Commercial Vehicle Group, Inc.
Form 10-K
March 11, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **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, 2012	**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 **New Albany, Ohio** *(Address of Principal Executive Offices)*	**43054** *(Zip Code)*

Registrant s telephone number, including area code:

(614) 289-5360

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

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

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

None

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

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 þ

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 þ 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 þ 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. þ

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

Large accelerated filer ¨ Accelerated filer þ 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 þ

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 29, 2012, was $265,766,511.

As of March 4, 2013, 29,365,754, 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, 2013 (the 2013 Proxy Statement).

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COMMERCIAL VEHICLE GROUP, INC.

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 Com 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, and similar expressions are intended to identi 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 or construction 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***

Overview

Commercial Vehicle Group, Inc. (a Delaware corporation formed in August 2000) 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 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 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 several of our major markets and that we are one of the only suppliers 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 a majority of the North American heavy truck and certain leading global construction original equipment manufacturers (OEM), which we believe creates an opportunity to cross-sell our products and offer a full range of cab related products and systems.

Demand for our heavy truck 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. The overall weakness in the North American economy and credit markets continued to put pressure on the demand for new vehicles in 2009 as reflected in the 42% decline of North American Class 8 production levels from 2008. In 2010, North American Class 8 production levels increased approximately 30% over the prior year period, indicating a recovery in the heavy truck market. This recovery continued into 2011 as North American Class 8 production levels increased approximately 66% from 2010. The North American Class 8 market showed a modest increase in 2012 as production levels increased approximately 9% over 2011. According to a February 2013 report by ACT Research, a publisher of industry market research, North American Class 8 production levels are expected to increase from 279,000 in 2012, peak at 307,000 in 2014 after a decline in 2013 and decline to 234,000 in 2016. We believe the demand for new Class 8 vehicles will be driven by several factors, including growth in freight volumes and the replacement of aging vehicles.

New commercial vehicle demand in the global construction equipment market 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. Demand in the construction equipment market in 2009 declined significantly from 2008 as a result of the continuing economic downturn in the housing and financial markets. During 2010 and 2011, the global construction market showed signs of recovery, which continued into the first half of 2012 followed by an overall decline in the market after a lower than expected second half of 2012.

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Industry

Within the commercial vehicle industry, we sell our products primarily to the global OEM truck market (approximately 50% of our 2012 revenues), the global construction OEM market (approximately 23% of our 2012 revenues), the military market (approximately 3% of our 2012 revenues) and the aftermarket and original equipment service organizations (approximately 13% of our 2012 revenues). The majority of the remaining 11% of our 2012 revenues was derived from other global commercial vehicle and specialty markets.

Commercial Vehicle Supply Market Overview

Commercial vehicles are used in a wide variety of end markets, including local and long-haul commercial trucking, bus, construction, mining, agricultural, military, general industrial, marine, municipal, 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 (like our company), that provide products directly to OEMs, and Tier 2 or Tier 3 suppliers, that sell products principally to other suppliers for integration into those suppliers own product offerings.

Our largest end market, the North American commercial truck industry, is supplied by heavy - and medium-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) significant investment requirements, (2) stringent technical and manufacturing requirements, (3) high transition costs to shift production to new suppliers, (4) just-in-time delivery requirements and (5) strong brand name recognition. Foreign competition is growing with the globalization of the world economy, but can be limited in the commercial vehicle market due to many factors, including the need to be responsive to order changes on short notice and high shipping costs.

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 and by increasing aftermarket sales. We believe that companies with a global presence and advanced technology, engineering, manufacturing and support capabilities, such as our company, are well positioned to take advantage of these opportunities.

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 Class 5 through 7 vehicles are trucks with gross vehicle weight from 16,001 lbs. to 33,000 lbs. The following table shows commercial vehicle production levels from 2003 through 2012 in North America:

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	(Thousands of units)									
Class 8 heavy trucks	182	269	339	376	212	206	118	154	255	279
Class 5-7 light and medium-duty trucks	197	235	253	275	206	158	98	118	167	189
Total	379	504	592	651	418	364	216	272	422	468

Source: *ACT N.A. Commercial Vehicle OUTLOOK* (February 2013).

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The following describes the major markets within the commercial vehicle market in which we compete:

Class 8 Truck Market

The global Class 8 truck manufacturing market is concentrated in three primary regions: North America, 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 of Class 8 trucks to meet the region-specific demands of end-users and (3) the ability to meet just-in-time delivery requirements. According to ACT Research, four companies represented approximately 98% of North American Class 8 truck production in 2012. The percentages of Class 8 production represented by Daimler Trucks, PACCAR, International (Navistar) and Volvo/Mack were approximately 34%, 29%, 17% and 18%, respectively, in 2012. We supply products to all of these OEMs.

During 2007, the demand for North American Class 8 heavy trucks experienced a downturn as a result of preorders 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. The demand for new heavy truck commercial vehicles in 2008 was similar to 2007 levels as weakness in the overall North American economy continued to impact production related orders. The overall weakness in the North American economy and credit markets continued to put pressure on the demand for new vehicles in 2009 as reflected in the 42% decline of North American Class 8 production levels from 2008. In 2010, North American Class 8 production levels increased approximately 30% over the prior-year period. We believe that the increase from 2009 to 2010 was a result of the strengthening in the North American economy and corresponding increase in the need for commercial vehicles to haul freight tonnage in North America. The strengthening in the North American economy continued into 2011 and 2012 as North American Class 8 production levels increased approximately 9% over 2011. According to ACT, unit production for 2013 is estimated to decrease approximately 5% from 2012 levels to approximately 264,000 units.

The following table illustrates North American Class 8 truck build for the years 2008 to 2017:

North American Class 8 Truck Build Rates

(In thousands)

E Estimated

Source: *ACT Commercial Vehicle OUTLOOK* (February 2013).

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

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

Truck Freight Growth. According to ACT s U.S. freight composite, freight volumes began to recover in 2010 and this recovery continued into 2011 and 2012. The ACT freight composite is a measure created to estimate the amount of freight hauled by weighting different sectors of the economy for their contribution to overall freight. ACT forecasts that total U.S. freight composite will increase from 12.3 trillion in 2012 to 15.0 trillion in 2017, as summarized in the following graph:

Total U.S. Freight Composite

(In billions)

E Estimated

Source: *ACT N.A. Commercial Vehicle OUTLOOK* (February 2013).

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Truck Replacement Cycle and Fleet Aging. The average age of active Class 8 trucks has increased from approximately 6.2 years in 2008 to approximately 6.6 years in 2012, down slightly from 2011, which was the highest average vehicle age over the previous 13 years. The average fleet age tends to run in cycles as freight companies permit their truck fleets to age during periods of lagging demand and then replenish those fleets during periods of increasing demand. Additionally, as truck fleets age, their maintenance costs typically increase. Freight companies must therefore continually evaluate the economics between repair and replacement. Other factors, such as inventory management and the growth in less-than-truckload freight shipping, also tend to increase fleet mileage and, as a result, the truck replacement cycle. The chart below illustrates the approximate average age of active U.S. Class 8 trucks:

Average Age of Active U.S. Class 8 Trucks

(In years)

E Estimated

Source: *ACT N.A. Commercial Vehicle OUTLOOK* (February 2013).

Commercial Truck Aftermarket

Demand for aftermarket products is driven by the quality of OEM parts, the number of vehicles in operation, the average age of the vehicle fleet, vehicle usage and the average useful life of vehicle parts. Aftermarket sales tend to be at a higher margin, as truck component suppliers are able to leverage their already established fixed cost base and exert moderate pricing power with their replacement parts. The recurring nature of aftermarket revenue provides some insulation to the overall cyclical nature of the industry, as it tends to provide a more stable stream of revenues.

Commercial Construction Vehicle Market

New commercial vehicle demand in the global construction equipment market generally follows certain economic conditions around the world. Within the construction market, there are two classes of construction equipment: the medium/heavy construction 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 market.

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During 2009, we experienced a significant decline in global construction equipment production levels as a result of the global economic downturn and related reduction in new equipment orders. During 2010 and 2011, the global construction market showed signs of recovery, which continued into the first half of 2012 followed by an overall decline in the market after a lower than expected second half of 2012. According to a January 2013 report by Millmark Associates, a publisher of industry market research, global production units in the construction market for the primary products in which we market (pavers, dozers, excavators, graders, skid steers, compactors and loaders), are expected to increase from approximately 0.9 million in 2012 to 1.1 million in 2017. The chart below illustrates the continued estimated growth in the global construction market for the products in which we market from 2008 to 2017:

E Estimated

Source: *Millmark Global Equipment Production* (January 2013) and Company estimates.

Purchasers of medium/heavy construction equipment include construction companies, municipalities, local governments, rental fleet owners, quarrying and mining companies and forestry related industries. Purchasers of light construction equipment include contractors, rental fleet owners, landscapers, logistics companies and farmers. In the medium/heavy construction equipment market, we primarily supply OEMs with our seating and wire harness products.

Military Equipment Market

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

Commercial Vehicle Industry Trends

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

Globalization of Suppliers. Commercial vehicle OEMs manufacture and sell their products in various geographic markets around the world. Having operations in the geographic markets in which OEMs produce their global platforms enables suppliers to meet OEMs needs more economically and more efficiently.

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Shift of Design, Engineering and Research and Development to Suppliers. OEMs are focusing their efforts on brand development and overall vehicle design, instead of the design of individual vehicle systems. OEMs are increasingly looking to their suppliers to provide suggestions for new products, designs, engineering developments and manufacturing processes. As a result, strategic suppliers are gaining increased access to confidential planning information regarding OEMs future vehicle designs and manufacturing processes. Strategic suppliers with the capability to design and engineer systems and modules have a greater opportunity to increase their percentage of vehicle content.

Broad Manufacturing Capabilities. OEMs are seeking suppliers to manufacture systems and products utilizing alternative materials and processes in order to meet their demand for customized styling, performance or cost requirements. In addition, while OEMs seek to differentiate their vehicles through the introduction of innovative features, suppliers are proactively developing new products and manufacturing capabilities and processes to meet OEMs requirements.

Ongoing Supplier Consolidation. We believe the worldwide commercial vehicle supply industry is continuing to consolidate as suppliers seek to achieve operating synergies through business combinations, shift production to locations with more flexible labor rules and practices, acquire complementary technologies, build stronger customer relationships and follow their OEM customers as they expand globally. Furthermore, the cost focus of most major OEMs has forced suppliers to reduce costs and improve productivity on an ongoing basis, including economies of scale through consolidation. Financial distress created by the global economic conditions in recent years has also impacted the trend in consolidating suppliers.

Competitive Strengths

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

Leading Market Positions and Brands. We believe that we are a leading supplier of seating systems and soft interior trim products, a leading non-captive manufacturer of structural components and body systems (which includes cab body assemblies) for the North American commercial vehicle heavy truck market, one of the largest global suppliers of construction vehicle seating systems. We market our major product brands under names that are well known by our customers and truck fleet operators based upon the amount of revenue we derive from sales to these markets. These major product brands include CVG , Sprague Devices®, Moto Mirror®, RoadWatch®, KAB Seating , National Seating , Bostrom Seating®, Stratos , ComforTEK®, FlameTEK and Mayflower®.

Comprehensive Cab Product and Cab System Solutions. We believe that we offer the broadest product range of any commercial vehicle cab system supplier. We manufacture a broad base of products, many of which are critical to the interior and exterior subsystems of a commercial vehicle cab. We also utilize a variety of different processes, such as urethane molding, injection molding, large composite molding, thermoforming and vacuum forming, which enable us to meet each customer s unique styling and cost requirements. The breadth of our product offering enables us to provide a one-stop shop for our customers, which provides us with a substantial opportunity for further customer penetration through cross-selling initiatives and by bundling our products to provide complete system solutions.

End-User Focused Product Innovation. We believe that commercial vehicle market OEMs continue to focus on interior and exterior product design, comfort and features to better serve their end-user, the operator, and our customers are seeking suppliers that can provide product innovation. We have a full service engineering and research and development organization to assist OEMs in meeting their needs, which helps enable us to secure content on current platforms and models.

Flexible Manufacturing Capabilities. Because commercial vehicle OEMs permit their customers to select from an extensive menu of cab options, our customers frequently request modified products in low volumes within a limited time frame. We have a highly variable cost structure and can efficiently leverage our flexible

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manufacturing capabilities to provide low volume, customized products to meet each customer s styling, cost and just-in-time delivery requirements. We manufacture or assemble our products at facilities in North America, Europe, Asia and Australia.

Global Capabilities. Because many of our customers manufacture and sell their products on a global basis, we believe we have a strong competitive advantage by having dedicated sales, engineering, manufacturing and assembly capabilities on a global basis. We have these capabilities to support our customers in North America, Europe, Asia and Australia.

Strong Relationships with Leading Customers and Major Fleets. Because of our comprehensive product offerings, brand names and innovative product features, we believe we are an important long-term global supplier to many of the leading heavy truck, construction and specialty commercial vehicle manufacturers such as PACCAR, Caterpillar, Volvo/Mack, International (Navistar), Daimler Trucks, Deere & Co., Oshkosh Corporation, Komatsu and koda. In addition, through our sales force and engineering teams, we maintain active relationships with the major heavy-duty truck fleet organizations that are end-users of our products such as Schneider National, Werner, Walmart, FedEx and JB Hunt. As a result of our high-quality, innovative products, well recognized brand names and customer service, a majority of the largest 100 fleet operators specifically request certain of our products.

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

Proven Management Team. Our management team is highly respected within the commercial vehicle market, and our five executive officers have a combined average of 31 years of experience in the industry. We believe that our team has substantial depth in critical operational areas and has demonstrated success in reducing costs, integrating business acquisitions, improving processes through cyclical periods and expanding revenue through product, market and customer diversification.

Strategy

Our primary growth strategies are as follows:

Geographic Diversification. To reduce our dependence on the cyclical North American Class 8 heavy-truck market, we may selectively pursue strategic acquisitions or develop new business operations in geographic areas outside the United States. To date, such activities have enabled us to become a global supplier with the capability to offer a broad range of products for a variety of end market applications in multiple countries around the world. For example, our recent acquisition of Vijayjyot Seats Private Limited (Vijayjyot), which has facilities in three regions of India, further expands our presence in the commercial vehicle market in India. We continue to seek new and independent growth opportunities through marketing and business development activities with local producers in existing and new markets outside the United States.

End Market Diversification. To reduce our dependence on our current number of product lines, we intend to continue to diversify our product lines and offerings through a combination of acquisitions and engineering and research and development activities. For example, our recent acquisition of Daltek, LLC (Daltek) provides us with capabilities in the application of customized industrial hydrographic films, paints and other interior and exterior finishes for recreational (ATV/UTV) markets, and our acquisition of Vijayjyot provides us with additional opportunities in the passenger, school and coach bus end markets. In addition, we have developed several new products including the GSX range of global, modular seating for global heavy truck applications; molded thermally and acoustically efficient flooring; blast-resistant seats and fire-resistant interior trim materials for military applications; and impact resistant cladding for medium-duty trucks and vans. We plan to continue the

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development of new products that support evolving market trends and changing customer needs. We are focused on securing additional sales from our existing customer base, and we actively cross-market a diverse portfolio of products to our customers to increase our content on the vehicles manufactured by OEMs.

Increase Sales to the Aftermarket. While commercial vehicles have a relatively long life, certain components, such as seats, wipers and mirrors, are replaced more frequently. We believe this provides increased opportunities for our aftermarket products as the number of vehicles in operation and the number of miles driven per vehicle increases. We believe that there are opportunities to leverage our brand recognition to increase our sales to the replacement aftermarket.

Develop Industry-Leading Technologies. To enhance our competitiveness and support our end-market diversification efforts, we continue to focus on research and development activities to meet the constantly evolving and market-specific demands of our global customers and their end-users. Current development initiatives include the ergonomics of operator safety and comfort and the management of acoustic, thermal, aerodynamic and weight-saving technologies that are unique to large commercial and construction vehicles. Through these efforts we seek to improve our processes, increase our manufacturing efficiencies and ultimately improve our operating margins with minimized additional capital expenditures.

Capitalize on Operating Leverage. We continuously seek ways to lower costs, enhance product quality and improve manufacturing efficiencies, and we continue to utilize our Lean Manufacturing and Total Quality Production System (TQPS) program philosophy. We believe our ongoing cost saving initiatives, supplier consolidation and sourcing efforts will enable us to continue to lower our manufacturing costs. As a result, we believe we are well positioned to improve our operating margins and capitalize on any volume increases with minimal additional capital expenditures.

Products

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

See Notes 2 and 11 to our audited consolidated financial statements in Item 8 in this Annual Report on Form 10-K for information on our significant customer revenues and related receivables, as well as revenues by product category and geographical location.

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

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

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the most complex and highly specialized products of our five product categories. Set forth below is a brief description of our principal products in this category:

Heavy Truck Seats. We produce seats and seating systems for heavy trucks primarily in our North American operations, but also in China and Australia. Our heavy truck seating systems are designed to achieve maximum operator comfort by adding a wide range of manual and power features such as lumbar supports, cushion and back bolsters and leg and thigh supports. Our heavy truck seats are highly specialized based on a variety of different seating options offered in OEM product lines. Our seats are built to customer specifications in low volumes and consequently are produced in numerous combinations with a wide range of price points.

We differentiate our seats from our competitors seats by focusing on driver safety, driver comfort, product durability and customer value. Our seats help improve driver retention, reduce workers compensation claims and decrease overall maintenance costs. Operators of heavy trucks recognize and are often given the opportunity to specify their choice of seat brands, and we strive to develop strong customer loyalty both with the commercial vehicle OEMs and among operators. We believe that we have superior technology and can offer a unique seat that is ergonomically designed, accommodates a range of operator sizes and absorbs shock to maximize operator comfort.

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

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

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

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

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

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

Trim Products. Our trim products include A-Pillars, B-Pillars, door panels and interior trim panels. Door panels and interior trim panels consist of several component parts that are attached to a substrate. Specific

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components include vinyl or cloth-covered appliqués, armrests, map pocket compartments, carpet and sound-reducing insulation. Our products are attractive, lightweight solutions from a traditional cut and sew approach to a contemporary molded styling theme. The parts can be color matched or top good wrapped to integrate seamlessly with the rest of the interior.

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

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

Storage Systems. Our modular storage units and custom cabinetry are designed to improve comfort and convenience for the operator. These storage systems are designed to be integrated with the interior trim. These units may be easily expanded and customized with features that include refrigerators, sinks and water reservoirs. Our storage systems are constructed with durable materials and designed to last the life of the vehicle.

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

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

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

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

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, paints and other interior and exterior finishes (simulated appearance of wood grain, carbon fiber, brushed metal, marbles, camouflage and custom patterns) used primarily in the heavy-truck and recreational vehicle (ATVs and UTVs) markets.

Cab Structures, Sleeper Boxes, Body Panels and Structural Components. We design, engineer and produce complete cab structures, sleeper boxes, body panels and structural components for the commercial vehicle industry in North America. Set forth below is a description of our principal products in this category:

Cab Structures. We design, manufacture and assemble complete cab structures used primarily in heavy trucks for major commercial vehicle OEMs in North America. Our cab structures, which are manufactured from

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both steel and aluminum, are delivered to our customers fully assembled and primed for paint. Our cab structures are built to order based upon options selected by the vehicles end-users and delivered to the OEMs, in line sequence, as these end-users trucks are manufactured by the OEMs.

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

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

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

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

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

Windshield Wiper Systems. We offer application-specific windshield wiper systems and individual windshield wiper components for the commercial vehicle market. Our windshield wiper systems are generally delivered to the OEM fully assembled and ready for installation. A windshield wiper system is typically composed of a combination of an electric motor, linkages, arms, wiper blades, washer reservoirs and related pneumatic or electric pumps.

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

Manufacturing

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

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

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

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

Cab Structures, Sleeper Boxes, Body Panels and Structural Components. We utilize a wide range of manufacturing processes to produce the majority of the steel and aluminum stampings used in our cab structures, sleeper boxes, body panels and structural components and a variety of both robotic and manual welding techniques in the assembly of these products. In addition, we have facilities with large capacity, fully automated E-coat paint priming systems allowing us to provide our customers with a paint-ready cab product. Due to their high cost, full body E-coat systems, such as ours, are rarely found outside of the manufacturing operations of the major OEMs. We also have large press lines which provide us with the in-house manufacturing flexibility for both aluminum and steel stampings delivered just-in-time to our cab assembly plants.

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

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

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

When an end-user buys a commercial vehicle, the end-user will specify the seat and other features for that vehicle. Because each of our seating systems is unique, our manufacturing facilities have significant complexity which we manage by building in sequence. We build our seating systems as orders are received, and systems are delivered to the customer s rack in the sequence in which vehicles come down the assembly line. We have systems in place that allow us to provide complete customized interior kits in boxes that are delivered in sequence. In many instances, we keep track of our build sequence by product identification numbers and components are identified by bar code. Sequencing reduces our cost of production because it eliminates warehousing costs and reduces waste and obsolescence, offsetting any increased labor costs. Several of our manufacturing facilities are strategically located near our customers assembly plants, which facilitates this process and minimizes shipping costs.

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

Within our cyclical industry, we strive to manage down cycles by running our facilities at capacity while maintaining the capability and flexibility to expand. We work with our employees and rely on their involvement to help minimize problems and re-align our capacity during fluctuating periods of increased or decreased production levels to achieve on-time delivery.