to time after the first anniversary of August 4, 2009, when accompanied by prepayment premium equal to (a) 7.5% of the accreted value of the amount prepaid if such prepayment occurs after August 4, 2010 but on or before August 4, 2011, (b) 3.75% of the accreted value of the amount prepaid if such prepayment occurs after August 4, 2011 but on or before August 4, 2012, and (c) 0% of the accreted value of the amount prepaid if such prepayment occurs after August 4, 2012 without penalty or premium.



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In addition, within five business days of certain permitted asset dispositions or receipt of insurance or condemnation proceeds, we must apply the net proceeds (in the case of asset dispositions) to prepay the term loan, except that the proceeds do not have to be used to prepay the term loan if they are used to acquire property that is useful in our business within 180 days of receipt of such proceeds but only if no default exists at that time and if the property so acquired will be free of liens, other than permitted liens. All provisions regarding voluntary and mandatory prepayments are subject to the Intercreditor Agreements.

*Exchange of 8% Senior Notes due 2013 for Units consisting of 11%/13% Third Lien Senior Secured Notes due 2013 and Warrants.* On August 4, 2009, we announced a private exchange with certain holders of our 8% senior notes due 2013 (the 8% senior notes ) pursuant to an exchange agreement, dated as of August 4, 2009, by and between us, certain of our subsidiaries and the exchanging noteholders named therein. Pursuant to the exchange agreement, we exchanged approximately \$52.2 million in aggregate principal amount of the 8% senior notes for units consisting of (i) approximately \$42.1 million in aggregate principal amount of our new 11%/13% Third Lien Senior Secured Notes due 2013 (the third lien notes ) and (ii) warrants to purchase 745,000 shares of our common stock at an exercise price of \$0.35. The third lien notes were issued pursuant to an indenture, dated as of August 4, 2009 (the Third Lien Notes Indenture ), by and among CVG, certain of our subsidiaries party thereto, as guarantors (the guarantors ), and U.S. Bank National Association, as trustee. The warrants and units were issued pursuant to a Warrant and Unit Agreement, dated as of August 4, 2009, by and among CVG and U.S. Bank National Association, as warrant agent and unit agent. Each unit is immediately separable into \$1,000 principal amount of third lien notes and 17.68588 warrants. Each warrant entitles the holder thereof to purchase one share of our common stock at an exercise price of \$0.35 per share. *11%/13% Third Lien Senior Secured Notes due 2013.* The third lien notes were issued under the Third Lien Notes Indenture. Interest is payable on the third lien notes on February 15 and August 15 of each year, beginning on February 15, 2010 until their maturity date of February 15, 2013. We are required to pay interest entirely in pay-in-kind interest ( PIK interest ), by increasing the outstanding principal amount of the third lien notes, on the first interest payment date on February 15, 2010, at an annual rate of 13.0%. We may, at our option, elect to pay interest in cash, at an annual rate of 11.0%, or in PIK interest, at an annual rate of 13.0%, on the interest payment dates on August 15, 2010 and February 15, 2011. After February 15, 2011, we will be required to make all interest payments entirely in cash, at an annual rate of 11.0%.

The Third Lien Notes Indenture provides that the third lien notes are senior secured obligations of CVG. Our obligations under the third lien notes are guaranteed by the guarantors. The obligations of CVG and the guarantors under the third lien notes are secured by a third-priority lien on substantially all of the tangible and intangible assets of CVG and its domestic subsidiaries, and a pledge of 100% of the capital stock of certain of CVG's domestic subsidiaries and 65% of the capital stock of each foreign subsidiary directly owned by a domestic subsidiary. The liens, the security interests and all obligations of CVG and the guarantors are subject in all respects to the terms, provisions, conditions and limitations of the Intercreditor Agreements.

The Third Lien Notes Indenture contains restrictive covenants, including, without limitation, limitations on our ability and the ability of our subsidiaries to: incur additional debt; pay dividends on, redeem or repurchase capital stock; restrict dividends or other payments of subsidiaries; make investments; engage in transactions with affiliates; create liens on assets; engage in sale/leaseback transactions; and consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries.

The Third Lien Notes Indenture provides for events of default (subject in certain cases to customary grace and cure periods) which include, among others, nonpayment of principal or interest, breach of covenants or other agreements in the Third Lien Notes Indenture, defaults in payment of certain other indebtedness, certain events of bankruptcy or insolvency and certain defaults with respect to the security documents. Generally, if an event of default occurs, the trustee or the holders of at least 25% in principal amount of the then outstanding third lien notes may declare the principal of and accrued but unpaid interest on all of the third lien notes to be due and payable. All provisions regarding remedies in an event of default are subject to the Intercreditor Agreements.

The third lien notes may be redeemed from time to time on or after February 15, 2011, at the following redemption prices (a) 111% of the principal amount if such redemption occurs on or after February 15, 2011 but prior to August 15, 2011, (b) 105.5% of the principal amount if such redemption occurs on or after August 15, 2011 but prior

to August 15, 2012, and (c) 100% of the principal amount if such redemption occurs on or after August 15, 2012. In addition, we may be required to make an offer to purchase the third lien notes in certain circumstances described in the Third Lien Notes Indenture, including in connection with a change in control.

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We, or one of our subsidiaries, file federal income tax returns in the United States and income tax returns in various states and foreign jurisdictions. With few exceptions, we are no longer subject to income tax examinations by any of the taxing authorities for years before 2004. There are currently two income tax examinations in process. We do not anticipate that any adjustments from these examinations will result in material changes to our consolidated financial position and results of operations.

As of September 30, 2009, we have provided a liability of approximately \$2.9 million of unrecognized tax benefits related to various federal and state income tax positions. Of the \$2.9 million, the amount that would impact our effective tax rate, if recognized, is \$2.0 million. The remaining \$0.9 million of unrecognized tax benefits consists of items that are offset by deferred tax assets, subject to valuation allowance, and thus could further impact the effective rate.

We accrue penalties and interest related to unrecognized tax benefits through income tax expense, which is consistent with the recognition of these items in prior reporting periods. We had approximately \$0.8 million accrued for the payment of interest and penalties at September 30, 2009, of which \$88 thousand was accrued during the current year. Accrued interest and penalties are included in the \$2.9 million of unrecognized tax benefits.

During the current quarter, we did not release tax reserves associated with items with expiring statutes of limitations. We anticipate events could occur within the next 12 months that would have an impact on the amount of unrecognized tax benefits that would be required. Approximately \$0.3 million of unrecognized tax benefits relate to items that are affected by expiring statutes of limitation within the next 12 months.

**12. Commitments and Contingencies**

*Warranty* We are subject to warranty claims for products that fail to perform as expected due to design or manufacturing deficiencies. Customers continue to require their outside suppliers to guarantee or warrant their products and bear the cost of repair or replacement of such products. Depending on the terms under which we supply products to our customers, a customer may hold us responsible for some or all of the repair or replacement costs of defective products when the product supplied did not perform as represented. Our policy is to reserve for estimated future customer warranty costs based on historical trends and current economic factors. The following represents a summary of the warranty provision for the nine months ended September 30, 2009 (in thousands):

Balance	December 31, 2008	\$ 3,706
	Additional provisions recorded	1,093
	Deduction for payments made	(1,714)
	Currency translation adjustment	9
Balance	September 30, 2009	\$ 3,094

*Leases* We lease office and manufacturing space and certain equipment under non-cancelable operating lease agreements that require us to pay maintenance, insurance, taxes and other expenses in addition to annual rents. As of September 30, 2009, our equipment leases did not provide for any material guarantee of a specified portion of residual values.

*Guarantees* We accrue for costs associated with guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts, and where no amount within a range of estimates is more likely, the minimum is accrued. In accordance with accounting guidance for guarantees issued after December 31, 2002, we record a liability for the fair value of such guarantees in the balance sheet. As of September 30, 2009, we had no such guarantees.

*Litigation* We are subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, product warranties, employment-related matters and environmental matters. Management believes that we maintain adequate insurance to cover these claims. We have established reserves for issues that are probable and estimatable in amounts management believes are adequate to cover reasonable adverse judgments not covered by insurance. Based upon the information available to management and discussions with legal counsel, it is the opinion

of management that the ultimate outcome of the various legal actions and claims that are incidental to our business will not have a material adverse impact on our consolidated financial position, results of operations or cash flows; however, such matters are subject to many uncertainties, and the outcomes of individual matters are not predictable with assurance.

**Table of Contents****13. Foreign Currency Forward Exchange Contracts**

We use forward exchange contracts to hedge certain of the foreign currency transaction exposures primarily related to 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. As of September 30, 2009, none of our derivatives were designated as hedging instruments; therefore, our forward foreign exchange contracts have been marked-to-market and the fair value of contracts recorded in the consolidated balance sheets with the offsetting non-cash gain or loss recorded in our consolidated statements of operations. We do not hold or issue foreign exchange options or forward contracts for trading purposes.

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

	September 30, 2009		December 31, 2008	
	U.S. \$ Equivalent	U.S. Equivalent Fair Value	U.S. \$ Equivalent	U.S. Equivalent Fair Value
<b>Commitments to buy currencies:</b>				
U.S. dollar	\$ (186)	\$ (189)	\$	\$
Euro			(1,832)	(1,345)
Swedish krona				
Japanese yen			(736)	(765)
Australian dollar				
	\$ (186)	\$ (189)	\$ (2,568)	\$ (2,110)
<b>Commitments to sell currencies:</b>				
U.S. dollar	\$ 241	\$ 248	\$	\$
Euro	17,402	21,638	35,236	43,532
Swedish krona			54	56
Japanese yen	11,904	15,840	15,813	22,372
Australian dollar	107	108		
	\$ 29,654	\$ 37,834	\$ 51,103	\$ 65,960
Total	\$ 29,468	\$ 37,645	\$ 48,535	\$ 63,850

The fair value of our derivative instruments was a net liability of approximately \$8.2 million and \$15.3 million as of September 30, 2009 and December 31, 2008, respectively. The net liability was comprised of \$7.2 million and \$10.1 million in accrued liabilities and \$1.0 million and \$5.2 million in other long-term liabilities in the condensed consolidated balance sheets as of September 30, 2009 and December 31, 2008, respectively.

We consider the impact of our and our counterparties' credit risk on the fair value of the contracts as well as the ability of each party to execute its obligations under the contract. For the three and nine months ended September 30, 2009, we recorded a credit valuation adjustment of approximately \$0.8 million and \$4.0 million, respectively, on our foreign currency forward contracts, which is included in other expense (income) on the condensed consolidated statement of operations.

The following table summarizes the fair value and presentation in the consolidated balance sheets for derivatives not designated as hedging instruments (in thousands):

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	<b>Asset Derivatives</b>			
	<b>September 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Balance Sheet</b>	<b>Fair Value</b>	<b>Balance Sheet</b>	<b>Fair Value</b>
	<b>Location</b>		<b>Location</b>	
Foreign exchange contracts	Other assets	\$ 3	Other assets	\$ 32

	<b>Liability Derivatives</b>			
	<b>September 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Balance Sheet</b>	<b>Fair Value</b>	<b>Balance Sheet</b>	<b>Fair Value</b>
	<b>Location</b>		<b>Location</b>	
Foreign exchange contracts	Accrued liabilities	\$ 7,223	Accrued liabilities	\$ 10,096
Foreign exchange contracts	Other long-term liabilities	957	Other long-term liabilities	5,235
		\$ 8,180		\$ 15,331

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

	<b>Location of Gain (Loss) Recognized in Income on Derivatives</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
		<b>September 30,</b>		<b>September 30,</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>Amount of Gain (Loss) Recognized in Income on Derivatives</b>	<b>Amount of Gain (Loss) Recognized in Income on Derivatives</b>		<b>Amount of Gain (Loss) Recognized in Income on Derivatives</b>	
Foreign exchange contracts	Other Expenses	\$ (1,228)	\$ 153	\$ 7,122	\$ (5,783)

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

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

The components of net periodic benefit cost related to the pension and other post-retirement benefit plans for the three months ended September 30 was as follows (in thousands):

**Other  
Post-Retirement**

	<b>U.S. Pension Plans</b>		<b>Non-U.S. Pension Plans</b>		<b>Benefit Plans</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Service cost	\$ 71	\$ 69	\$	\$	\$ 1	\$ 5
Interest cost	477	459	527	529	31	37
Expected return on plan assets	(379)	(497)	(379)	(412)		
Recognized actuarial loss (gain)	27	(5)	49	51	(28)	(6)
Net periodic benefit cost	196	26	197	168	4	36
Special termination benefits	41				85	
Net benefit cost	\$ 237	\$ 26	\$ 197	\$ 168	\$ 89	\$ 36