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Commercial Vehicle Group, Inc.
Form 10-K
March 09, 2017

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

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
or

Transition report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: Commission file number:
December 31, 2016 001-34365

COMMERCIAL VEHICLE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware 41-1990662
(State of Incorporation) (I.R.S. Employer Identification No.)

7800 Walton Parkway 43054
New Albany, Ohio (Zip Code)
(Address of Principal Executive Offices)

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

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

Title of Each Class	Name of exchange on which registered
Common Stock, par value \$.01 per share	The NASDAQ Global Select Market

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

None

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer 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 aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on June 30, 2015, was \$210,138,586.

As of March 9, 2017, 30,852,227 shares of Common Stock of the Registrant were outstanding.

Documents Incorporated by Reference

Information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference from the Registrant’s Proxy Statement for its annual meeting to be held May 16, 2017 (the “2017 Proxy Statement”).

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Annual Report on Form 10-K

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CERTAIN DEFINITIONS

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

FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. For this purpose, any statements contained herein that are not statements of historical fact, including without limitation, certain statements under “Item 1 — Business” and “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” and located elsewhere herein regarding industry outlook, financial covenant compliance, anticipated effects of acquisitions, production of new products, plans for capital expenditures and our results of operations or financial position and liquidity, may be deemed to be forward-looking statements. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects,” “should,” and similar expressions are intended to identify forward-looking statements. The important factors discussed in “Item 1A — Risk Factors,” among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Such forward-looking statements represent management’s current expectations and are inherently uncertain. Investors are warned that actual results may differ from management’s expectations. Additionally, various economic and competitive factors could cause actual results to differ materially from those discussed in such forward-looking statements, including, but not limited to, factors which are outside our control, such as risks relating to (i) general economic or business conditions affecting the markets in which we serve; (ii) our ability to develop or successfully introduce new products; (iii) risks associated with conducting business in foreign countries and currencies; (iv) increased competition in the heavy-duty truck, construction or medium-duty agriculture market; (v) our failure to complete or successfully integrate additional strategic acquisitions; (vi) the impact of changes in 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; (viii) our ability to obtain future financing due to changes in the lending markets or our financial position and (ix) our ability to comply with the financial covenants in our revolving credit facility. 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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PART I

Item 1. Business

COMPANY OVERVIEW

Commercial Vehicle Group, Inc. (and its subsidiaries) is a leading supplier of a full range of cab related products and systems for the global commercial vehicle market, including the medium- and heavy-duty truck ("MD/HD Truck") market, the medium- and heavy-construction vehicle market, and the military, bus, agriculture, specialty transportation, mining, industrial equipment and off-road recreational markets. References herein to the "Company," "we," "our," or "us" refer to Commercial Vehicle Group, Inc. and its subsidiaries.

We have manufacturing operations in the United States, Mexico, United Kingdom, Czech Republic, Ukraine, China, India and Australia. Our products are primarily sold in North America, Europe, and the Asia-Pacific region.

Our products include seats and seating systems ("Seats"); trim systems and components ("Trim"); cab structures, sleeper boxes, body panels and structural components; mirrors, wipers and controls; and electronic wire harness and panel assemblies designed for applications in commercial and other vehicles.

We are differentiated from automotive industry suppliers by our ability to manufacture low volume, customized products on a sequenced basis to meet the requirements of our customers. We believe our products are used by a majority of the North American MD/HD Truck and certain leading global construction and agriculture original equipment manufacturers ("OEMs"), creating an opportunity, we believe, to cross-sell our products. References herein to the "Company," "we," "our," or "us" refer to NIC and its consolidated subsidiaries, including certain variable interest entities ("VIEs") of which we are the primary beneficiary.

Our Long-term Strategy and Strategic Footprint

Refer to Item 7. Management's Discussion and Analysis for discussion on the Company's long-term strategy and strategic footprint initiatives.

SEGMENTS

Operating segments are defined as components of an enterprise that are evaluated regularly by the Company's chief operating decision maker ("CODM"). The Company's CODM is its President and Chief Executive Officer. The Company has two reportable segments: the Global Truck and Bus Segment ("GTB Segment") and the Global Construction and Agriculture Segment ("GCA Segment"). Each of these segments consists of a number of manufacturing facilities. Generally, the facilities in the GTB Segment manufacture and sell Seats, Trim, wipers, mirrors, structures and other products into the MD/HD Truck and bus markets. Generally, the facilities in the GCA Segment manufacture and sell wire harnesses, Seats and other products into the construction and agriculture markets. Both segments participate in the aftermarket. Certain of our facilities manufacture and sell products through both of our segments. Each manufacturing facility that sells products through both segments is reflected in the financial results of the segment that has the greatest amount of sales from that manufacturing facility. Our segments are more specifically described below.

The GTB Segment manufactures and sells the following products:

• Seats, Trim, sleeper boxes, cab structures, structural components and body panels. These products are sold primarily to the MD/HD Truck markets in North America.

• Seats to the truck and bus markets in Asia-Pacific and Europe.

• Mirrors and wiper systems to the truck, bus, agriculture, construction, rail and military markets in North America.

• Trim to the recreational and specialty vehicle markets in North America.

• Aftermarket seats and components in North America.

The GCA Segment manufactures and sells the following products:

• Electronic wire harness assemblies and Seats for construction, agricultural, industrial, automotive, mining and military industries in North America, Europe and Asia Pacific.

• Seats to the truck and bus markets in Asia-Pacific and Europe.

• Wiper systems to the construction and agriculture markets in Europe.

Office seating in Europe and Asia-Pacific.

Aftermarket seats and components in Europe and Asia-Pacific.

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See Note 9 of the Notes to Consolidated Finance Statements under Item 8 Financial Statements and Supplementary Data for financial information presented by segment for each of the three years ended December 31, 2016, 2015 and 2014, including information on sales and long-lived assets by geographic area.

GLOBAL TRUCK AND BUS SEGMENT OVERVIEW

Global Truck and Bus Segment Products

Set forth below is a brief description of our products manufactured in the GTB Segment and their applications: **Seats and Seating Systems.** We design, engineer and produce Seats for MD/HD Truck and bus applications. For the most part, our Seats are fully-assembled and ready for installation when they are delivered to the OEM. We offer a wide range of seats that include mechanical and air suspension seats, static seats, bus seats and military seats. As a result of our product design and product technology, we believe we are a leader in designing seats with convenience and safety features. Our Seats are designed to achieve a high level of operator - comfort by adding a wide range of manual and power features such as lumbar support, cushion and back bolsters, and leg and thigh support. Our Seats are built to meet customer requirements in low volumes and produced in numerous feature combinations to form a full-range product line with a wide level of price points. We also manufacture seats, and parts and components for the aftermarket.

Trim Systems and Components. We design, engineer and produce Trim for MD/HD Truck, and recreational and specialty vehicle applications. Our Trim products are used mostly for interior cabs of commercial vehicles as well as exterior components for commercial recreational and specialty vehicles. Our Trim products are designed to provide a comfortable and durable interior along with a variety of functional and safety features for the vehicle occupant. The wide variety of features that can be selected makes Trim a complex and specialized product category. Set forth below is a brief description of our principal products in the Trim category:

Trim Products. Our trim products include door panels and other interior trim panels. Specific components include vinyl or cloth-covered appliques ranging from a traditional cut and sew approach to a contemporary molded styling theme, armrests, map pocket compartments, and sound-reducing insulation.

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

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

Storage Systems. Our modular storage units and custom cabinetry are designed to improve comfort and optimize space for the operator. These storage systems are designed to be integrated with the interior trim.

Floor Covering Systems. We have an extensive and comprehensive portfolio of floor covering systems and dash insulators. Carpet flooring systems generally consist of tufted or non-woven carpet with a thermoplastic backcoating. Non-carpeted flooring systems, used primarily in commercial and fleet vehicles, offer improved wear and maintenance characteristics.

Sleeper Bunks. We offer a wide array of design choices for upper and lower sleeper bunks for heavy trucks. All parts of our sleeper bunks can be integrated to match the rest of the interior trim.

Grab Handles and Armrests. Our grab handles and armrests are designed and engineered with specific attention to aesthetics, ergonomics and strength.

Privacy Curtains. We produce privacy curtains for use in sleeper cabs.

Plastics Decorating and Finishing. We offer customers a wide variety of cost-effective finishes in paint, ultra violet, hard coating and customized industrial hydrographic films (simulated appearance of wood grain, carbon fiber, brushed metal, marbles, camouflage and custom patterns), paints and other interior and exterior finishes.

Cab Structures, Sleeper Boxes, Body Panels and Structural Components. We design, engineer and produce complete cab structures, sleeper boxes, body panels and structural components for MD/HD Trucks. Set forth below is

a brief description of our principal products in this category:

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Cab Structures. We design, manufacture and assemble complete cab structures. Our cab structures, which are manufactured from both steel and aluminum, are delivered fully assembled and primed for paint.

Sleeper Boxes. We design, manufacture and assemble sleeper boxes that can be part of the overall cab structure or standalone assemblies depending on the customer application.

Bumper Fascias and Fender Liners. We design and manufacture durable, lightweight bumper fascias and fender liners.

Body Panels and Structural Components. We produce a wide range of both steel and aluminum large exterior body panels and structural components for use in production of cab structures and sleeper boxes.

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

Mirrors. We offer a range of round, rectangular, motorized and heated mirrors and related hardware, including brackets, braces and side bars. We have introduced both road and outside temperature devices that can be mounted on the cab, integrated into the mirror face and the vehicle's dashboard through our RoadWatch family of products.

Windshield Wiper Systems. We offer application-specific windshield wiper systems and individual windshield wiper components.

Controls. We offer a range of controls and control systems for window lifts, door locks and electric switch products.

Global Truck and Bus Segment Raw Materials and Suppliers

A description of the principal raw materials we utilize in our GTB Segment's principal product categories is set forth below:

- **Seats and Seating Systems.** The principal raw materials used in our Seats include steel, resin-based products and foam products and are generally readily available and obtained from multiple suppliers under various supply agreements. Leather, vinyl, fabric and certain components are also purchased from multiple suppliers.
- Trim Systems and Components.** The principal raw materials used in our Trim are resin and chemical products, foam, vinyl and fabric which are formed and assembled into end products. These raw materials are generally readily available from multiple suppliers.

Cab Structures, Sleeper Boxes, Body Panels and Structural Components. The principal raw materials used in our cab structures, sleeper boxes, body panels and structural components are steel and aluminum, the majority of which we purchase in sheets or coils. These raw materials are generally readily available and obtained from multiple suppliers.

Mirrors, Wipers and Controls. The principal raw materials used to manufacture our mirrors, wipers and controls are steel, stainless steel, aluminum and rubber, which are generally readily available and obtained from multiple suppliers. We also purchase sub-assembled products such as motors for our wiper systems and mirrors.

Global Truck and Bus Segment Customers

The following is a summary of the GTB Segment's significant revenues (figures are shown as a percentage of total GTB Segment revenue) by end market for each of the three years ended December 31:

	2016	2015	2014
Medium-and Heavy-duty Truck OEMs	62%	70%	71%
Aftermarket and OE Service	18	15	14
Bus OEMs	8	6	6
Construction OEMs	2	2	2
Other	10	7	7
Total	100%	100%	100%

We believe we are a successful long-term supplier because of our comprehensive product offerings, leading brand names and product innovation. Our principal customers include A.B. Volvo, Daimler Trucks, PACCAR and Navistar, constituting a combined total of 73%, 79% and 80% of GTB Segment revenue for the years ended December 31, 2016, 2015 and 2014, respectively.

Our European and Asia-Pacific operations collectively contributed approximately 6%, 4% and 5% of the GTB Segment's revenues for the years ended December 31, 2016, 2015 and 2014, respectively.

Global Truck and Bus Industry

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Commercial Vehicle Supply Market Overview. Commercial vehicles are used in a wide variety of end markets, including local and long-haul commercial trucking, bus, construction, mining, agricultural, military, industrial, municipal, off-road recreation and specialty vehicle markets. The commercial vehicle supply industry can generally be separated into two categories: (1) sales to OEMs, in which products are sold in relatively large quantities directly for use by OEMs in new commercial and construction vehicles; and (2) aftermarket sales, in which products are sold as replacements in varying quantities to a wide range of original equipment service organizations, wholesalers, retailers and installers. In the OEM market, suppliers are generally divided into tiers — “Tier 1” suppliers that provide products directly to OEMs, and “Tier 2” and “Tier 3” suppliers that sell products principally to other suppliers for integration into those suppliers’ own product offerings. We are generally a Tier I supplier.

Our largest end market, the North American commercial truck industry, is supplied by medium- and heavy-duty commercial vehicle suppliers, as well as automotive suppliers. The commercial vehicle supplier industry is fragmented and comprised of several large companies and many smaller companies. In addition, the commercial vehicle supplier industry is characterized by relatively low production volumes and can have considerable barriers to entry, including the following: (1) specific technical and manufacturing requirements, (2) high transition costs to shift production to new suppliers, (3) just-in-time delivery requirements and (4) strong brand name recognition. Foreign competition is growing with the globalization of the world economy.

Although OEM demand for our products is directly correlated with new vehicle production, suppliers like us can grow by increasing sales through the cross selling and bundling of products, further penetrating existing customers’ businesses, gaining new customers, expanding into new geographic markets, developing new content in our products to meet changing customer needs and by increasing aftermarket sales. We believe that companies with a global presence, advanced technology, engineering and manufacturing and support capabilities, such as our company, are well positioned to take advantage of these opportunities.

North American Commercial Truck Market. Purchasers of commercial trucks include fleet operators, owner operators, governmental agencies and industrial end users. Commercial vehicles used for local and long-haul commercial trucking are generally classified by gross vehicle weight. Class 8 vehicles are trucks with gross vehicle weight in excess of 33,000 lbs. and Classes 5 through 7 vehicles are trucks with gross vehicle weight from 16,001 lbs. to 33,000 lbs. The following table shows production levels (in thousands of units) of commercial vehicles used for local and long-haul commercial trucking from 2012 through 2016 in North America:

	2012	2013	2014	2015	2016
Class 8 heavy trucks	279	246	297	323	228
Class 5-7 light and medium-duty trucks	189	201	226	237	233

Source: ACT N.A. (December 2016).

The following describes the major markets within the commercial vehicle market in which the GTB Segment competes:

Class 8 Truck Market. The global Class 8 ("Class 8" or "heavy-duty") truck manufacturing market is concentrated in three primary regions: North America, Europe and Asia-Pacific. The global Class 8 truck market is localized in nature due to the following factors: (1) the prohibitive costs of shipping components from one region to another, (2) the high degree of customization to meet the region-specific demands of end-users and (3) the ability to meet just-in-time delivery requirements. According to ACT Research, four companies represented approximately 98% of North American Class 8 truck production in 2016. The percentages of Class 8 production represented by Daimler, PACCAR, A.B. Volvo, and Navistar were approximately 39%, 30%, 17%, and 12%, respectively, in 2016. We supply products to all of these OEMs.

New Class 8 truck commercial vehicle demand has historically been cyclical and is particularly sensitive to economic factors that generate a significant portion of the freight tonnage hauled by commercial vehicles.

The following table illustrates North American Class 8 truck build for the years 2014 to 2021:

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“E” — Estimated

Source: ACT (December 2016).

Class 5-7 Truck Market. North American Class 5-7 ("Class 5-7" or "medium-duty") includes recreational vehicles, buses and medium-duty trucks. We primarily participate in the Class 6 and 7 medium-duty truck market. The medium-duty market is influenced by overall economic conditions but has historically been less cyclical than the North American Class 8 market, with highs and lows generally not as pronounced as the Class 8 market. As the North American truck fleet companies move to a distribution center model, requiring less long-haul freight vehicles, the demand for medium-duty trucks may increase.

The following table illustrates the North American Class 5-7 truck build for the years 2014 through 2021:

“E” — Estimated

Source: ACT (December 2016).

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

Economic Conditions. The North American truck industry is directly influenced by overall economic conditions and consumer spending. Since heavy-duty truck OEMs supply the fleet operators, their production levels generally reflect the demand for freight and the fleet operators' access to capital.

Truck Replacement Cycle and Fleet Aging. The average age of the U.S. Class 8 truck population is approximately 10.6 years in 2016. The average fleet age tends to run in cycles as freight companies permit their truck fleets to age during periods of lagging demand and then replenish those fleets during periods of increasing demand. As truck fleets age, maintenance costs typically increase. Freight companies evaluate the economics between repair and replacement as well as the potential to utilize more cost-effective technology in vehicles. The chart below illustrates the approximate average age of the U.S. Class 8 truck population:

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“E” — Estimated

Source: ACT (December 2016).

Commercial Truck Aftermarket. The GTB Segment sells aftermarket products primarily in North America. Demand for aftermarket products is driven by the quality of OEM parts, the number of vehicles in operation, the average age of the vehicle fleet, the content and value per vehicle, vehicle usage and the average useful life of vehicle parts.

Aftermarket sales tend to be at a higher margin. The recurring nature of aftermarket revenue can be expected to provide some insulation to the overall cyclical nature of the industry as it tends to provide a more stable stream of revenues. Brand equity and the extent of a company’s distribution network also contribute to the level of aftermarket sales. We believe CVG has a widely recognized brand portfolio and participates in most retail sales channels including Original Equipment Dealer networks and independent distributors.

GLOBAL CONSTRUCTION AND AGRICULTURE SEGMENT OVERVIEW

Global Construction and Agriculture Segment Products

Set forth below is a brief description of our products manufactured in the GCA Segment and their applications:

Electronic Wire Harnesses and Panel Assemblies. We produce a wide range of electronic wire harnesses and electrical distribution systems and related assemblies. Set forth below is a brief description of our principal products in this category:

Electronic Wire Harnesses. We offer a broad range of complex electronic wire harness assemblies that function as the primary electric current carrying devices used to provide electrical interconnections for gauges, lights, control functions, power circuits, powertrain and transmission sensors, emissions systems and other electronic applications on commercial vehicles. Our wire harnesses are customized to fit specific end-user requirements. We provide our wire harnesses for a variety of commercial and other vehicles.

Panel Assemblies. We assemble integrated components such as panel assemblies and cabinets that are installed in a vehicle or unit of equipment and may be integrated with our wire harness assemblies. These components provide the user control over multiple operational functions and features.

Seats and Seating Systems. We design, engineer and produce Seats predominately for the construction, agriculture and military markets. For the most part, our Seats are fully-assembled and ready for installation when they are delivered to the OEM. We offer a wide range of Seats that include mechanical and air suspension seats and static seats, as well as some seat frames. As a result of our product design and product technology, we believe we are a leader in designing seats with convenience and enhanced safety features. Our Seats are designed to achieve a high level of operator comfort by adding a range of manual and power features such as lumbar support, cushion and back bolsters and leg and thigh support. Our Seats are built to meet customer requirements in low volumes and produced in numerous feature combinations to form a full-range product line with a wide level of price points. We also manufacture seats, parts and components for the aftermarket.

Office Seating. We design, engineer and produce office seating products. Our office chair was developed as a result of our experience supplying seats for the heavy truck, agricultural and construction industries and is fully adjustable to achieve a high comfort level. Our office chairs are designed to suit many different office environments including heavy usage environments, such as emergency services, call centers, reception areas, studios and general office environments.

Wipers Systems. We design, engineer and produce a variety of wipers used in commercial vehicles. We offer application-specific windshield wiper systems and individual windshield wiper components.

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Global Construction and Agriculture Segment Raw Materials and Suppliers

A description of the principal raw materials we utilize in GCA Segment's principal product categories is set forth below:

Electronic Wire Harnesses and Panel Assemblies. The principal raw materials used to manufacture our electronic wire harnesses are wire and cable, connectors, terminals, switches, relays and various covering techniques involving braided yarn, braided copper, slit and non-slit conduit and molded foam. These raw materials are obtained from multiple suppliers and are generally readily available.

Seats and Seating Systems. The principal raw materials used in our seating systems include steel, die-cast aluminum, resin-based products and foam products and are generally readily available and obtained from multiple suppliers under various supply agreements. Leather, vinyl, fabric and certain other components are also readily available to be purchased from multiple suppliers under supply agreements.

Wiper Systems. The principal raw materials used to manufacture our wipers are steel, stainless steel and rubber, which are generally readily available and obtained from multiple suppliers. We also purchase sub-assembled products such as motors for our wiper systems.

Global Construction and Agriculture Segment's Customers

The following is a summary of the GCA Segment's significant revenues (figures are shown as a percentage of total GCA Segment revenue) by end market based for each of the three years ended December 31: