

Commercial Vehicle Group, Inc.

Form 10-Q

May 09, 2008

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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 March 31, 2008**

**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 000-50890**

**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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check is 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 March 31, 2008 was 21,536,814 shares.



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

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

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(In thousands, except per share amounts)</b>	
REVENUES	\$ 197,004	\$ 198,801
COST OF REVENUES	176,239	172,532
Gross Profit	20,765	26,269
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	15,018	15,554
GAIN ON SALE OF LONG-LIVED ASSETS	(6,075)	0
AMORTIZATION EXPENSE	345	103
Operating Income	11,477	10,612
OTHER EXPENSE	9,698	2,320
INTEREST EXPENSE	3,907	3,637
(Loss) Income Before Provision for Income Taxes	(2,128)	4,655
(BENEFIT) PROVISION FOR INCOME TAXES	(2,600)	1,696
NET INCOME	\$ 472	\$ 2,959
EARNINGS PER COMMON SHARE:		
Basic	\$ 0.02	\$ 0.14
Diluted	\$ 0.02	\$ 0.14
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	21,537	21,389
Diluted	21,641	21,663

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

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

	<b>March 31, 2008 (Unaudited) (In thousands except share and per share amounts)</b>	<b>December 31, 2007 (Unaudited)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 7,530	\$ 9,867
Accounts receivable, net of reserve for doubtful accounts of \$3,936 and \$3,758, respectively	120,728	107,687
Inventories, net	100,454	96,385
Prepaid expenses	17,459	16,508
Deferred income taxes	17,178	12,989
 Total current assets	 263,349	 243,436
 PROPERTY, PLANT AND EQUIPMENT, net	 96,969	 98,258
GOODWILL	156,341	151,189
INTANGIBLE ASSETS, net of accumulated amortization of \$2,022 and \$1,687, respectively	97,240	97,575
OTHER ASSETS, net	9,832	8,631
 TOTAL ASSETS	 \$ 623,731	 \$ 599,089
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 118	\$ 116
Accounts payable	95,938	93,033
Accrued liabilities	39,181	33,115
 Total current liabilities	 135,237	 126,264
 LONG-TERM DEBT, net of current maturities	 160,579	 159,609
DEFERRED TAX LIABILITIES	27,092	27,076
PENSION AND OTHER POST-RETIREMENT BENEFITS	18,032	18,335
OTHER LONG-TERM LIABILITIES	13,243	2,470
 Total liabilities	 354,183	 333,754
 COMMITMENTS AND CONTINGENCIES (Note 12)		
<b>STOCKHOLDERS INVESTMENT:</b>		
Common stock \$.01 par value; 30,000,000 shares authorized; 21,536,814 and 21,536,814 shares issued and outstanding, respectively	215	215

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Treasury stock purchased from employees; 28,153 shares	(414)	(414)
Additional paid-in capital	178,362	177,421
Retained earnings	89,290	88,818
Accumulated other comprehensive income (loss)	2,095	(705)
Total stockholders' investment	269,548	265,335
<b>TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>	<b>\$ 623,731</b>	<b>\$ 599,089</b>

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 472	\$ 2,959
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,688	3,729
Noncash amortization of debt financing costs	213	216
Share-based compensation expense	943	846
(Gain) loss on sale of long-lived assets	(6,043)	61
Deferred income tax benefit	(4,173)	(792)
Noncash loss on forward exchange contracts	9,682	2,247
Change in other operating items	(9,606)	(8,423)
Net cash (used in) provided by operating activities	(3,824)	843
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(3,627)	(3,098)
Proceeds from disposal/sale of property, plant and equipment	7,452	24
Other assets and liabilities	(5,501)	(29)
Net cash used in investing activities	(1,676)	(3,103)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock under equity incentive plans		114
Excess tax benefit from equity incentive plans		39
Repayment of revolving credit facility	(46,000)	(51,409)
Borrowings under revolving credit facility	47,000	50,918
Repayments of long-term borrowings		(467)
Payments on capital lease obligations	(31)	(32)
Debt issuance costs and other, net	(250)	
Net cash provided by (used in) financing activities	719	(837)
<b>EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>2,444</b>	<b>(21)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,337)</b>	<b>(3,118)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	9,867	19,821
End of period	\$ 7,530	\$ 16,703
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		

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Cash paid for interest	\$ 6,062	\$ 6,486
Cash paid (received) for income taxes, net	\$ 783	\$ (5,288)

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

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**Table of Contents****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, Sweden, 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 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 2007 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 March 31, 2008 are not necessarily indicative of the results to be expected in future operating quarters.

**2. Recently Issued Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( 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 adopted SFAS No. 157 on January 1, 2008. The adoption did not have a material impact on our consolidated financial position and results of operations.

In February 2008, the FASB issued FASB Staff Position ( FSP ) No. 157-1 and No. 157-2. FSP No. 157-1 amends SFAS No. 157 to exclude SFAS No. 13 and its related interpretive accounting pronouncements that address leasing transactions. FSP No. 157-2 delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 and interim periods with those fiscal years for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until January 1, 2009 for calendar year end entities. We have adopted FSB No. 157-2 except as it applies to non-financial assets and liabilities as noted. We are currently evaluating the effect that the adoption, as it relates to non-financial assets and liabilities, will have on our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159, which amends SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, allows certain financial assets and liabilities to be recognized, at our election, at fair market value with any gains or losses for the period recorded in the statement of income. We adopted SFAS 159 on January 1, 2008 and have elected not to measure any additional financial instruments and other items at fair value. The adoption did not have a material impact 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

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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. We are currently assessing the impact of the measurement date change of SFAS 158 on our consolidated financial positions and results of operations. In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Finance Statements*, an amendment of ARB No. 51. SFAS No. 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change 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 provisions of SFAS No. 141(R) and SFAS No. 160 are effective for our 2009 fiscal year beginning January 1, 2009, and are to be applied prospectively.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB No. 133*. SFAS 161 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. SFAS 161 applies to all derivative instruments within the scope of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 161 also applies to non-derivative hedging instruments and all hedged items designated and qualifying under SFAS 133. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

**3. Fair Value Measurement**

In September 2006, the FASB issued SFAS No. 157 which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of our 2008 fiscal year. However, the FASB deferred the effective date of SFAS No. 157, until the beginning of our 2009 fiscal year, as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis. These include goodwill, other nonamortizable intangible assets and unallocated purchase price for recent acquisitions which are included within other assets.

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.

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As of March 31, 2008, the fair values of our financial assets and liabilities are categorized as follows:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Derivative Financial Instruments <sup>(1)</sup>	\$ (11,179)	\$	\$ (11,179)	\$
Deferred Compensation <sup>(2)</sup>	1,656	1,656		
<b>Total</b>	<b>\$ (9,523)</b>	<b>\$ 1,656</b>	<b>\$ (11,179)</b>	<b>\$</b>

(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.

**4. Restructuring Activities**

On May 22, 2007, our Board of Directors approved the closing of our Seattle, Washington facility and transfer of operations to existing plants throughout the United States in order to improve customer service and strengthen our long-term competitive position. The decision to close the Seattle facility and redistribute the work was the result of a long-term analysis of changing market requirements, including the consolidation of product lines and closer proximity to customer operations. The closure was substantially completed as of December 31, 2007. We estimate that we will record in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, total charges of approximately \$2.1 million, consisting of employee related costs of approximately \$0.8 million, non-cash expense related to the write-down of certain assets of approximately \$0.4 million and facility exit and other contractual costs of approximately \$0.9 million. We have incurred costs of approximately \$1.4 million in the twelve months ended December 31, 2007 consisting of approximately \$0.8 million employee related costs, \$0.5 million of facility exit and other contractual costs and \$0.1 million in noncash expense related to the write-down of certain assets. For the three months ended March 31, 2008, we have incurred costs of approximately \$0.1 million of facility exit and contractual costs. We estimate that approximately \$0.7 million of the total charges will be incurred as future cash expenditures. A summary of the restructuring activities as of March 31, 2008 is as follows (in thousands):

	<b>Employee Costs</b>
Balance December 31, 2007	\$ 646
Deductions for payments made	(123)
<b>Balance March 31, 2008</b>	<b>\$ 523</b>

## **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

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three equal annual installments commencing on October 20, 2008.

As of March 31, 2008, there was approximately \$6.6 million of unearned compensation related to nonvested share-based compensation arrangements granted under our Second Amended and Restated Equity Incentive 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 seven months for the November 2005 awards, 19 months for the November 2006, February 2007 and March 2007 awards and 31 months for the November 2007 awards, respectively.

We currently estimate the forfeiture rate for our stock option and restricted stock grants at 8.7%, respectively, for all participants of each plan.

A summary of the status of our stock options as of March 31, 2008 and changes during the three-month period ending March 31, 2008 is presented below:

<b>Stock Options</b>	<b>Options (000 s)</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value (000 s)</b>
Outstanding at December 31, 2007	750	\$ 12.45	6.5	\$ 2,013
Granted				
Exercised				
Forfeited				
Outstanding at March 31, 2008	750	\$ 12.45	6.2	\$ 981
Exercisable at March 31, 2008	750	\$ 12.45	6.2	\$ 981

The following table summarizes information about the nonvested restricted stock grants as of March 31, 2008:

	<b>Shares (000 s)</b>	<b>Weighted-Average Grant-Date Fair Value</b>
Nonvested at December 31, 2007	520	\$ 16.94
Granted		
Vested		
Forfeited	(3)	14.67
Nonvested at March 31, 2008	517	\$ 16.95

As of March 31, 2008, a total of 801,629 shares were available from the 2.0 million shares authorized for issuance under our Second Amended and Restated Equity Incentive 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 March 31, 2008.

**Earnings Per Share** In accordance with SFAS No. 128, *Earnings per Share*, as amended, 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 SFAS No. 123(r), *Share Based Payment*. Potential common shares are included in the diluted earnings per share calculation when dilutive. Diluted earnings per share for the three months ended March 31, 2008 and 2007 includes the effects of potential common shares consisting of common stock issuable upon exercise of outstanding stock options and for March 31, 2008, the effect of nonvested restricted stock (in thousands, except per share amounts):

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	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Net income applicable to common shareholders – basic and diluted	\$ 472	\$ 2,959
Weighted average number of common shares outstanding	21,537	21,389
Dilutive effect of outstanding stock options and restricted stock grants after application of the treasury stock method	104	274
Dilutive shares outstanding	21,641	21,663
Basic earnings per share	\$ 0.02	\$ 0.14
Diluted earning per share	\$ 0.02	\$ 0.14

For the three months ended March 31, 2008, diluted earnings per share excludes 591 thousand of outstanding stock options and nonvested restricted stock as the effect would have been antidilutive.

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

**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>March 31, 2008</b>	<b>December 31, 2007</b>
Raw materials	\$ 59,867	\$ 62,129
Work in process	25,239	19,811
Finished goods	21,341	19,862
Less excess and obsolete	(5,993)	(5,417)
	\$ 100,454	\$ 96,385

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. Goodwill and Intangible Assets**

Goodwill represents the excess of acquisition purchase price over the fair value of net assets acquired. 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, *Goodwill and Intangible Assets*. We review definite-lived intangible assets in accordance with the provisions

of SFAS No. 144, *Accounting for 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 8 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2007. 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

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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 analysis was performed during the second quarter of fiscal 2007 and did not result in an impairment charge.

Annually, or more frequently if events or circumstances change, a determination is made by management, in accordance with SFAS No. 144 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 future discounted cash flows. 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.

Our intangible assets as of March 31, 2008 and December 31, 2007 were comprised of the following (in thousands):

	<b>March 31, 2008</b>			
	<b>Weighted- Average</b>			
	<b>Amortization Period</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Definite-lived intangible assets:				
	30			
Tradenames/Trademarks	years	\$ 9,790	\$ (997)	\$ 8,793
	7			
Licenses	years	438	(329)	109
	15			
Customer relationships	years	14,234	(696)	13,538
		\$ 24,462	\$ (2,022)	\$ 22,440
Indefinite-lived intangible assets:				

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Goodwill	\$	156,341	\$	\$	156,341
Customer relationships		74,800			74,800
	\$	231,141	\$	\$	231,141
Total consolidated goodwill and intangible assets				\$	253,581

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	<b>December 31, 2007</b>			
	<b>Weighted- Average</b>			
	<b>Amortization Period</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Definite-lived intangible assets:				
	30			
Tradenames/Trademarks	years	\$ 9,790	\$ (915)	\$ 8,875
	7			
Licenses	years	438	(313)	125
	15			
Customer relationships	years	14,234	(459)	13,775
		\$ 24,462	\$ (1,687)	\$ 22,775
Indefinite-lived intangible assets:				
Goodwill		\$ 151,189	\$	\$ 151,189
Customer relationships		74,800		74,800
		\$ 225,989	\$	\$ 225,989
Total consolidated goodwill and intangible assets				\$ 248,764

The aggregate intangible asset amortization expense was approximately \$0.3 million for the three months ended March 31, 2008 and approximately \$0.1 million for the three months ended March 31, 2007.

The estimated intangible asset amortization expense for the fiscal year ending December 31, 2008, and for the five succeeding years is as follows (in thousands):

<b>Fiscal Year Ended</b>	<b>Estimated Amortization Expense</b>
<b>December 31,</b>	
2008	\$ 1,338
2009	\$ 1,338
2010	\$ 1,275
2011	\$ 1,275
2012	\$ 1,275
2013	\$ 1,275

The changes in the carrying amounts of goodwill for the three months ended March 31, 2008, were comprised of the following (in thousands):

Balance December 31, 2007	\$ 151,189
Currency translation adjustment	124
Post-acquisition adjustments	5,028
Balance March 31, 2008	\$ 156,341

We recorded post-acquisition adjustments of approximately \$5.0 million primarily related to the recognition of loss contracts related to our acquisition of PEKM.

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Debt consisted of the following (in thousands):

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Revolving credit facilities bore interest at a weighted average of 8.2% as of March 31, 2008 and 8.5% as of December 31, 2007	\$ 10,500	\$ 9,500
8.0% senior notes due 2013	150,000	150,000
Other	197	225
	160,697	159,725
Less current maturities	118	116
	\$ 160,579	\$ 159,609

*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.

On June 29, 2007, we repaid our foreign denominated term loan in full. In connection with this loan repayment, approximately \$0.1 million of deferred fees, representing a proportionate amount of total deferred fees, were expensed as a loss on early extinguishment of debt.

On August 16, 2007, we entered into an Amendment and Waiver Letter to the Revolving Credit and Term Loan Agreement (the Amendment and Waiver Letter). Pursuant to the terms of the Amendment and Waiver Letter, the lenders consented to increase the size of permitted acquisitions to \$40 million per fiscal year and waived any default or event of default in connection with intercompany loans, contributions to capital, investments in capital stock or mixed stock and indebtedness certificates provided in connection with permitted acquisitions.

On September 28, 2007, we entered into the Tenth Amendment to the Revolving Credit and Term Loan Agreement (the Tenth Amendment). Pursuant to the terms of the Tenth Amendment, the lenders consented to various amendments, including but not limited to, changes to reporting requirements and financial ratios, which included the fixed charge coverage ratio and the maximum ratio of total indebtedness. Based on the provisions of EITF 98-14, approximately \$0.1 million third party fees relating to the credit agreement were capitalized and are being amortized over the remaining life of the senior credit agreement.

On March 11, 2008, we entered into the Eleventh Amendment to the Revolving Credit and Term Loan Agreement (the Eleventh Amendment). Pursuant to the terms of the Eleventh Amendment, the banks party thereto consented to various amendments to the senior credit agreement, including but not limited to: (i) amendments to the fixed charge ratio and the leverage ratio to provide us with increased flexibility in the near future; (ii) an amendment to the applicable margin pricing grid to include increased rates for prime rate and LIBOR borrowings when our leverage ratio (x) is equal to or greater than 4.0x; (iii) a reduction in availability under the revolving credit facility from \$100 million to \$50 million, subject to increases to \$75 million and then to \$100 million upon satisfaction of certain

conditions, including meeting certain financial covenant thresholds; (iv) increases in certain baskets in the indebtedness, asset disposition, investment and lien covenants contained in the senior credit agreement; and (v) an amendment to permit proposed future tax planning. Based on the provisions of EITF 98-14, approximately \$0.3 million third party fees relating to the credit agreement were capitalized and are being amortized over the remaining life of the senior credit agreement.

As of March 31, 2008, approximately \$4.0 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.



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The senior credit agreement provides us with the ability to denominate a portion of our borrowings in foreign currencies. As of March 31, 2008, \$10.5 million of the revolving credit facility borrowings were denominated in U.S. dollars and none of the revolving credit facility borrowings were denominated in British pounds sterling.

*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 March 31, 2008. 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 of our assets and the subsidiaries party to the financing, except that the assets of our foreign subsidiaries party to the financing only secure foreign borrowings. Additionally, as of March 31, 2008, we had outstanding letters of credit of approximately \$1.8 million.

**11. Income Taxes**

We or one of our subsidiaries files 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.

We adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*, effective January 1, 2007. As of March 31, 2008, we have provided a liability for \$2.7 million of unrecognized tax benefits related to various federal and state income tax positions. Of the \$2.7 million, the amount that would impact our effective tax rate, if recognized, is \$1.6 million. The remaining \$1.1 million of unrecognized tax benefits consists of items that are offset by deferred tax assets subject to valuation allowances, and thus could further impact the effective tax 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 \$0.6 million accrued for the payment of interest and penalties at March 31, 2008 which is included in the \$2.7 million of unrecognized tax benefits.

During the current quarter, we did not release any tax reserves associated with items with expiring statute 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 \$0.9 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 three months ended March 31, 2008 (in thousands):

Balance	December 31, 2007	\$ 3,958
	Additional provisions recorded	1,302
	Deduction for payments made	(807)
	Currency translation adjustment	47
Balance	March 31, 2008	\$ 4,500

*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

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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 the consolidated balance sheet, with the offsetting noncash gain or loss included in the 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 March 31, 2008 (in thousands):

	<b>Local Currency Amount</b>	<b>U.S. \$ Equivalent</b>	<b>U.S. \$ Equivalent Fair Value</b>
Contracts to (buy) sell currencies:			
U.S. dollar	\$ (489)	\$ (489)	\$ (489)
Eurodollar	47,335	67,246	76,049
Swedish kronor	10,880	1,621	1,891
Japanese yen	2,940,000	29,917	31,798
Australian dollar	3,800	3,223	3,459

The difference between the U.S. \$ equivalent and U.S. \$ equivalent fair value of approximately \$11.2 million and \$1.5 million is included in other long-term liabilities in the condensed consolidated balance sheet at March 31, 2008 and December 31, 2007, respectively.

*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.

**13. 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 ending March 31, is as follows (in thousands):

	<b>U.S. Pension Plans</b>		<b>Non-U.S. Pension Plans</b>		<b>Other Post- Retirement Benefit Plans</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Service cost	\$ 112	\$ 125	\$ 694	\$ 586	\$ 5	\$ 6
Interest cost	457	440	694	586	38	34
Expected return on plan assets	(491)	(381)	(537)	(557)		
Recognized actuarial loss			66	47	(6)	
Net periodic benefit cost	78	184	223	76	37	40
Special Termination Benefits		55				96

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Net benefit cost	\$ 78	\$ 239	\$ 223	\$ 76	\$ 37	\$ 136
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We previously disclosed in our financial statements for the year ended December 31, 2007, that we expect to contribute approximately \$2.7 million to our pension plans in 2008. As of March 31, 2008, approximately \$0.4 million of contributions have been made to our pension plans. We anticipate contributing an additional \$2.3 million to our pension plans in 2008 for total estimated contributions during 2008 of \$2.7 million.

**Table of Contents****14. Comprehensive Income**

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 nonowner sources. Comprehensive income represents net income adjusted for foreign currency translation adjustments and minimum pension liability. In accordance with SFAS No. 130, we have elected to disclose comprehensive income in stockholders' investment. The components of accumulated other comprehensive income consisted of the following as of March 31, 2008 (in thousands):

Foreign currency translation adjustment	\$ 7,668
Pension liability	(5,406)
Unrealized loss on derivatives	(167)
	\$ 2,095

Comprehensive income for the three months ended March 31 was as follows (in thousands):

	<b>2008</b>	<b>2007</b>
Net income	\$ 472	\$ 2,959
Other comprehensive income:		
Foreign currency translation adjustment	2,800	71
Comprehensive income	\$ 3,272	\$ 3,030

**15. Related Party Transactions**

On January 31, 2005, we entered into an advisory agreement with Hidden Creek Partners, LLC ( HCP ), pursuant to which HCP agreed to assist us in financing activities, strategic initiatives and acquisitions in exchange for an annual fee. In addition, we agreed to pay HCP a transaction fee for services rendered that relate to transactions we may enter into from time to time, in an amount that is negotiated between our Chief Executive Officer or Chief Financial Officer and approved by our Board of Directors. All of the principals of HCP are employees and managing directors of Thayer Capital. Scott Rued, the Company's Chairman, is a managing partner of Thayer Capital and Richard Snell, a member of our Board of Directors and our Compensation Committee Chairman, is an operating partner of Thayer Capital. Thayer Capital, Scott Rued or Richard Snell are not a party to, and have no direct or indirect financial interest in the advisory agreement between us and HCP. For the three months ended March 31, 2008 and 2007, we made payments under these arrangements of approximately \$0.1 million and \$0.2 million, respectively.

**16. Consolidating Guarantor and Non-Guarantor Financial Information**

The following consolidating financial information presents balance sheets, statements of operations and cash flow information related to our business. Each Guarantor, as defined, is a direct or indirect wholly owned subsidiary of the Company and has fully and unconditionally guaranteed the Subordinated Notes issued by the Company, on a joint and several basis. Separate financial statements and other disclosures concerning the Guarantors have not been presented because management believes that such information is not material to investors.

The Parent Company includes all of the wholly owned subsidiaries accounted for under the equity method. The guarantor and non-guarantor companies include the consolidated financial results of their wholly owned subsidiaries accounted for under the equity method. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries.

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	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited) (In thousands)</b>	<b>Elimination</b>	<b>Consolidated</b>
REVENUES	\$	\$ 138,752	\$ 65,254	\$ (7,002)	\$ 197,004
COST OF REVENUES		127,310	55,708	(6,779)	176,239
Gross Profit		11,442	9,546	(223)	20,765
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		10,143	5,110	(235)	15,018
(GAIN) ON SALE OF LONG-LIVED ASSETS		(6,075)			(6,075)
AMORTIZATION EXPENSE		103	242		345
Operating Income		7,271	4,194	12	11,477
OTHER EXPENSE		36	9,662		9,698
INTEREST EXPENSE		3,658	1,025	(776)	3,907
Income Before Provision for Income Taxes		3,577	(6,493)	788	(2,128)
PROVISION FOR INCOME TAXES		163	(2,763)		(2,600)
NET INCOME	\$	\$ 3,414	\$ (3,730)	\$ 788	\$ 472

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	Parent Company	Guarantor Companies	Non-Guarantor Companies (Unaudited) (In thousands)	Elimination	Consolidated
<b>ASSETS</b>					
CURRENT ASSETS:					
Cash and cash equivalents	\$	\$ 3,262	\$ 6,283	\$ (2,015)	\$ 7,530
Accounts receivable, net		256,877	42,610	(178,759)	120,728
Inventories, net		59,991	41,062	(599)	100,454
Prepaid expenses and other current assets		3,348	8,667	5,444	17,459
Deferred income taxes		15,222	3,973	(2,017)	17,178
Total current assets		338,700	102,595	(177,946)	263,349
PROPERTY, PLANT AND EQUIPMENT, net		84,003	12,966		96,969
INVESTMENT IN SUBSIDIARIES	423,993	(106,663)	45,502	(362,832)	
GOODWILL		113,908	42,433		156,341
INTANGIBLE ASSETS, net		83,702	13,538		97,240
OTHER ASSETS, net		13,684	3,323	(7,175)	9,832
TOTAL ASSETS	\$ 423,993	\$ 527,334	\$ 220,357	\$ (547,953)	\$ 623,731
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>					
CURRENT LIABILITIES:					
Current maturities of long-term debt	\$	\$ 118	\$	\$	\$ 118
Accounts payable		231,459	45,253	(180,774)	95,938
Accrued liabilities		22,399	14,131	2,651	39,181
Total current liabilities		253,976	59,384	(178,123)	135,237
LONG-TERM DEBT, net of current maturities		160,551	25,744	(25,716)	160,579
DEFERRED TAX LIABILITIES		35,084	(816)	(7,176)	27,092
PENSION AND OTHER POST-RETIREMENT BENEFITS		6,811	11,221		18,032
OTHER LONG-TERM LIABILITIES		437	12,806		13,243
Total liabilities		456,859	108,339	(211,015)	354,183
STOCKHOLDERS INVESTMENT	423,993	70,475	112,018	(336,938)	269,548
TOTAL LIABILITIES AND STOCKHOLDERS INVESTMENT	\$ 423,993	\$ 527,334	\$ 220,357	\$ (547,953)	\$ 623,731





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	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited) (In thousands)</b>	<b>Elimination</b>	<b>Consolidated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income (loss)	\$	\$ 3,414	\$ (3,730)	\$ 788	\$ 472
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization		3,553	1,135		4,688
Noncash amortization of debt financing costs		213			213
Stock-based compensation expense		943			943
(Gain) on sale of long-lived assets		(6,043)			(6,043)
Deferred income tax provision		18	(4,190)	(1)	(4,173)
Noncash gain on forward exchange contracts			9,682		9,682
Change in other operating items		(4,887)	(1,917)	(2,802)	(9,606)
Net cash (used in) provided by operating activities		(2,789)	980	(2,015)	(3,824)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchases of property, plant and equipment		(3,002)	(625)		(3,627)
Proceeds from disposal/sale of property, plant and equipment		7,432	20		7,452
Other asset and liabilities		(594)	(4,907)		(5,501)
Net cash provided by (used in) investing activities		3,836	(5,512)		(1,676)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Repayment of revolving credit facility		(46,000)			(46,000)
Borrowings under revolving credit facility		47,000			47,000
Payments on capital lease obligations		(28)	(3)		(31)
Other, net		(250)			(250)

Net cash provided by (used in) financing activities	722	(3)		719
EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	144	2,300		2,444
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,913	(2,235)	(2,015)	(2,337)
CASH AND CASH EQUIVALENTS: Beginning of period	1,349	8,518		9,867
End of period	\$ 3,262	\$ 6,283	\$ (2,015)	\$ 7,530

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	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited) (In thousands)</b>	<b>Elimination</b>	<b>Consolidated</b>	
REVENUES	\$	\$ 158,399	\$	\$ 41,880	\$ (1,478)	\$ 198,801
COST OF REVENUES		138,416		35,300	(1,184)	172,532
Gross Profit		19,983		6,580	(294)	26,269
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		11,963		3,876	(285)	15,554
AMORTIZATION EXPENSE		103				103
Operating Income		7,917		2,704	(9)	10,612
OTHER EXPENSE		69		2,251		2,320
INTEREST EXPENSE		3,356		281		3,637
Income Before Provision for Income Taxes		4,492		172	(9)	4,655
PROVISION FOR INCOME TAXES		1,827		(131)		1,696
NET INCOME	\$	\$ 2,665	\$	\$ 303	\$ (9)	\$ 2,959

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	Parent Company	Guarantor Companies	Non-Guarantor Companies (In thousands)	Elimination	Consolidated
<b>ASSETS</b>					
CURRENT ASSETS:					
Cash and cash equivalents	\$	\$ 1,349	\$ 8,518	\$	\$ 9,867
Accounts receivable, net		242,842	34,824	(169,979)	107,687
Inventories, net		58,757	38,238	(610)	96,385
Prepaid expenses		3,175	7,914	5,419	16,508
Deferred income taxes		15,223	624	(2,858)	12,989
Total current assets		321,346	90,118	(168,028)	243,436
PROPERTY, PLANT AND EQUIPMENT, net		85,817	12,441		98,258
INVESTMENT IN SUBSIDIARIES	417,428	(100,082)	45,502	(362,848)	
GOODWILL		113,787	37,402		151,189
INTANGIBLE ASSETS, net		83,800	13,775		97,575
OTHER ASSETS, net		8,631			8,631
DEFERRED INCOME TAXES		4,172	3,323	(7,495)	
<b>TOTAL ASSETS</b>	<b>\$ 417,428</b>	<b>\$ 517,471</b>	<b>\$ 202,561</b>	<b>\$ (538,371)</b>	<b>\$ 599,089</b>
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>					
CURRENT LIABILITIES:					
Current maturities of long-term debt	\$	\$ 116	\$	\$	\$ 116
Accounts payable		220,923	42,089	(169,979)	93,033
Accrued liabilities		21,128	9,426	2,561	33,115
Total current liabilities		242,167	51,515	(167,418)	126,264
LONG-TERM DEBT, net		159,581	25,744	(25,716)	159,609
DEFERRED TAX LIABILITIES		35,387	(816)	(7,495)	27,076
OTHER LONG-TERM LIABILITIES		7,614	13,191		20,805
Total liabilities		444,749	89,634	(200,629)	333,754
STOCKHOLDERS INVESTMENT	417,428	72,722	112,927	(337,742)	265,335
<b>TOTAL LIABILITIES AND STOCK HOLDERS INVESTMENT</b>	<b>\$ 417,428</b>	<b>\$ 517,471</b>	<b>\$ 202,561</b>	<b>\$ (538,371)</b>	<b>\$ 599,089</b>



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	<b>Parent Company</b>	<b>Guarantor Companies</b>	<b>Non-Guarantor Companies (Unaudited)</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(In thousands)</b>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income (loss)	\$	\$ 2,665	\$ 303	\$ (9)	\$ 2,959
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization		3,135	594		3,729
Noncash amortization of debt financing costs		208	8		216
Stock-based compensation expense		846			846
Loss (gain) on sale of assets		63	(2)		61
Deferred income tax provision		(42)	(750)		(792)
Noncash gain on forward exchange contracts			2,247		2,247
Change in other operating items		(7,874)	(557)	8	(8,423)
Net cash (used in) provided by operating activities		(999)	1,843	(1)	843
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchases of property, plant and equipment		(2,456)	(642)		(3,098)
Proceeds from disposal/sale of property, plant and equipment			24		24
Other asset and liabilities		(29)	(1)	1	(29)
Net cash (used in) provided by investing activities		(2,485)	(619)	1	(3,103)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from issuance of common stock under equity incentive plans		114			114
Excess tax benefits from equity incentive plans		39			39
Repayment of revolving credit facility		(46,500)	(4,909)		(51,409)
Borrowings under revolving credit facility		46,500	4,418		50,918

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Repayments of long-term debt		(467)		(467)
Other, net	(30)	(2)		(32)
Net cash provided by (used in) financing activities	123	(960)		(837)
EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(21)		(21)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,361)	243		(3,118)
CASH AND CASH EQUIVALENTS: Beginning of period	18,268	1,553		19,821
End of period	\$ 14,907	\$ 1,796	\$	\$ 16,703

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**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**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, military, bus and agriculture market and the specialty 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 heavy truck 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 heavy truck commercial vehicles manufactured in North America, 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 heavy truck 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 heavy truck commercial vehicles in North America initially 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 heavy truck 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. During 2007, the demand for North American Class 8 heavy trucks experienced a downturn as a result of pre-orders in 2006 and general weakness in the North American economy and corresponding decline in the need for commercial vehicles to haul freight tonnage in North America.

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 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 Class 8 trucks, such as our storage systems, sleeper boxes, sleeper bunks and privacy curtains, and, as a result, changes in demand for Class 8 trucks or the mix of options on a vehicle can have a greater impact on our business than changes in the overall demand for commercial vehicles. To the extent that demand increases for higher content vehicles, our revenues and gross profit will be positively impacted.

Demand for our products is also dependent on the overall vehicle demand for new commercial vehicles in the global construction equipment market and generally follows certain economic conditions around the world. Within the construction market, there are two classes of construction equipment, the medium/heavy equipment market (weighing over 12 metric tons) and the light construction equipment market (weighing below 12 metric tons). Demand in the medium/heavy construction equipment market is typically related to the level of larger scale infrastructure development projects such as highways, dams, harbors, hospitals, airports and industrial development as well as activity in the mining, forestry and other raw material based industries. Demand in the light construction equipment market is typically related to certain economic conditions such as the level of housing construction and other smaller-scale developments and projects. Our products are primarily used in the medium/heavy construction



equipment markets.

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Along with North America, we have operations in Europe, China, Australia and Mexico. 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.

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

sourcing efforts in Europe and Asia;

consolidating our supply base to improve purchasing leverage;

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.

**Results of Operations**

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

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Revenues	100.0%	100.0%
Cost of Revenues	89.5	86.8
Gross Profit	10.5	13.2
Selling, General and Administrative Expenses	7.6	7.8
Gain on Sale of Long-Lived Assets	(3.1)	
Amortization Expense	0.2	0.1
Operating Income	5.8	5.3
Other Expense	4.9	1.2
Interest Expense	2.0	1.8

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(Loss) Income Before Provision for Income Taxes	(1.1)	2.3
(Benefit) Provision for Income Taxes	(1.3)	0.8
Net Income	0.2%	1.5%

**Table of Contents*****Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007***

**Revenues.** Revenues decreased approximately \$1.8 million, or 0.9%, to \$197.0 million in the three months ended March 31, 2008 from \$198.8 million in the three months ended March 31, 2007. This decrease resulted primarily from a 32.9% decrease in North American Heavy-duty (Class 8) truck production and changes in our other key markets which resulted in approximately \$29.1 million of decreased revenues from our North American operations. The decrease was partially offset by increased acquisition related revenue of approximately \$19.8 million, increased production levels and net new business awards for our European, Australian and Asian markets of approximately \$6.4 million and favorable foreign exchange fluctuations and adjustment of approximately \$1.1 million.

**Gross Profit.** Gross profit decreased approximately \$5.5 million, or 21.0%, to \$20.8 million in the three months ended March 31, 2008 from \$26.3 million in the three months ended March 31, 2007. As a percentage of revenues, gross profit decreased to 10.5% in the three months ended March 31, 2008 from 13.2% in the three months ended March 31, 2007. This decrease resulted primarily from the reduction in revenues from our North American Heavy-Duty (Class 8) truck market and the reduced gross profit margin percentage from our acquisitions over the prior year period.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses decreased approximately \$0.6 million, or 3.4%, to \$15.0 million in the three months ended March 31, 2008 from \$15.6 million in the three months ended March 31, 2007. The decrease compared to the prior year was driven from reduced travel and general spending.

**Gain on Sale of Long-Lived Assets.** The gain on sale of long-lived assets of approximately \$6.1 million for the three months ended March 31, 2008 is from the sale of our Seattle, Washington facility.

**Amortization Expense.** Amortization expense increased to approximately \$0.3 million for the three months ended March 31, 2008 from approximately \$0.1 million in the three months ended March 31, 2007. This increase was primarily the result the purchase price allocation of definite-lived intangible assets for our C.I.E.B. and PEKM acquisitions.

**Other Expense.** We use forward exchange contracts to hedge foreign currency transaction exposures related primarily to 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 in our balance sheets, with the offsetting noncash gain or loss recorded in our consolidated statements of operations. The loss of approximately \$9.7 million in the three months ended March 31, 2008, and the loss of \$2.3 million in the three months ended March 31, 2007 primarily represent the noncash change in value of the forward exchange contracts in existence at the end of each respective period.

**Interest Expense.** Interest expense increased approximately \$0.3 million to \$3.9 million in the three months ended March 31, 2008 from \$3.6 million in the three months ended March 31, 2007. This increase was primarily due to higher average outstanding indebtedness during the periods resulting from acquisitions in 2007.

**Benefit for Income Taxes.** Our effective tax rate was 122.2% for the three months ended March 31, 2008 and 36.4% for the same period in 2007. An income tax benefit of approximately \$2.6 million was made for the three months ended March 31, 2008 compared to an income tax provision of \$1.7 million for the three months ended March 31, 2007. The increase in effective rate from the prior year quarter can be primarily attributed to decreased earning before taxes, our tax position in certain geographical regions and other tax credit adjustments.

**Net Income.** Net income decreased approximately \$2.5 million to \$0.5 million in the three months ended March 31, 2008, compared to \$3.0 million in the three months ended March 31, 2007, primarily as a result of the factors discussed above.

**Table of Contents****Liquidity and Capital Resources****Cash Flows**

For the three months ended March 31, 2008, net cash used in operations was approximately \$3.8 million compared to net cash provided by operations of \$0.8 million from the prior year period. This decrease is primarily a result of the increase in accounts receivable for the three months ended March 31, 2008.

Net cash used in investing activities was approximately \$1.7 million for the three months ended March 31, 2008 compared to net cash used in investing activities of approximately \$3.1 million for the comparable period in 2007. The net cash used primarily reflects ongoing capital expenditure purchases, the sale of long-lived assets and post-acquisition adjustments.

Net cash provided by financing activities was approximately \$0.7 million for the three months ended March 31, 2008, compared to net cash used in financing activities of \$0.8 million in the same period of 2007. The net cash provided by financing activities was principally related to funding ongoing operational activities.

**Debt and Credit Facilities**

As of March 31, 2008, we had an aggregate of approximately \$160.7 million of outstanding indebtedness excluding approximately \$1.8 million of outstanding letters of credit under various financing arrangements. The indebtedness consisted of:

\$10.5 million under our revolving credit facility;

\$0.2 million of capital lease obligations; and

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

As of March 31, 2008, \$10.5 million of the revolving credit facility borrowings were denominated in U.S. dollars, and none of the revolving credit facility borrowings were denominated in British pounds sterling. The weighted average rate of borrowings under the revolving credit facility for the three months ended March 31, 2008 was approximately 8.2%.

Based on the provisions of EITF 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, approximately \$4.0 million in deferred fees relating to the credit agreement and senior notes were outstanding at March 31, 2008 and are being amortized over the life of the agreements.

Under the terms of our senior credit facility, as amended by the Eleventh Amendment, 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) \$50.0 million; provided, that the \$50.0 million cap is subject to increase to \$75.0 million and then \$100.0 million upon satisfaction of certain financial covenant tests. Borrowings under the senior credit agreement 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 agreement contains various financial covenants, including, a limitation on the amount of capital expenditures of not more than \$40.0 million in any fiscal year, a minimum ratio of EBITDA to cash interest expense, a fixed charge coverage ratio and a maximum ratio of total indebtedness to EBITDA. The EBITDA to cash interest expense ratio, fixed charge coverage ratio and the maximum ratio of total indebtedness to EBITDA for the three months then ended, as measured at the end of each fiscal quarter is set forth below:

<b>Quarter(s) Ending</b>	<b>EBITDA to Cash Interest Expense Ratio</b>
03/31/2008	2.00 to 1.00
06/30/2008 and 09/30/2008	2.25 to 1.00
12/31/2008 and each fiscal quarter thereafter	2.50 to 1.00

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<b>Quarter(s) Ending</b>	<b>Fixed Charge Coverage Ratio</b>
03/31/2008	.80 to 1.00
06/30/2008	.85 to 1.00
09/30/2008, 12/31/2008 and 03/31/2009	.90 to 1.00
6/30/2009	1.00 to 1.00
9/30/2009	1.15 to 1.00
12/31/2009 and each fiscal quarter thereafter	1.25 to 1.00

  

<b>Quarter(s) Ending</b>	<b>Maximum Ratio of Total Indebtedness</b>
03/31/2008	6.10 to 1.00
06/30/2008	5.65 to 1.00
09/30/2008	5.15 to 1.00
12/31/2008	4.75 to 1.00
03/31/2009	4.50 to 1.00
06/30/2009	4.00 to 1.00
09/30/2009	3.50 to 1.00
12/31/2009 and each fiscal quarter thereafter	3.00 to 1.00

The senior credit agreement also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, dividends, change 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 agreement, and our indebtedness thereunder could be declared immediately due and payable.

The senior credit agreement is collateralized by substantially all of our assets and the assets of our subsidiaries party to the financing, except that the assets of our foreign subsidiaries party to this financing only secure foreign borrowings. The senior credit agreement also contains customary events of default. We were in compliance with all of our respective financial covenants under our credit agreement as of March 31, 2008.

We believe that cash flow from operating activities together with available borrowings under our senior credit agreement will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for at least the next twelve months. We regularly review acquisition and additional opportunities, which may require additional debt or equity financing.

**Update on Contractual Obligations**

We adopted FIN 48, *Accounting for Uncertainty in Income Taxes*, as of January 1, 2007. During the current quarter, we did not release any tax reserves due to expiring statute of limitations. At March 31, 2008, we have provided a liability for \$2.7 million of unrecognized tax benefits related to various income tax positions. However, the net obligation to taxing authorities under FIN 48 was \$0.4 million. The difference relates primarily to receivables based on future amended returns. We do not expect a significant tax payment related to these obligations within the next year.

**Forward-Looking Statements**

All statements, other than statements of historical fact included in this Form 10-Q, including without limitation the statements under Management's Discussion and Analysis of Financial Condition and Results of Operations are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Form 10-Q, the words anticipate, believe, estimate, expect, intend, plan and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such forward-looking statements are based on the beliefs of our management as well as on assumptions made by and information currently available to us at the time such statements were made. Various economic and competitive factors could cause actual results to differ materially from those discussed in such forward-looking statements, including factors which are outside of 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 CVG serves; (iv) increased competition in the heavy-duty truck or construction market; (v) CVG's failure to complete or successfully integrate additional strategic acquisitions; (vi) the impact of changes made by governmental regulations on our customers or on our business; (vii) the loss of business from a major customer or the discontinuation of particular commercial vehicle platforms; and (viii) various other risks as outlined in CVG's SEC filings. 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.

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**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to our exposure to market risk since December 31, 2007.

**ITEM 4 CONTROLS AND PROCEDURES**

Disclosure Controls and Procedures. Our senior management is responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2008.

There was no change in our internal control over financial reporting during the three months ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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**PART II. OTHER INFORMATION**

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

Item 1. Legal Proceedings:

From time to time, we are involved in various disputes and litigation matters that arise in the ordinary course of our business. We do not have any material litigation at this time.

Item 1A. Risk Factors:

There have been no material changes to our risk factors as disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007.

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Item 6. Exhibits:

- 10.1 Commercial Vehicle Group, Inc. 2008 Bonus Plan (incorporated by reference to the Company's current report on Form 8-K (File No. 000-50890), filed on March 25, 2008).
- 10.2 Eleventh Amendment to Revolving Credit and Term Loan Agreement, dated as of March 10, 2008, by and among Commercial Vehicle Group, Inc., the subsidiary borrowers from time to time parties thereto, the foreign currency borrowers from time to time parties thereto, the banks from time to time parties thereto, U.S. Bank National Association, one of the banks, as administrative agents for the banks, and Comerica Bank, one of the banks, as syndication agent for the banks (incorporated by reference to the Company's current report on Form 8-K (File No. 000-50890), filed on March 14, 2008).
- 31.1 Certification by Mervin Dunn, President and Chief Executive Officer.
- 31.2 Certification by Chad M. Utrup, Chief Financial Officer.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMERCIAL VEHICLE GROUP, INC.

Date: May 9, 2008

By: /s/ Chad M. Utrup  
Chad M. Utrup  
Chief Financial Officer

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