Commercial Vehicle Group, Inc.
Form 10-Q
November 08, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from __________ to __________

Commission file number 001-34365

COMMERCIAL VEHICLE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**41-1990662**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
7800 Walton Parkway New Albany, Ohio	**43054**
(Address of principal executive offices)	**(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the Registrant s common stock, par value $.01 per share, at September 30, 2013 was 28,601,861 shares.

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS	**1**
CONDENSED CONSOLIDATED BALANCE SHEETS	**1**
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS	**2**
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	**3**
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY	**4**
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS	**5**
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	**6**
ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	**15**
ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	**24**
ITEM 4 CONTROLS AND PROCEDURES	**24**

PART II OTHER INFORMATION

ITEM 1 Legal Proceedings	**25**
ITEM 1A Risk Factors	**25**
ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds	**25**
ITEM 6 Exhibits	**26**
Signatures	**27**

* Items not listed are inapplicable.

Table of Contents

ITEM 1 FINANCIAL STATEMENTS

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012 (Unaudited)
	(In thousands, except share and per share amounts)	
Assets		
Current Assets:		
Cash	$ 75,062	$ 68,369
Accounts receivable, net of reserve for doubtful accounts of $2,402 and $3,393, respectively	130,506	114,573
Inventories	81,600	88,481
Deferred income taxes	8,327	8,381
Other current assets	6,396	6,446
Total current assets	301,891	286,250
Property, plant and equipment, net of accumulated depreciation of $119,977 and $117,359, respectively	80,829	83,304
Goodwill	8,124	8,986
Intangible assets, net	20,667	23,001
Deferred income taxes	28,088	23,615
Other assets, net	13,670	14,509
Total assets	$ 453,269	$ 439,665
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 73,306	$ 58,063
Accrued liabilities	46,494	32,869
Total current liabilities	119,800	90,932
Long-term debt	250,000	250,000
Pension and other post-retirement benefits	25,405	28,273
Other long-term liabilities	3,305	4,152
Total liabilities	398,510	373,357
Stockholders Equity:		
	292	290

Preferred stock, $0.01 par value; 5,000,000 shares authorized, no shares issued and outstanding; common stock, $0.01 par value per share; 60,000,000 shares authorized; 28,601,861 and 28,463,479 shares issued and outstanding, respectively		
Treasury stock purchased from employees; 590,154 shares, respectively	(5,264)	(5,264)
Additional paid-in capital	228,170	223,822
Retained loss	(138,220)	(124,677)
Accumulated other comprehensive loss	(30,232)	(27,885)
Total CVG stockholders equity	54,746	66,286
Non-controlling interest	13	22
Total stockholders equity	54,759	66,308
Total liabilities and stockholders equity	$ 453,269	$ 439,665

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

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
Revenues	$ 187,942	$ 204,824	$ 564,673	$ 684,559
Cost of Revenues	169,852	178,419	505,624	583,920
Gross Profit	18,090	26,405	59,049	100,639
Selling, General and Administrative Expenses	21,135	17,445	59,423	53,989
Amortization Expense	383	91	1,196	275
Operating (Loss) Income	(3,428)	8,869	(1,570)	46,375
Interest and Other Expense	5,327	5,342	15,916	15,854
(Loss) Income Before (Benefit) for Income Taxes	(8,755)	3,527	(17,486)	30,521
Benefit for Income Taxes	(1,488)	(26,946)	(3,940)	(25,097)
Net (Loss) Income	(7,267)	30,473	(13,546)	55,618
Less: Non-controlling interest in subsidiary s loss	0	(28)	(3)	(43)
Net (Loss) Income Attributable to CVG Stockholders	$ (7,267)	$ 30,501	$ (13,543)	$ 55,661
(Loss) Earnings per Common Share:				
Basic	$ (0.25)	$ 1.08	$ (0.48)	$ 1.98
Diluted	$ (0.25)	$ 1.07	$ (0.48)	$ 1.96

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

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 (Unaudited)	2012 (Unaudited)	2013 (Unaudited)	2012 (Unaudited)
	(In thousands)		(In thousands)	
Net (loss) income	$ (7,267)	$ 30,473	$ (13,546)	$ 55,618
Other comprehensive (loss) income:				
Foreign currency translation adjustments	764	2,521	(2,353)	2,194
Other comprehensive (loss) income:	764	2,521	(2,353)	2,194
Comprehensive (loss) income	$ (6,503)	$ 32,994	$ (15,899)	$ 57,812
Less: Comprehensive (loss) income attributed to noncontrolling interests	(2)	57	(9)	42
Comprehensive (loss) income attributable to CVG stockholders	$ (6,501)	$ 32,937	$ (15,890)	$ 57,770

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

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock				Retained				
				Additional	Earnings	Accum.	CVG		
				Paid-In	(Accum.	Other Comp.	Stockholders	Non-controlling	
	Shares	Amount	Treasury Stock	Capital	Deficit)	(Loss)	Equity	Interests	Total
	(Unaudited) (In thousands, except share data)								
BALANCE December 31, 2012	**28,463,479**	**$ 290**	**$ (5,264)**	**$ 223,822**	**$ (124,677)**	**$ (27,885)**	**$ 66,286**	**$ 22**	**$ 66,308**
Exercise of common stock under stock option and equity incentive plans	6,793			37			37		37
Vesting of Restricted Stock	131,589	2					2		2
Share-based compensation expense				4,311			4,311		4,311
Comprehensive income:									
Net loss					(13,543)		(13,543)	(3)	(13,546)
Foreign currency translation adjustment						(2,347)	(2,347)	(6)	(2,353)
Total comprehensive loss							(15,890)	(9)	(15,899)
BALANCE YTD September 30, 2013	**28,601,861**	**$ 292**	**$ (5,264)**	**$ 228,170**	**$ (138,220)**	**$ (30,232)**	**$ 54,746**	**$ 13**	**$ 54,759**

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

4

Table of Contents

COMMERCIAL VEHICLE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2013	**2012**
	(Unaudited)	**(Unaudited)**
	(In thousands)	
Cash Flows from Operating Activities:		
Net (Loss) Income	$ (13,546)	$ 55,618
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Depreciation and amortization	15,584	10,000
Provision for doubtful accounts	1,889	1,467
Noncash amortization of debt financing costs	849	849
Pension plan contributions	(2,823)	(2,673)
Shared-based compensation expense	4,311	3,496
Loss/(Gain) on sale of assets	23	(62)
Noncash loss (gain) on forward exchange contracts	351	(773)
Deferred income taxes	(3,822)	(29,211)
Change in other operating items	13,233	(14,406)
Net cash provided by operating activities	16,048	24,305
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(9,719)	(13,123)
Proceeds from disposal/sale of property, plant and equipment	17	115
Life insurance premium payments for deferred compensation, other	(648)	(981)
Net cash used in investing activities	(10,350)	(13,989)
Cash Flows from Financing Activities:		
Proceeds from the issuance of common stock under equity incentive plans	37	
Net cash provided by financing activities	37	
Effect of Currency Exchange Rate Changes on Cash	958	1,272
Net Increase in Cash	6,693	11,588
Cash:		
Beginning of period	68,369	87,955
End of period	$ 75,062	$ 99,543
Supplemental Cash Flow Information:		

Cash paid for interest	$	10,048	$	10,036
Cash paid for income taxes, net	$	2,240	$	3,543
Unpaid purchases of property and equipment included in accounts payable	$	919	$	682

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

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 or the Company) is a leading supplier of a full range of cab related products and systems for the global commercial vehicle market, including the heavy-duty (Class 8) truck market, the medium- and heavy-construction vehicle markets, military, bus and agriculture markets, the specialty transportation markets and recreational (ATV/UTV) markets. Our products include static and suspension seat systems, electronic wire harness assemblies, controls and switches, cab structures and components, interior trim systems (including instrument panels, door panels, headliners, cabinetry and floor systems), interior and exterior finishes and mirrors and wiper systems specifically designed for applications in commercial vehicles. We have facilities located in the U.S. in Alabama, Arizona, Georgia, Indiana, Illinois, Iowa, Michigan, North Carolina, Ohio, Oregon, Tennessee and Virginia and outside of the U.S. in Australia, China, Czech Republic, India, Mexico, Ukraine and the United Kingdom.

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations and statements of financial position for the interim periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with our fiscal 2012 consolidated financial statements and the notes thereto included in Part II, Item 8 of our Annual Report on Form 10-K as filed with the SEC on March 11, 2013. Unless otherwise indicated, all amounts are in thousands except per share amounts.

Revenues and operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected in future operating quarters.

2. Recently Issued Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The ASU requires companies with an unrecognized tax benefit and a net operating loss carryforward (NOL) or similar tax loss or tax credit carryforward in the same jurisdiction to present the unrecognized tax benefit as a reduction of the deferred tax asset rather than a liability when the uncertain tax position would reduce the NOL or other carrforward under the tax law. The provisions of this ASU are effective prospectively for public companies for annual and interim periods beginning December 15, 2013. The Company does not anticipate the adoption of this ASU to have a material impact on the Company s financial statements and does not require additional disclosure.

3. Fair Value Measurement

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

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

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

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

Table of Contents

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

	September 30, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivative assets [1]	$ 260	$	$ 260	$	$ 419	$	$ 419	$
Derivative liabilities [1]	$ 193	$	$ 193	$	$ 1	$	$ 1	$

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

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

Our financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and our revolving credit facility. The carrying value of these instruments approximates fair value as a result of the short duration of such instruments or due to the variability of interest cost associated with such instruments.

The carrying amounts and fair values of our long-term debt obligations are as follows (in thousands):

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 250,000	$ 250,000	$ 250,000	$ 248,750

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

Long-term debt. The fair value of long-term debt obligations is based on quoted market prices. Based on these inputs, our long-term debt is classified as Level 2.

The Company abandoned certain long-lived assets to fair value in the current quarter, resulting in an impairment charge of $2.7 million reflected in cost of revenues as of September 30, 2013. The impaired assets consisted of $1.3 million of manufacturing equipment no longer in use and $1.4 million of IT systems that was abandoned.

4. Stockholders Equity

Common Stock Our authorized capital stock consists of 60,000,000 shares of common stock with a par value of $0.01 per share, with 28,601,861 shares issued and outstanding as of September 30, 2013.

Preferred Stock Our authorized capital stock consists of 5,000,000 shares of preferred stock with a par value of $0.01 per share, with no preferred shares outstanding as of September 30, 2013.

Earnings Per Share Basic earnings per share is determined by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share, and all other diluted per share amounts presented, is determined by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period as determined by the Treasury Stock Method. Potential common shares are included in the diluted earnings per share calculation when dilutive. Diluted earnings per share for the three and nine months ended September 30, 2013 and 2012 includes the effects of potential common shares consisting of common stock issuable upon exercise of outstanding stock options when dilutive (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net (loss) income attributable to common stockholders - basic and diluted	$ (7,267)	$ 30,501	$ (13,543)	$ 55,661
Weighted average number of common shares outstanding	28,563	28,172	28,506	28,171
Dilutive effect of outstanding stock options and restricted stock grants after application of the Treasury Stock Method		289		239
Dilutive Shares Outstanding	28,563	28,461	28,506	28,410
Basic (loss) earnings per share	(0.25)	1.08	(0.48)	1.98
Diluted (loss) earnings per share	(0.25)	1.07	(0.48)	1.96

For the three and nine months ended September 30, 2013, diluted loss per share did not include approximately 0.3 million outstanding stock options and 0.8 million shares of our non-vested restricted stock as the effect would have been antidilutive.

For the three and nine months ended September 30, 2012, diluted earnings per share did not include 0.5 million outstanding stock options as the effect would have been antidilutive.

Dividends We have not declared or paid any cash dividends in the past. The terms of the Loan and Security Agreement (as defined below in Note 11) restrict the payment or distribution of our cash or other assets, including cash dividend payments.

5. Share-Based Compensation

Restricted Stock Awards Restricted stock 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 of the Board of Directors. A participant granted restricted stock generally has all of the rights of a stockholder, unless the Compensation Committee determines otherwise. The following table summarizes information about restricted stock grants as of September 30, 2013:

Grants	Shares	Estimated Forfeiture Rate	Vesting Schedule
November 2010	404,000	5.1%	3 equal annual installments commencing on October 20, 2011
November 2011	443,250	10.7%	3 equal annual installments commencing on October 20, 2012
November 2012	494,151	15.2%	3 equal annual installments commencing on October 20, 2013
August 2013	100,000	0.0%	3 equal annual installments commencing on October 20, 2014

As of September 30, 2013, there was approximately $3.2 million of unearned compensation expense related to non-vested share-based compensation arrangements granted under our equity incentive plans. This expense is subject to future adjustments for vesting and forfeitures and will be recognized on a straight-line basis over the remaining period of one month for the November 2010 awards, 13 months for the November 2011 awards and 25 months for the November 2012 awards, and 36 months for the August 2013 award.

The following table summarizes information about the non-vested restricted stock grants as of September 30, 2013:

	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2012	908	$ 10.10

Granted	100		7.07
Vested	(132)		11.30
Forfeited	(94)		9.34
Nonvested at September 30, 2013	782	$	9.60

As of September 30, 2013, 1,027,685 of the 4.6 million shares authorized for issuance were available for issuance under the Fourth Amended and Restated Equity Incentive Plan, including cumulative forfeitures.

6. Accounts Receivable

Trade accounts receivable are stated at current value less an allowance for doubtful accounts, which approximates fair value. This estimated allowance is based primarily on management s evaluation of specific balances as the balances become past due, the financial condition of our customers and our historical experience of write-offs. If not reserved through specific identification procedures, our general policy for uncollectible accounts is to reserve at a certain percentage, based upon the aging categories of accounts receivable and our historical experience with write-offs. Past due status is based upon the due date of the original amounts outstanding. When items are ultimately deemed uncollectible, they are charged off against the reserve previously established in the allowance for doubtful accounts.

7. 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):

	September 30, 2013	December 31, 2012
Raw materials	$ 53,030	$ 57,355
Work in process	11,789	13,659
Finished goods	16,781	17,467
	$ 81,600	$ 88,481

Inventory quantities on-hand are regularly reviewed and, where necessary, provisions for excess and obsolete inventory are recorded based primarily on our estimated production requirements driven by expected market volumes. Excess and obsolete provisions may vary by product depending upon future potential use of the product.

8. Goodwill and Intangible Assets

Goodwill represents the excess of acquisition purchase price over the fair value of net assets acquired. We review goodwill for impairment annually, utilizing the one-step qualitative assessment, in the second fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable. In conducting the qualitative assessment, we consider relevant events and circumstances that affect the fair value or carrying amount of the reporting unit. Such events and circumstances could include macroeconomic conditions, industry and market considerations, overall financial performance, entity and reporting unit specific events, cost factors and capital markets pricing. We consider the extent to which each of the adverse events and circumstances identified affect the comparison of the reporting unit s fair value with its carrying amount. We place more weight on the events and circumstances that most affect the reporting unit s fair value or the carrying amount of its net assets. We consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. These factors are all considered by management in reaching its conclusion about whether to perform the first step of the impairment test.

If the reporting unit s fair value is determined to be more likely than not impaired based on the one-step qualitative approach, we then perform a quantitative valuation to estimate the fair value of our reporting unit. Implied fair value of goodwill is determined by considering both the income and market approach. Determining the fair value of a

reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are inherently uncertain.

Table of Contents

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

	September 30, 2013				December 31, 2012			
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:								
Trademarks/Tradenames	23 years	$ 9,728	($ 2,954)	$ 6,774	23 years	$ 9,911	$ (2,556)	$ 7,355
Customer relationships	15 years	14,708	(815)	13,893	15 years	15,737	(91)	15,646
		$ 24,436	($ 3,769)	$ 20,667		$ 25,648	$ (2,647)	$ 23,001

The aggregate intangible asset amortization expense was approximately $0.4 million and $0.1 million for the three months ended September 30, 2013 and 2012, respectively, and approximately $1.2 million and $0.3 million for the nine months ended September 30, 2013 and 2012.

The estimated intangible asset amortization expense for the fiscal year ending December 31, 2013, and for the five succeeding years is as follows (in thousands):

Fiscal Year Ended December 31,	Estimated Amortization Expense
2013	$ 1,504
2014	$ 1,496
2015	$ 1,343
2016	$ 1,343
2017	$ 1,343
2018	$ 1,343

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

	September 30, 2013	December 31, 2012
Balance - Beginning of the period	$ 8,986	$
Additional acquisitions recorded	(39)	9,093
Currency translation adjustment	(823)	(107)
Balance - End of the period	$ 8,124	$ 8,986

9. 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, and specific known claims. The following represents a summary of the warranty provision for the nine months ended September 30, 2013 (in thousands):

Balance December 31, 2012	$ 3,239
Additional provisions recorded	3,338
Deduction for payments made	(2,699)
Currency translation adjustment	4
Balance September 30, 2013	$ 3,882

Leases We lease office and manufacturing space and certain equipment under non-cancelable operating lease agreements that require us to pay maintenance, insurance, taxes and other expenses in addition to annual rents. As of September 30, 2013, our equipment leases did not provide for any material guarantee of a specified portion of residual values.

Guarantees We accrue for costs associated with guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts, and where no amount within a range of estimates is more likely, the minimum is accrued. As of September 30, 2013, we had no such guarantees.

Litigation We are subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, product warranties, employment-related matters and environmental matters. Management believes that we maintain adequate insurance to cover these claims. We have established reserves for issues that are probable and estimable in amounts management believes are adequate to cover reasonable adverse judgments not covered by insurance. Based upon the information available to management and discussions with legal counsel, it is the opinion of management that the ultimate outcome of the various legal actions and claims that are incidental to our business will not have a material adverse impact on our consolidated financial position, results of operations or cash flows; however, such matters are subject to many uncertainties, and the outcomes of individual matters are not predictable with assurance.

10. Debt

Debt consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
7.875% senior notes due April 15, 2019	$ 250,000	$ 250,000

Revolving Credit Facility On January 7, 2009, we and certain of our direct and indirect U.S. subsidiaries, as borrowers (the borrowers), entered into a loan and security agreement with Bank of America, N.A., as agent and lender, which provided for a three-year asset-based revolving credit facility (as amended, the revolving credit facility) with an aggregate principal amount of up to $37.5 million (after giving effect to a second amendment to our loan and security agreement entered into on August 4, 2009), which was subject to an availability block. On April 26, 2011, we entered into an amendment and restatement to the loan and security agreement governing the revolving credit facility (as so amended and restated, the Loan and Security Agreement) which, among other things, extended the maturity of the revolving credit facility to April 26, 2014, increased the revolving commitment to $40.0 million and revised the availability block to equal the amount of debt Bank of America, N.A. or its affiliates makes available to the Company s foreign subsidiaries. Up to an aggregate of $10.0 million is available to the borrowers for the issuance of letters of credit, which reduces availability under the revolving credit facility.

As of September 30, 2013, we did not have borrowings under the Loan and Security Agreement. In addition, as of September 30, 2013, we had outstanding letters of credit of approximately $2.8 million and borrowing availability of $27.2 million under the Loan and Security Agreement.

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

We pay a commitment fee to the lenders, which is calculated at a rate per annum based on a percentage of the difference between committed amounts and amounts actually borrowed under the revolving credit facility multiplied by an applicable margin. The commitment fee is payable quarterly in arrears. Currently, the unused commitment fees are (i) .500% per annum times the unused commitment during any fiscal quarter in which the aggregate average daily unused commitment is equal to or greater than 50% of the revolver commitments or (ii) .375% per annum times the unused commitment during any fiscal quarter in which the aggregate average daily unused commitment is less than 50% of the revolver commitments.

Table of Contents

Terms, Covenants and Compliance Status The Loan and Security Agreement requires the maintenance of a minimum fixed charge coverage ratio calculated based upon consolidated EBITDA (as defined in the revolving credit facility) as of the last day of each of our fiscal quarters. We are not required to comply with the fixed charge coverage ratio requirement for as long as we maintain at least $10.0 million of borrowing availability under the revolving credit facility. If borrowing availability is less than $10.0 million at any time, we would be required to comply with a fixed charge coverage ratio of 1.1:1.0 as of the end of any fiscal quarter, and would be required to continue to comply with these requirements until we have borrowing availability of $10.0 million or greater for 60 consecutive days. Because we had borrowing availability in excess of $10.0 million from August 1, 2013 through September 30, 2013, we were not required to comply with the minimum fixed charge coverage ratio covenant during the quarter ended September 30, 2013.

The Loan and Security Agreement contains customary restrictive covenants and events of default. We were in compliance with these covenants and not in default as of September 30, 2013.

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

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

The 7.875% Notes Indenture contains restrictive covenants and events of default (subject to certain customary grace periods). We were in compliance with these covenants and were not in default as of September 30, 2013.

We may redeem the 7.875% notes, in whole or in part, at any time prior to April 15, 2014 at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the make-whole premium set forth in the 7.875% Notes Indenture. We evaluated the make-whole premium under ASC 815-15 and determined that the premium is not required to be bifurcated from the 7.875% notes and accounted for as a separate derivative instrument. We may redeem the 7.875% notes, in whole or in part, at any time on or after April 15, 2014 at the optional redemption prices set forth in the 7.875% Notes Indenture, plus accrued and unpaid interest, if any, to the redemption date. Not more than once during each twelve-month period ending on April 15, 2012, April 15, 2013 and April 15, 2014, we may redeem up to $25.0 million of the aggregate principal amount of the 7.875% notes at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. In addition, at any time on or prior to April 15, 2014, on one or more occasions, we may redeem up to 35% of the aggregate principal amount of the 7.875% notes with the net proceeds of certain equity offerings, as described in the 7.875% Notes Indenture, at a redemption price equal to 107.875% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. If we experience certain change of control events, holders of the 7.875% notes may require us to repurchase all or part of their notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

11. Income Taxes

We, or one of our subsidiaries, file federal income tax returns in the United States and income tax returns in various states and foreign jurisdictions. We are no longer subject to income tax examinations by any of the taxing authorities for years before 2008. There are currently no income tax examinations in process.

As of September 30, 2013, we have provided a liability of approximately $0.2 million of unrecognized tax benefits related to various federal and state income tax positions, which would impact our effective tax rate if recognized.

We accrue penalties and interest related to unrecognized tax benefits through income tax expense, which is consistent with the recognition of these items in prior reporting periods. We had approximately $0.1 million accrued for the payment of interest and penalties at September 30, 2013, which was substantially accrued as of December 31, 2012. Accrued interest and penalties are included in the $0.2 million of unrecognized tax benefits.

Table of Contents

During the fiscal quarter ended September 30, 2013, we released $0.2 million of tax reserves associated with items falling outside the statute of limitations and the closure of certain tax years for examination purposes. Events could occur within the next 12 months that would have an impact on the amount of unrecognized tax benefits that would be required. Approximately $0.2 million of unrecognized tax benefits relate to items that are affected by expiring statutes of limitation within the next 12 months.

At the beginning of 2012 the Company maintained a full valuation allowance against our deferred tax assets, except for certain state and international taxing jurisdictions which did not have a multiple year cumulative loss. During the fiscal quarter ended September 30, 2012, after review of all positive and negative evidence, we determined that it was appropriate to release the entire $53.5 million of valuation allowances associated with the U.S. federal and state deferred tax assets existing at December 31, 2011.

At September 30, 2013, we continued to maintain a full valuation allowance against our net deferred tax assets in specific foreign jurisdictions, which had a multiple year cumulative loss. Due to cumulative losses and other negative evidence, we continue to carry valuation allowances against the net deferred assets primarily in the following foreign jurisdictions: United Kingdom, Luxemburg and Czech Republic. We have also established a valuation allowance for certain state deferred tax amounts where we believe that it is more likely than not that these deferred assets will not be realized before expiring. We will continue to evaluate the need for valuation allowances in each of our jurisdictions.

For the nine months ending September 30, 2013, the tax provision was calculated on an actual, year-to-date method as opposed to an annualized method as described in FIN 18. The facts that a financial loss was forecasted for the full year and a negative tax rate was calculated on an annualized basis are two factors that both FIN 18 and ASC 740 site that could produce an unreasonable annualized rate to use in interim tax provision calculations. Although we have historically followed the FIN 18 annualized method to calculate interim tax provisions, we believe that using the actual method to calculate the tax provision in Q3, provides a more realistic tax provision for the quarter.

12. Foreign Currency Forward Exchange Contracts

We use forward exchange contracts to hedge certain of the foreign currency transaction exposures. We estimate our projected revenues and purchases in certain foreign currencies or locations and will hedge a portion or all of the anticipated long or short positions. As of September 30, 2013, we did not have any derivatives designated as hedging instruments; therefore, our forward foreign exchange contracts have been marked-to-market and the fair value of contracts recorded in the consolidated balance sheets with the offsetting non-cash gain or loss recorded in our consolidated statements of operations. We do not hold or issue foreign exchange options or forward contracts for trading purposes. Our forward foreign exchange contracts are subject to a master netting agreement. We record assets and liabilities relating to our forward foreign exchange contracts on a gross basis in our consolidated balance sheets.

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

	September 30, 2013		December 31, 2012	
	U.S. $ Equivalent	U.S. Equivalent Fair Value	U.S. $ Equivalent	U.S. Equivalent Fair Value
Commitments to buy currencies:				

Mexican peso	$ 14,962	$ 15,029	$ 10,066	$ 10,484

We consider the impact of our credit risk on the fair value of the contracts, as well as the ability to execute obligations under the contract in assessing the fair value of the contracts.

Table of Contents

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

	Asset Derivatives			
	September 30, 2013		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	$ 239	Other current assets	$ 419
	Other long-term assets	21		0
		$ 260		$ 419

	Liability Derivatives			
	September 30, 2013		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Accrued liabilities	$ 193	Accrued liabilities	$ 1

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

&nbs