

WABASH NATIONAL CORP /DE  
Form 10-Q  
October 29, 2013

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

FORM 10-Q

(Mark One)

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 UNDER SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

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

**Commission File Number: 1-10883**

**WABASH NATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

52-1375208  
(IRS Employer  
Identification Number)

1000 Sagamore Parkway South,  
Lafayette, Indiana  
(Address of Principal  
Executive Offices)

47905  
(Zip Code)

Registrant's telephone number, including area code: (765) 771-5300

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

Yes  No

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

Yes  No

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

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

The number of shares of common stock outstanding at October 22, 2013 was 68,516,919.

**WABASH NATIONAL CORPORATION**

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**WABASH NATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

	September 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$65,880	\$81,449
Accounts receivable	130,086	96,590
Inventories	239,606	189,487
Deferred income taxes	36,979	42,330
Prepaid expenses and other	3,951	8,239
Total current assets	\$476,502	\$418,095
PROPERTY, PLANT AND EQUIPMENT	139,735	132,146
DEFERRED INCOME TAXES	4,614	21,894
GOODWILL	150,277	146,444
INTANGIBLE ASSETS	164,559	171,990
OTHER ASSETS	10,141	12,057
	\$945,828	\$902,626
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$3,240	\$3,381
Current portion of capital lease obligations	1,706	1,140
Accounts payable	138,009	87,299
Other accrued liabilities	88,733	104,873
Total current liabilities	\$231,688	\$196,693
LONG-TERM DEBT	378,037	416,849
CAPITAL LEASE OBLIGATIONS	7,064	3,781
DEFERRED INCOME TAXES	1,993	1,065
OTHER NONCURRENT LIABILITIES	17,086	15,511
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock 200,000,000 shares authorized, \$0.01 par value, 68,507,448 and 68,378,984 shares outstanding, respectively	703	702

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Additional paid-in capital	623,863	618,550
Accumulated deficit	(287,551)	(323,657)
Accumulated other comprehensive income	96	248
Treasury stock at cost, 1,873,870 and 1,870,205 common shares, respectively	(27,151)	(27,116)
Total stockholders' equity	\$309,960	\$268,727
	\$945,828	\$902,626

The accompanying notes are an integral part of these Condensed Consolidated Statements.

**WABASH NATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
NET SALES	\$ 439,977	\$ 405,917	\$ 1,177,332	\$ 1,046,007
COST OF SALES	378,480	355,843	1,014,796	936,523
Gross profit	\$ 61,497	\$ 50,074	\$ 162,536	\$ 109,484
GENERAL AND ADMINISTRATIVE EXPENSES	14,559	12,548	43,208	30,870
SELLING EXPENSES	7,628	7,134	23,029	16,112
AMORTIZATION OF INTANGIBLES	5,454	2,984	16,278	7,175
ACQUISITION EXPENSES	26	172	883	14,074
Income from operations	\$ 33,830	\$ 27,236	\$ 79,138	\$ 41,253
OTHER INCOME (EXPENSE):				
Interest expense	(6,252)	(7,760)	(20,364)	(13,934)
Loss on debt extinguishment	(605)	-	(1,304)	-
Other, net	-	211	2,604	151
Income before income taxes	\$ 26,973	\$ 19,687	\$ 60,074	\$ 27,470
INCOME TAX EXPENSE	10,737	1,246	23,968	2,023
Net income	\$ 16,236	\$ 18,441	\$ 36,106	\$ 25,447
BASIC NET INCOME PER SHARE	\$ 0.24	\$ 0.27	\$ 0.52	\$ 0.37
DILUTED NET INCOME PER SHARE	\$ 0.23	\$ 0.27	\$ 0.52	\$ 0.37

The accompanying notes are an integral part of these Condensed Consolidated Statements.

**WABASH NATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Dollars in thousands)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
NET INCOME	\$ 16,236	\$ 18,441	\$ 36,106	\$ 25,447
Other comprehensive income (loss):				
Foreign currency translation adjustment	191	207	(152)	313
Total other comprehensive income (loss)	191	207	(152)	313
COMPREHENSIVE INCOME	\$ 16,427	\$ 18,648	\$ 35,954	\$ 25,760

The accompanying notes are an integral part of these Condensed Consolidated Statements.

**WABASH NATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)  
(Unaudited)

	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities		
Net income	\$ 36,106	\$ 25,447
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	12,429	10,660
Amortization of intangibles	16,278	7,175
Loss on debt extinguishment	1,304	-
Deferred income taxes	23,559	1,666
Stock-based compensation	5,525	3,611
Accretion of debt discount	3,455	1,865
Changes in operating assets and liabilities		
Accounts receivable	(33,419)	(551)
Inventories	(49,173)	(1,097)
Prepaid expenses and other	1,788	170
Accounts payable and accrued liabilities	33,315	(20,558)
Other, net	2,593	(855)
Net cash provided by operating activities	\$ 53,760	\$ 27,533
Cash flows from investing activities		
Capital expenditures	(11,566)	(9,013)
Acquisition, net of cash acquired	(15,985)	(364,012)
Other	2,500	-
Net cash used in investing activities	\$ (25,051)	\$ (373,025)
Cash flows from financing activities		
Proceeds from exercise of stock options	447	340
Borrowings under revolving credit facilities	910	205,786
Payments under revolving credit facilities	(910)	(270,786)
Principal payments under capital lease obligations	(1,309)	(1,388)
Proceeds from issuance of convertible senior notes	-	145,500
Proceeds from issuance of term loan credit facility, net of issuance costs	-	292,500
Principal payments under term loan credit facility	(42,135)	(1,500)
Principal payments under industrial revenue bond	(265)	-
Debt issuance costs paid	(981)	(5,065)
Stock repurchase	(35)	(564)
Net cash (used in) provided by financing activities	\$ (44,278)	\$ 364,823
Net (decrease) increase in cash	\$ (15,569)	\$ 19,331
Cash at beginning of period	81,449	19,976

Cash at end of period	\$ 65,880	\$ 39,307
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The accompanying notes are an integral part of these Condensed Consolidated Statements.

**WABASH NATIONAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. DESCRIPTION OF THE BUSINESS**

The condensed consolidated financial statements of Wabash National Corporation (the “Company”) have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of the Company, its results of operations and cash flows. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s 2012 Annual Report on Form 10-K.

**2. ACQUISITIONS**

*Beall Corporation*

On February 4, 2013, the Company completed the acquisition of certain assets of the tank and trailer business of Beall Corporation, a Portland, Oregon-based manufacturer of aluminum tank trailers and related equipment. Beall Corporation began Chapter 11 reorganization proceedings in September of 2012, followed by a bankruptcy-court approved auction of its assets in December. The Company was the winning bidder for certain assets of Beall’s tank and trailer business, including equipment, inventory, certain product designs, intellectual property and other related assets. The aggregate consideration paid by the Company for the acquired assets and the assumed liabilities was \$13.9 million, subject to post-closing purchase price adjustments related to the acquired working capital, and was preliminarily allocated to the opening balance sheet as follows (in thousands):

Current assets	\$1,023
Property, plant and equipment	2,714
Intangibles	8,860
Goodwill	1,796
Total assets	\$14,393
Current liabilities	\$(462)
Total liabilities	\$(462)
Acquisition	\$13,931

Intangible assets of \$8.9 million were recorded as a result of the purchase of the Beall assets. The intangible assets preliminarily consist of the following (in thousands):

	Amount	Useful Life
Tradenames and Trademarks	\$ 1,622	20 years
Technology	1,217	8 years
Customer relationships	6,021	8 years
	\$ 8,860	

Goodwill of \$1.8 million was preliminarily recorded as a result of the Beall purchase. Goodwill is comprised of operational synergies that are expected to be realized in both the short and long-term and the opportunity to complement our existing Diversified Products business through product line expansion and geographic growth. The Company expects the amount recorded as goodwill to be fully deductible for tax purposes.

In connection with the purchase of certain assets of Beall, the Company entered into a separate ten year capital lease agreement for Beall's manufacturing facility in Portland, Oregon, with payments totaling approximately \$4.7 million for such ten year period.

*Walker Group Holdings LLC*

On May 8, 2012, the Company completed the acquisition (the "Walker Acquisition") of all the equity interests of Walker Group Holdings LLC ("Walker") from Walker Group Resources LLC, the parent of Walker ("Seller"), pursuant to the Purchase and Sale Agreement, dated March 26, 2012, by and among the Company, Walker and Seller (the "Purchase and Sale Agreement"). The aggregate consideration paid by the Company for the Walker Acquisition was \$377.0 million in cash. The amount of working capital acquired at the date of acquisition, previously in dispute between the Company and the Seller, was resolved during the second quarter of 2013 and the outcome required the Company to make an additional payment of \$2.1 million, which was recorded to Goodwill. The Company financed the Walker Acquisition and related fees and expenses using the proceeds of the Company's offering of 3.375% Convertible Senior Notes due 2018 and the Company's borrowings under the Term Loan Credit Agreement (as described in further detail in Note 4).

Walker is a manufacturer of liquid-transportation systems and engineered products based in New Lisbon, Wisconsin. Walker manufacturing operations are integrated into the Company's Diversified Products segment while Walker retail operations are integrated into the Retail segment in a manner that is consistent with its focus to leverage operational and market synergies. Walker has manufacturing facilities for its liquid-transportation products in New Lisbon, Wisconsin; Fond du Lac, Wisconsin; Kansas City, Missouri; Kansas City, Kansas; and Queretaro, Mexico with parts and service centers in Houston, Texas; Baton Rouge, Louisiana; Findlay, Ohio; Chicago, Illinois; Mauston, Wisconsin; West Memphis, Arkansas; and Ashland, Kentucky. Manufacturing facilities for Walker's engineered products are located in New Lisbon, Wisconsin; Elroy, Wisconsin; and Huddersfield, United Kingdom with parts and service centers in Tavares, Florida; Dallas, Texas; and Philadelphia, Pennsylvania.

The aggregate purchase price of \$377.0 million was allocated to the opening balance sheet of Walker at May 8, 2012, the date of acquisition, as follows (in thousands):

Cash	\$ 10,982
Current assets	93,409
Property, plant and equipment	32,541
Intangibles	162,800
Deferred income taxes	4,640
Goodwill	148,498
Total assets	\$452,870
Current liabilities	\$(74,722)
Deferred income taxes	(1,100)
Total liabilities	\$(75,822)
	\$377,048
Acquisition, net of cash acquired	\$366,066

Intangible assets of \$162.8 million were recorded as a result of the acquisition. The intangible assets consist of the following (in thousands):

	Amount	Useful Life
Backlog	\$ 900	Less than 1 year
Tradenames and Trademarks	27,600	20 years
Technology	15,300	12 years
Customer relationships	119,000	10 years
	\$ 162,800	

Intangible asset amortization expense for the three and nine month periods ended September 30, 2013 and 2012 was \$5.5 million and \$16.3 million, respectively, and \$3.0 million and \$7.2 million, respectively. Annual intangible asset amortization expense for the next five fiscal years is estimated to be \$21.7 million in 2013, \$21.9 million in 2014, \$21.3 million in 2015, \$20.1 million in 2016 and \$16.9 million in 2017.

Goodwill of \$148.5 million was recorded as a result of the Walker Acquisition in the Diversified Products and Retail segments. Goodwill is comprised of operational synergies that are expected to be realized in both the short and long-term and the opportunity to enter new market sectors with higher margin potential, which will enable us to deliver greater value to our customers and shareholders. The Company expects the amount recorded as goodwill for the Walker Acquisition to be fully deductible for tax purposes.

The results of Walker are included in the Condensed Consolidated Statements of Operations from the date of acquisition. Revenue for the three and nine month periods ended September 30, 2013 and 2012 was \$102.3 million and \$300.6 million, respectively, and \$96.5 million and \$140.8 million, respectively. Income before income taxes for the three and nine month periods ended September 30, 2013 and 2012 was \$12.9 million and \$38.2 million, respectively, and \$13.2 million and \$16.8 million, respectively.

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The following unaudited pro forma information is shown below as if the acquisition of Walker had been completed as of the beginning of the earliest period presented (in thousands, except per share amounts):

	Nine Months Ended September 30, 2012
Sales	\$ 1,182,073
Operating income	\$ 70,537
Net income	\$ 44,641
Basic and diluted net income per share	\$ 0.65

The information presented above is for informational purposes only and is not necessarily indicative of the actual results that would have occurred had the acquisition been consummated at January 1, 2012, nor is it necessarily indicative of future operating results of the combined companies under the ownership and management of the Company.

The Company incurred various costs related to both the Walker Acquisition and the purchase of certain assets of Beall including fees paid to an investment banker for acquisition services and the related bridge financing commitment, as well as professional fees for diligence, legal and accounting services. These costs totaled less than \$0.1 million and \$0.9 million and \$0.2 million and \$14.1 million for the three and nine month periods ended September 30, 2013 and 2012, respectively, and have been recorded as *Acquisition Expenses* in the Condensed Consolidated Statements of Operations.

### 3. INVENTORIES

Inventories are stated at the lower of cost, primarily determined on the first-in, first-out (FIFO) method, or market. The cost of manufactured inventory includes raw material, labor and overhead. Inventories consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Raw materials and components	\$ 61,837	\$ 57,187
Work in progress	26,656	24,849
Finished goods	127,822	82,930
Aftermarket parts	10,802	9,882
Used trailers	12,489	14,639
	\$ 239,606	\$ 189,487

### 4. DEBT

Long-term debt consists of the following (in thousands):

	September 30, 2013	December 31, 2012
Convertible senior notes	\$ 150,000	\$ 150,000
Term loan credit agreement	255,615	297,750
Industrial revenue bond	2,235	2,500
	\$ 407,850	\$ 450,250
Less: unamortized discount	(26,573)	(30,020)
Less: current portion	(3,240)	(3,381)
	\$ 378,037	\$ 416,849



*Convertible Senior Notes*

On April 23, 2012, the Company issued Convertible Senior Notes due 2018 (the “Notes”) with an aggregate principal amount of \$150 million in a public offering. The Notes bear interest at the rate of 3.375% per annum from the date of issuance, payable semi-annually on May 1 and November 1, commencing on November 1, 2012. The Notes are senior unsecured obligations of the Company ranking equally with its existing and future senior unsecured debt.

The Notes are convertible by their holders into cash, shares of the Company’s common stock or any combination thereof at the Company’s election, at an initial conversion rate of 85.4372 shares of the Company’s common stock per \$1,000 in principal amount of Notes, which is equal to an initial conversion price of approximately \$11.70 per share, only under the following circumstances: (A) before November 1, 2017 (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2012 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price (as defined in the indenture for the Notes) per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; (3) if the Company calls the Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; and (4) upon the occurrence of specified corporate events as described in the indenture for the Notes; and (B) at any time on or after November 1, 2017 until the close of business on the second business day immediately preceding the maturity date.

It is the Company’s intent to settle conversions through a net share settlement, which involves repayment of cash for the principal portion and delivery of shares of common stock for the excess of the conversion value over the principal portion. The Company used the net proceeds of approximately \$145.1 million from the sale of the Notes to fund a portion of the purchase price of the Walker Acquisition.

The Company accounts separately for the liability and equity components of the Notes in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. The Company determined that senior, unsecured corporate bonds traded on the market represent a similar liability to the convertible senior notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of the Notes to be 7.0%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the Notes, which resulted in a fair value of the liability component of \$123.8 million upon issuance, calculated as the present value of implied future payments based on the \$150.0 million aggregate principal amount. The \$21.7 million difference between the cash proceeds before offering expenses of \$145.5 million and the estimated fair value of the liability component was recorded in additional paid-in capital. The discount on the liability portion of the Notes is being amortized.

The Company will apply the treasury stock method in the calculation of the dilutive impact of the Notes. For the three and nine month periods ended September 30, 2013, the calculation of diluted net income per share excludes the impact of these Notes as the average stock price of the Company’s common stock was below the initial conversion price of approximately \$11.70 per share.



The following table summarizes information about the equity and liability components of the Notes (dollars in thousands). The fair value of the notes outstanding were measured based on quoted market prices.

	September 30, 2013	December 31, 2013
Principal amount of convertible notes outstanding	\$ 150,000	\$ 150,000
Unamortized discount of liability component	(20,323)	(23,082)
Net carrying amount of liability component	129,677	126,918
Less: current portion	-	-
Long-term debt	\$ 129,677	\$ 126,918
Carrying value of equity component, net of issuance costs	\$ 20,993	\$ 20,993
Remaining amortization period of discount on the liability component	4.6 years	5.3 years

Contractual coupon interest expense and accretion of discount on the liability component for the Note for the three and nine month periods ended September 30, 2013 were as follow (in thousands):

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Contractual coupon interest expense	\$ 1,266	\$ 3,797
Accretion of discount on the liability component	\$ 935	\$ 2,759

#### *Revolving Credit Agreement*

On April 17, 2012, the Company entered into an amendment (the “Second Amendment”) to its then-existing credit agreement, dated June 28, 2011, by and among the Company, certain of its subsidiaries and the lender parties thereto (the “Existing Credit Agreement”). The Second Amendment was executed to permit the issuance of the Company’s Notes discussed above, and the conversion, possible redemption and other arrangements in connection with the Notes.

Furthermore, on May 8, 2012 and in connection with the completion of the Walker Acquisition (see Note 2) and entering into the Term Loan Credit Agreement (as defined below), the Company repaid approximately \$51 million of borrowings under its senior secured revolving credit facility, dated June 28, 2011, and entered into an amendment and restatement of that credit agreement among the Company, certain of its subsidiaries (together with the Company, the “Borrowers”), Wells Fargo Capital Finance, LLC, as joint lead arranger, joint bookrunner and administrative agent (the “Revolver Agent”), RBS Citizens Business Capital, a division of RBS Citizens, N.A., as joint lead arranger, joint bookrunner and syndication agent, and the other lenders named therein, as amended (the “Amended and Restated Revolving Credit Agreement”). Also on May 8, 2012, certain of the Company’s subsidiaries (the “Revolver Guarantors”) entered into a general continuing guarantee of the Borrowers’ obligations under the Amended and Restated Revolving Credit Agreement in favor of the lenders (the “Revolver Guarantee”).

The Amended and Restated Revolving Credit Agreement is guaranteed by the Revolver Guarantors and is secured by (i) first priority security interests (subject only to customary permitted liens and certain other permitted liens) in substantially all personal property of the Borrowers and the Revolver Guarantors, consisting of accounts receivable, inventory, cash, deposit and securities accounts and any cash or other assets in such accounts and, to the extent evidencing or otherwise related to such property, all general intangibles, licenses, intercompany debt, letter of credit rights, commercial tort claims, chattel paper, instruments, supporting obligations, documents and payment intangibles (collectively, the “Revolver Priority Collateral”), and (ii) second-priority liens on and security interests in (subject only to the liens securing the Term Loan Credit Agreement, customary permitted liens and certain other permitted liens) (A) equity interests of each direct subsidiary held by the Borrower and each Revolving Guarantor (subject to customary limitations in the case of the equity of foreign subsidiaries), and (B) substantially all other tangible and intangible assets of the Borrowers and the Revolving Guarantors including equipment, general intangibles, intercompany notes, insurance policies, investment property, intellectual property and material owned real property (in each case, except to the extent constituting Revolver Priority Collateral) (collectively, the “Term Priority Collateral”). The respective priorities of the security interests securing the Amended and Restated Revolving Credit Agreement and the Term Loan Credit Agreement are governed by an Intercreditor Agreement, dated May 8, 2012, between the Revolver Agent and the Term Agent (as defined below) (the “Intercreditor Agreement”). The Amended and Restated Revolving Credit Agreement has a scheduled maturity date of May 8, 2017.

Under the Amended and Restated Revolving Credit Agreement, the lenders agree to make available to the Company a \$150 million revolving credit facility. The Company has the option to increase the total commitment under the facility to \$200 million, subject to certain conditions, including (i) obtaining commitments from any one or more lenders, whether or not currently party to the Amended and Restated Revolving Credit Agreement, to provide such increased amounts and (ii) the available amount of increases to the facility being reduced by the amount of any incremental loans advanced under the Term Loan Credit Agreement (as defined below) in excess of \$25 million. Availability under the Amended and Restated Revolving Credit Agreement will be based upon monthly (or more frequent under certain circumstances) borrowing base certifications of the Borrowers’ eligible inventory and eligible accounts receivable, and will be reduced by certain reserves in effect from time to time. Subject to availability, the Amended and Restated Revolving Credit Agreement provides for a letter of credit subfacility in an amount not in excess of \$15 million, and allows for swingline loans in an amount not in excess of \$10 million. Outstanding borrowings under the Amended and Restated Revolving Credit Agreement will bear interest at a rate, at the Borrowers’ election, equal to (i) LIBOR plus a margin ranging from 1.75% to 2.25% or (ii) a base rate plus a margin ranging from 0.75% to 1.25%, in each case depending upon the monthly average excess availability under the revolving loan facility. The Borrowers are required to pay a monthly unused line fee equal to 0.375% times the average daily unused availability along with other customary fees and expenses of the Revolver Agent and the lenders.

The Amended and Restated Revolving Credit Agreement contains customary covenants limiting the ability of the Company and certain of its affiliates to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase stock, enter into transactions with affiliates, merge, dissolve, repay subordinated indebtedness, make investments and dispose of assets. In addition, the Company is required to maintain a minimum fixed charge coverage ratio of not less than 1.1 to 1.0 as of the end of any period of 12 fiscal months when excess availability under the Amended and Restated Revolving Credit Agreement is less than 12.5% of the total revolving commitment.

If availability under the Amended and Restated Revolving Credit Agreement is less than 15% of the total revolving commitment or if there exists an event of default, amounts in any of the Borrowers’ and the Revolver Guarantors’ deposit accounts (other than certain excluded accounts) will be transferred daily into a blocked account held by the Revolver Agent and applied to reduce the outstanding amounts under the facility.



Subject to the terms of the Intercreditor Agreement, if the covenants under the Amended and Restated Revolving Credit Agreement are breached, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding and foreclose on collateral. Other customary events of default in the Amended and Restated Revolving Credit Agreement include, without limitation, failure to pay obligations when due, initiation of insolvency proceedings, defaults on certain other indebtedness, and the incurrence of certain judgments that are not stayed, satisfied, bonded or discharged within 30 days.

As of September 30, 2013, the Company had no outstanding borrowings under the Amended and Restated Revolving Credit Agreement and was in compliance with all covenants. The Company's liquidity position, defined as cash on hand and available borrowing capacity on the revolving credit facility, amounted to \$208.2 million as of September 30, 2013.

#### *Term Loan Credit Agreement*

On May 8, 2012 and in connection with the completion of the Walker Acquisition (see Note 2), the Company entered into a credit agreement among the Company, the several lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as administrative agent, joint lead arranger and joint bookrunner (the "Term Agent"), and Wells Fargo Securities, LLC, as joint lead arranger and joint bookrunner (the "Term Loan Credit Agreement"), which provided for a senior secured term loan facility of \$300 million to be advanced at closing and provides for a senior secured incremental term loan facility of up to \$75 million, subject to certain conditions, including (i) obtaining commitments from any one or more lenders, whether or not currently party to the Term Loan Credit Agreement, to provide such increased amounts and (ii) the available amount of incremental loans being reduced by the amount of any increases in the maximum revolver amount under the Amended and Restated Revolving Credit Agreement (discussed above). Also on May 8, 2012, certain of the Company's subsidiaries (the "Term Guarantors") entered into a general continuing guarantee of the Company's obligations under the Term Loan Credit Agreement in favor of the Term Agent (the "Term Guarantee").

The Term Loan Credit Agreement is guaranteed by the Term Guarantors and is secured by (i) first-priority liens on and security interests in the Term Priority Collateral, and (ii) second-priority security interests in the Revolver Priority Collateral. The Term Loan Credit Agreement has a scheduled maturity date of May 8, 2019 but provides for an accelerated maturity in the event the Company's outstanding 3.375% Convertible Senior Notes due 2018 are not converted, redeemed, repurchased or refinanced in full on or before the date that is 91 days prior to the maturity date thereof. The loans under the Term Loan Credit Agreement amortize in equal quarterly installments in aggregate amounts equal to 1% of the original principal amount of the term loans issued thereunder, with the balance payable at maturity. The Term Loan Credit Agreement also contains conditions providing for either voluntary or mandatory prepayments. Conditions for mandatory prepayments include but are not limited to asset sales with proceeds in excess of \$1 million and the amount of excess cash flows, as defined in the Term Loan Credit Agreement, to be calculated annually with the delivery of financial statements beginning with the fiscal year ended December 31, 2012. Outstanding borrowings under the Term Loan Credit Agreement incurred interest at a rate, at the Borrowers' election, equal to (i) LIBOR (subject to a floor of 1.25%) plus a margin of 4.75% or (ii) a base rate plus a margin of 3.75%.

The Term Loan Credit Agreement contained customary covenants limiting the ability of the Company and certain of its affiliates to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase stock, enter into transactions with affiliates, merge, dissolve, pay off subordinated indebtedness, make investments and dispose of assets. In addition, the Company was required to maintain a maximum senior secured leverage ratio tested as of the last day of each fiscal quarter for the four consecutive fiscal quarters then ending of not more than (A) 4.5 to 1.0 through September 30, 2013, (B) 4.0 to 1.0 thereafter through September 30, 2015, and (C) 3.5 to 1.0 thereafter.



Subject to the terms of the Intercreditor Agreement, if the covenants under the Term Loan Credit Agreement are breached, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding and foreclose on collateral. Other customary events of default in the Term Loan Credit Agreement include, without limitation, failure to pay obligations when due, initiation of insolvency proceedings, defaults on certain other indebtedness, and the incurrence of certain judgments that are not stayed, satisfied, bonded or discharged within 60 days.

*Amendment to Credit Agreement*

On April 25, 2013, the Company entered into Amendment No. 1 to Credit Agreement (the "Amendment"), which became effective on May 9, 2013 and amended the Term Loan Credit Agreement. As of April 25, 2013, there was \$297.0 million of term loans outstanding under the Term Loan Credit Agreement (the "Initial Loans"), of which the Company prepaid \$20.0 million in connection with the Amendment. Under the Amendment, the lenders agreed to provide to the Company term loans in an aggregate principal amount of \$277.0 million, which were exchanged for and used to refinance the Initial Loans (the "Tranche B-1 Loans"). The Tranche B-1 Loans mature on May 8, 2019, but provide for an accelerated maturity in the event the Company's outstanding 3.375% Convertible Senior Notes due 2018 are not converted, redeemed, repurchased or refinanced in full on or before the date that is 91 days prior to the maturity date thereof. The Tranche B-1 Loans shall amortize in equal quarterly installments in aggregate amounts equal to 0.25% of the Tranche B-1 Loan amount, with the balance payable at maturity, and will bear interest at a rate, at the Company's election, equal to (i) LIBOR (subject to a floor of 1.00%) plus a margin of 3.50% or (ii) a base rate plus a margin of 2.50%.

In addition, the Amendment amended the Term Loan Credit Agreement, by among other things, removing the covenant that the Company be required to maintain a minimum interest coverage ratio, and provides for a 1% prepayment premium in the event that the Company enters into a refinancing of, or amendment in respect of, the Tranche B-1 Loans on or prior to the first anniversary of the effective date of the Amendment that, in either case, results in the all-in yield of such refinancing or amendment being less than the all-in yield on the Tranche B-1 Loans. As amended, the Term Loan Credit Agreement continues to require the Company to maintain a maximum senior secured leverage ratio tested as of the last day of each fiscal quarter for the four consecutive fiscal quarters then ending of not more than (A) 4.5 to 1.0 through September 30, 2013, (B) 4.0 to 1.0 thereafter through September 30, 2015, and (C) 3.5 to 1.0 thereafter.

As of September 30, 2013, the Company had a senior secured leverage ratio of 1.3:1.0, and was in compliance with all covenants under the Term Loan Credit Agreement.

Except as amended by the Amendment, the remaining terms of the Term Loan Credit Agreement remain in full force and effect.

For the nine months ended September 30, 2013, the Company has paid \$12.0 million of interest and \$42.1 million of principal related to the Term Loan Credit Agreement, as amended. As of September 30, 2013, the Company had \$255.6 million outstanding under the Term Loan Credit Agreement, as amended, of which \$2.8 million was classified as current on the Company's Condensed Consolidated Balance Sheet. In connection with the closing of the Term Loan Credit Agreement in May 2012 and the Amendment in April 2013, the Company paid a total of \$8.5 million in original issuance discount fees which will be amortized over the life of the facility using the effective interest rate method. For the nine months ended September 30, 2013, the Company charged \$0.7 million of amortization for original issuance discount fees as *Interest Expense* in the Condensed Consolidated Statements of Operations. Additionally, for the nine months ended September 30, 2013, the Company has charged \$0.9 million of accelerated amortization in connection with \$40 million of voluntary principal payments made on its Term Loan Credit Agreement as *Loss on debt extinguishment* in the Condensed Consolidated Statements of Operations.



*Other Debt Facilities*

On November 27, 2012, the Company entered into a loan agreement with GE Government Finance, Inc. as lender and the County of Trigg, Kentucky as issuer for a \$2.5 million Industrial Revenue Bond. The funds received were used to purchase the equipment needed for the expansion of the Company's Cadiz, Kentucky facility. The loan will bear interest at a rate of 4.25% and matures March 2018. As of September 30, 2013, the Company had \$2.2 million outstanding of which \$0.5 million was classified as current on our Condensed Consolidated Balance Sheet.

**5. FAIR VALUE MEASUREMENTS**

The Company's fair value measurements are based upon a three-level valuation hierarchy. These valuation techniques are based upon the transparency of inputs (observable and unobservable) to the valuation of an asset or liability as of the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Valuation is based on quoted prices for identical assets or liabilities in active markets;

Level 2 Valuation is based on quoted prices for similar assets or liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for the full term of the financial instrument; and

Level 3 Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

*Recurring Fair Value Measurements*

The Company maintains a non-qualified deferred compensation plan which is offered to senior management and other key employees. The amount owed to participants is an unfunded and unsecured general obligation of the Company. Participants are offered various investment options with which to invest the amount owed to them, and the plan administrator maintains a record of the liability owed to participants by investment. To minimize the impact of the change in market value of this liability, the Company has elected to purchase a separate portfolio of investments through the plan administrator similar to those chosen by the participant.

The investments purchased by the Company (asset) include mutual funds, \$0.5 million of which are classified as Level 1, and life-insurance contracts valued based on the performance of underlying mutual funds, \$4.3 million of which are classified as Level 2.

*Nonrecurring Fair Value Measurements*

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The Company reviews for goodwill impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable. The fair value of the reporting units is determined using the income approach. The income approach focuses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, corporate tax structure and product offerings. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation and risks associated with the reporting unit. These assets would generally be classified within Level 3, in the event that the Company were required to measure and record such assets at fair value within its unaudited condensed consolidated financial statements.

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including definite-lived intangible assets and property plant and equipment, when events or circumstances warrant such a review. Fair value is determined primarily using anticipated cash flows assumed by a market participant discounted at a rate commensurate with the risk involved and these assets would generally be classified within Level 3, in the event that the Company were required to measure and record such assets at fair value within its unaudited condensed consolidated financial statements.

Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition. Refer to Note 2 for the fair values of assets acquired and liabilities assumed in connection with the acquisitions of Walker and certain assets of Beall.

The carrying amounts of accounts receivable and accounts payable reported in the Condensed Consolidated Balance Sheets approximate fair value.

#### *Estimated Fair Value of Debt*

The estimated fair value of long-term debt at September 30, 2013 consists primarily of the Company's Notes and borrowings under its Term Loan Credit Agreement (see Note 4). The fair value of the Notes, the Term Loan Credit Agreement and the revolving credit facility are based upon third party pricing sources, which generally does not represent daily market activity, nor does it represent data obtained from an exchange, and are classified as Level 2. The interest rates on the Company's borrowings under the revolving credit facility are adjusted regularly to reflect current market rates and thus carrying value approximates fair value for these borrowings. All other debt and capital lease obligations approximate their fair value as determined by discounted cash flows and are classified as Level 3.

The Company's carrying and estimated fair value of debt, at September 30, 2013 and December 31, 2012 were as follows:

Instrument	September 30, 2013				December 31, 2012			
	Carrying Value	Fair Value		Level 3	Carrying Value	Fair Value		Level 3
		Level 1	Level 2			Level 1	Level 2	
Convertible senior notes	\$ 129,677	\$ -	\$ 196,313	\$ -	\$ 126,918	\$ -	\$ 165,563	\$ -
Term loan credit agreement	249,365	-	254,976	-	290,812	-	300,728	-
Industrial revenue bond	2,235	-	-	2,235	2,500	-	-	2,500
Capital lease obligations	8,770	-	-	8,770	4,921	-	-	4,921
	\$ 390,047	\$ -	\$ 451,289	\$ 11,005	\$ 425,151	\$ -	\$ 466,291	\$ 7,421



## **6. STOCK-BASED COMPENSATION**

The Company recognizes all share-based payments based upon their fair value. To value new stock option awards the Company uses a binomial option-pricing model, which incorporates various assumptions including expected volatility, expected term, dividend yield and risk-free interest rates. The expected volatility is based upon the Company's historical experience. The expected term represents the period of time that options granted are expected to be outstanding. The risk-free interest rate utilized for periods throughout the contractual life of the options are based upon U.S. Treasury security yields at the time of grant. The Company also grants restricted stock units subject to service, performance and/or market conditions. The Company's policy is to recognize expense for awards that have service conditions only subject to graded vesting using the straight-line attribution method. The fair value of service and performance based units is based on the market price of a share of underlying common stock at the date of grant. The fair value of the market based units is based on a lattice valuation model. The amount of compensation costs related to stock options, nonvested restricted stock, restricted stock units and performance units not yet recognized was \$9.0 million at September 30, 2013, for which the expense will be recognized through 2016.

## **7. CONTINGENCIES**

The Company is involved in a number of legal proceedings concerning matters arising in connection with the conduct of its business activities, and is periodically subject to governmental examinations (including by regulatory and tax authorities), and information gathering requests (collectively, "governmental examinations"). As of September 30, 2013, the Company was named as a defendant or was otherwise involved in numerous legal proceedings and governmental examinations in various jurisdictions, both in the United States and internationally.

The Company has recorded liabilities for certain of its outstanding legal proceedings and governmental examinations. A liability is accrued when it is both (a) probable that a loss with respect to the legal proceeding has occurred and (b) the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings and governmental examinations that could cause an increase or decrease in the amount of the liability that has been previously accrued. These legal proceedings, as well as governmental examinations, involve various lines of business of the Company and a variety of claims (including, but not limited to, common law tort, contract, antitrust and consumer protection claims), some of which present novel factual allegations and/or unique legal theories. While some matters pending against the Company specify the damages claimed by the plaintiff, many seek a not-yet-quantified amount of damages or are at very early stages of the legal process. Even when the amount of damages claimed against the Company are stated, the claimed amount may be exaggerated and/or unsupported. As a result, it is not currently possible to estimate a range of possible loss beyond previously accrued liabilities relating to some matters including those described below. Such previously accrued liabilities may not represent the Company's maximum loss exposure. The legal proceedings and governmental examinations underlying the estimated range will change from time to time and actual results may vary significantly from the currently accrued liabilities.

Based on its current knowledge, and taking into consideration its litigation-related liabilities, the Company believes it is not a party to, nor is any of its properties the subject of, any pending legal proceeding or governmental examination other than the matters below, which are addressed individually, that would have a material adverse effect on the Company's consolidated financial condition or liquidity. However, in light of the uncertainties involved in such matters, the ultimate outcome of a particular matter could be material to the Company's operating results for a particular period depending on, among other factors, the size of the loss or liability imposed and the level of the Company's income for that period. Costs associated with the litigation and settlements of legal matters are reported within General and Administrative Expenses in the Consolidated Statements of Comprehensive Income.



*Brazil Joint Venture*

In March 2001, Bernard Krone Indústria e Comércio de Máquinas Agrícolas Ltda. (“BK”) filed suit against the Company in the Fourth Civil Court of Curitiba in the State of Paraná, Brazil. Because of the bankruptcy of BK, this proceeding is now pending before the Second Civil Court of Bankruptcies and Creditors Reorganization of Curitiba, State of Paraná (No. 232/99).

The case grows out of a joint venture agreement between BK and the Company related to marketing of RoadRailer trailers in Brazil and other areas of South America. When BK was placed into the Brazilian equivalent of bankruptcy late in 2000, the joint venture was dissolved. BK subsequently filed its lawsuit against the Company alleging that it was forced to terminate business with other companies because of the exclusivity and non-compete clauses purportedly found in the joint venture agreement. BK asserted damages, exclusive of any potentially court-imposed interest or inflation adjustments, of approximately R\$20.8 million (Brazilian Reais). BK did not change the amount of damages it asserted following its filing of the case in 2001.

A bench (non-jury) trial was held on March 30, 2010 in Curitiba, Paraná, Brazil. On November 22, 2011, the Fourth Civil Court of Curitiba partially granted BK’s claims, and ordered Wabash to pay BK lost profits, compensatory, economic and moral damages in excess of the amount of compensatory damages asserted by BK. The total ordered damages amount is approximately R\$26.7 million (Brazilian Reais), which is approximately \$11.8 million U.S. dollars using current exchange rates and exclusive of any potentially court-imposed interest, fees or inflation adjustments (which are currently estimated at a maximum of approximately \$49 million, at current exchange rates, but may change with the passage of time and/or the discretion of the court at the time of final judgment in this matter). Due, in part, to the amount and type of damages awarded by the Fourth Civil Court of Curitiba, Wabash immediately filed for clarification of the judgment. The Fourth Civil Court has issued its clarification of judgment, leaving the underlying decision unchanged and referring the parties to the State of Paraná Court of Appeals for any further appeal of the decision. As such, Wabash filed its notice of appeal with the Court of Appeals, as well as its initial appeal papers, on April 22, 2013. The Court of Appeals has the authority to re-hear all facts presented to the lower court, as well as to reconsider the legal questions presented in the case, and to render a new judgment in the case without regard to the lower court’s findings. Pending outcome of this appeal process, the judgment is not enforceable by the plaintiff. Any ruling from the Court of Appeals is not expected prior to the end of 2013, and, accordingly, the judgment rendered by the lower court cannot be enforced prior to that time, and may be overturned or reduced as a result of this process. The Company believes that the claims asserted by BK are without merit and it intends to continue to vigorously defend its position. The Company has not recorded a charge with respect to this loss contingency as of September 30, 2013. Furthermore, at this time, the Company does not have sufficient information to predict the ultimate outcome of the case and is unable to estimate the amount of any reasonable possible loss or range of loss that it may be required to pay at the conclusion of the case. The Company will reassess the need for the recognition of a loss contingency upon official assignment of the case in the Court of Appeals, upon a decision to settle this case with the plaintiffs or an internal decision as to an amount that the Company would be willing to settle or upon the outcome of the appeals process.

### *Intellectual Property*

In October 2006, the Company filed a patent infringement suit against Vanguard National Corporation (“Vanguard”) regarding the Company’s U.S. Patent Nos. 6,986,546 and 6,220,651 in the U.S. District Court for the Northern District of Indiana (Civil Action No. 4:06-cv-135). The Company amended the Complaint in April 2007. In May 2007, Vanguard filed its Answer to the Amended Complaint, along with Counterclaims seeking findings of non-infringement, invalidity, and unenforceability of the subject patents. The Company filed a reply to Vanguard’s counterclaims in May 2007, denying any wrongdoing or merit to the allegations as set forth in the counterclaims. The case has currently been stayed by agreement of the parties while the U.S. Patent and Trademark Office (“Patent Office”) undertakes a reexamination of U.S. Patent Nos. 6,986,546. In June 2010, the Patent Office notified the Company that the reexamination was complete and the Patent Office had reissued U.S. Patent No. 6,986,546 without cancelling any claims of the patent. The parties have not yet petitioned the Court to lift the stay, and it is unknown at this time when the parties’ petition to lift the stay may be filed or granted.

The Company believes that its claims against Vanguard have merit and that the claims asserted by Vanguard are without merit. The Company intends to vigorously defend its position and intellectual property. The Company believes that the resolution of this lawsuit will not have a material adverse effect on its financial position, liquidity or future results of operations. However, at this stage of the proceeding, no assurance can be given as to the ultimate outcome of the case.

### *Walker Acquisition*

As indicated in Note 2, on May 8, 2012, the Company completed the Walker Acquisition pursuant to the Purchase and Sale Agreement for \$377.0 million in cash. In connection with the Acquisition there is an outstanding claim of approximately \$2.9 million for unpaid benefits owed by the Seller that is currently in dispute and that is not expected to have a material adverse effect on the Company’s financial condition or results of operations.

### *Environmental Disputes*

Bulk Tank International, S. de R.L. de C.V. (“Bulk”), one of the Walker companies acquired by the Company on May 8, 2012, entered into agreements in 2011 with the Mexican federal environmental agency, PROFEPA, and the applicable state environmental agency, PROPAEG, pursuant to PROFEPA’s and PROPAEG’s respective environmental audit programs to resolve noncompliance with federal and state environmental laws at Bulk’s Guanajuato facility (“Compliance Agreements”). The Compliance Agreements require Bulk to undertake certain corrective action to come into compliance with environmental requirements. The Company does not expect that this matter will have a material adverse effect on its financial condition or results of operations.

In January 2012, the Company was noticed as a potentially responsible party (“PRP”) by the U.S. Environmental Protection Agency (“EPA”) and the Louisiana Department of Environmental Quality (“LDEQ”) pertaining to the Marine Shale Processors Site located in Amelia, Louisiana (“MSP Site”) pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) and corresponding Louisiana statutes. PRPs include current and former owners and operators of facilities at which hazardous substances were allegedly disposed. The EPA’s allegation that the Company is a PRP arises out of one alleged shipment of waste to the MSP Site in 1992 from the Company’s branch facility in Dallas, Texas. As such, the MSP Site PRP Group notified the Company in January 2012 that, as a result of a March 18, 2009 Cooperative Agreement for Site Investigation and Remediation entered into between the MSP Site PRP Group and the LDEQ, the Company was being offered a “De Minimis Cash-Out Settlement” to contribute to the remediation costs, which would remain open until February 29, 2012. The Company chose not to enter into the settlement and has denied any liability. In addition, the Company has requested that the MSP Site PRP Group remove the Company from the list of PRPs for the MSP Site, based upon the following facts: the Company acquired this branch facility in 1997 five years after the alleged shipment - as part of the assets the Company acquired

out of the Fruehauf Trailer Corporation (“Fruehauf”) bankruptcy (Case No. 96-1563, United States Bankruptcy Court, District of Delaware (“Bankruptcy Court”)); as part of the Asset Purchase Agreement regarding the Company’s purchase of assets from Fruehauf, Wabash did not assume liability for “Off-Site Environmental Liabilities,” which are defined to include any environmental claims arising out of the treatment, storage, disposal or other disposition of any Hazardous Substance at any location other than any of the acquired locations/assets; the Bankruptcy Court, in an Order dated May 26, 1999, also provided that, except for those certain specified liabilities assumed by the Company under the terms of the Asset Purchase Agreement, the Company and its subsidiaries shall not be subject to claims asserting successor liability; and the “no successor liability” language of the Asset Purchase Agreement and the Bankruptcy Court Order form the basis for the Company’s request that it be removed from the list of PRPs for the MSP Site. The MSP Site PSP Group is currently considering the Company’s request, but has provided no timeline to the Company for a response. However, the MSP Site PSP Group has agreed to indefinitely extend the time period by which the Company must respond to the De Minimis Cash-Out Settlement offer. The Company does not expect that this proceeding will have a material adverse effect on its financial condition or results of operations.

In September 2003, the Company was noticed as a PRP by the EPA pertaining to the Motorola 52nd Street, Phoenix, Arizona Superfund Site (the "Superfund Site") pursuant to the CERCLA. The EPA's allegation that the Company was a PRP arises out of the Company's acquisition of a former branch facility located approximately five miles from the original Superfund Site. The Company acquired this facility in 1997, operated the facility until 2000, and sold the facility to a third party in 2002. In June 2010, the Company was contacted by the Roosevelt Irrigation District ("RID") informing it that the Arizona Department of Environmental Quality ("ADEQ") had approved a remediation plan in excess of \$100 million for the RID portion of the Superfund Site, and demanded that the Company contribute to the cost of the plan or be named as a defendant in a CERCLA action to be filed in July 2010. The Company initiated settlement discussions with the RID and the ADEQ in July 2010 to provide a full release from the RID, and a covenant not-to-sue and contribution protection regarding the former branch property from the ADEQ, in exchange for payment from the Company. If the settlement is approved by all parties, it will prevent any third party from successfully bringing claims against the Company for environmental contamination relating to this former branch property. The Company has been awaiting approval from the ADEQ since the settlement was first proposed in July 2010. Based on communications with the RID and ADEQ in September 2013, the Company does not expect to receive a response regarding the approval of the settlement from the ADEQ for, at least, several additional months. Based upon the Company's limited period of ownership of the former branch property, and the fact that it no longer owns the former branch property, it does not anticipate that the ADEQ will reject the proposed settlement, but no assurance can be given at this time as to the ADEQ's response to the settlement proposal. The proposed settlement terms have been accrued and did not have a material adverse effect on the Company's financial condition or results of operations, and the Company believes that any ongoing proceedings will not have a material adverse effect on the Company's financial condition or results of operations.

In January 2006, the Company received a letter from the North Carolina Department of Environment and Natural Resources indicating that a site that the Company formerly owned near Charlotte, North Carolina has been included on the state's October 2005 Inactive Hazardous Waste Sites Priority List. The letter states that the Company was being notified in fulfillment of the state's "statutory duty" to notify those who own and those who at present are known to be responsible for each Site on the Priority List. No action is being requested from the Company at this time, and the Company has received no further notices or communications regarding this matter from the state of North Carolina. The Company does not expect that this designation will have a material adverse effect on its financial condition or results of operations.

**8. NET INCOME PER SHARE**

Per share results have been computed based on the average number of common shares outstanding. The computation of basic and diluted net income per share is determined using net income applicable to common stockholders as the numerator and the number of shares included in the denominator as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Basic net income per share:				
Net income applicable to common stockholders	\$ 16,236	\$ 18,441	\$ 36,106	\$ 25,447
Undistributed earnings allocated to participating securities	(117)	(166)	(293)	(218)
Net income applicable to common stockholders excluding amounts applicable to participating securities	\$ 16,119	\$ 18,275	\$ 35,813	\$ 25,229
Weighted average common shares outstanding	68,487	68,357	68,442	68,308
Basic net income per share	\$ 0.24	\$ 0.27	\$ 0.52	\$ 0.37
Diluted net income per share:				
Net income applicable to common stockholders	\$ 16,236	\$ 18,441	\$ 36,106	\$ 25,447
Undistributed earnings allocated to participating securities	(117)	(166)	(293)	(218)
Net income applicable to common stockholders excluding amounts applicable to participating securities	\$ 16,119	\$ 18,275	\$ 35,813	\$ 25,229
Weighted average common shares outstanding	68,487	68,357	68,442	68,308
Dilutive stock options and restricted stock	524	159	458	234
Diluted weighted average common shares outstanding	69,011	68,516	68,900	68,542
Diluted net income per share	\$ 0.23	\$ 0.27	\$ 0.52	\$ 0.37

Average diluted shares outstanding for the three and nine month periods ended September 30, 2013 and 2012 exclude options to purchase common shares totaling 1,018 and 1,808, respectively, and 1,301 and 1,648, respectively, because the exercise prices were greater than the average market price of the common shares. In addition, the calculation of diluted net income per share excludes the impact of the Company's Notes as the average stock price of the Company's common stock was below the initial conversion price of approximately \$11.70 per share for the quarter ended September 30, 2013. The Notes may have a dilutive impact if the average market price of the Company's common stock is above the conversion price of the Notes.

**9. INCOME TAXES**

The Company recognized income tax expense of \$24.0 million in the first nine months of 2013 compared to \$2.0 million for the same period in the prior year. The effective tax rate for the first nine months of 2013 was 39.9%, which differs from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes. During the fourth quarter of 2012, the Company released \$59.9 million of valuation allowance against its net deferred tax assets. Therefore, income tax expense for the first nine months of 2012 reflected the utilization of valuation allowance for federal, state and local income taxes resulting in an effective tax rate less than the U.S. Federal statutory rate of 35%.

**10. OTHER ACCRUED LIABILITIES**

The following table presents major components of *Other Accrued Liabilities* (in thousands):

	September 30, 2013	December 31, 2012
Warranty	\$15,600	\$14,886
Payroll and related taxes	25,153	23,342
Self-insurance	8,925	7,702
Accrued taxes	5,067	5,578
Customer deposits	25,069	43,158
All other	8,919	10,207
	\$88,733	\$104,873

The following table presents the changes in the product warranty accrual included in *Other Accrued Liabilities* (in thousands):

	2013	2012
Balance as of January 1	\$ 14,886	\$ 11,437
Provision for warranties issued in current year	4,462	3,579
Walker acquisition	-	3,887
Provisions for pre-existing warranties	508	-
Payments	(4,256)	(3,108)
Balance as of September 30	\$ 15,600	\$ 15,795

The Company offers a limited warranty for its products with a coverage period that ranges between one and five years, provided that the coverage period for DuraPlate® trailer panels beginning with those manufactured in 2005 or after is ten years. The Company passes through component manufacturers' warranties to our customers. The Company's policy is to accrue the estimated cost of warranty coverage at the time of the sale.

**11. SEGMENTS*****a. Segment Reporting***

The Company manages its business in three segments: Commercial Trailer Products, Diversified Products and Retail. The Commercial Trailer Products segment produces and sells new trailers to the Retail segment and to customers who purchase trailers directly from the Company or through independent dealers. The Diversified Products segment focuses on the Company's commitment to expand its customer base, diversify its product offerings and revenues and extend its market leadership by leveraging its proprietary DuraPlate® panel technology, drawing on its core manufacturing expertise and making available products that are complementary to truck and tank trailers and transportation equipment. The results related to the purchased Beall assets from the date of the purchase, February 4, 2013, are included in the Diversified Products segment. The Retail segment includes the sale of new and used trailers, as well as the sale of after-market parts and service, through its retail branch network. The Company has not allocated certain corporate related administrative costs, interest and income taxes included in the corporate and eliminations segment to the Company's other reportable segments. The Company accounts for intersegment sales and transfers at cost plus a specified mark-up. The Company manages its assets on a consolidated basis, not by operating segment, as the assets of the Diversified Products segment are intermixed with those of the Commercial Trailer Products segment. Therefore, our chief operating decision maker does not review any asset information by operating segment and, accordingly, we do not report asset information by operating segment. Reportable segment information is as follows (in thousands):



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	Commercial Trailer Products	Diversified Products	Retail	Corporate and Eliminations	Consolidated
Three Months Ended September 30, 2013					
Net sales					
External customers	\$ 276,564	\$ 117,990	\$ 45,423	\$ -	\$ 439,977
Intersegment sales	16,946	14,141	573	(31,660)	-
Total net sales	\$ 293,510	\$ 132,131	\$ 45,996	\$ (31,660)	\$ 439,977
Income (Loss) from operations					
Reconciling items to income before income taxes	\$ 17,323	\$ 18,538	\$ 743	\$ (2,774)	\$ 33,830
Interest expense					(6,252)
Loss on debt extinguishment					(605)
Income before income taxes					\$ 26,973
2012					
Net sales					
External customers	\$ 259,742	\$ 98,799	\$ 47,376	\$ -	\$ 405,917
Intersegment sales	21,389	10,077	257	(31,723)	-
Total net sales	\$ 281,131	\$ 108,876	\$ 47,633	\$ (31,723)	\$ 405,917
Income (Loss) from operations					
Reconciling items to income before income taxes	\$ 14,634	\$ 14,867	\$ 1,400	\$ (3,665)	\$ 27,236
Interest expense					(7,760)
Other, net					211
Income before income taxes					\$ 19,687
Nine Months Ended September 30, 2013					
Net Sales					
External customers	\$ 704,712	\$ 338,937	\$ 133,683	\$ -	\$ 1,177,332
Intersegment sales	52,708	40,677	1,292	(94,677)	-
Total net sales	\$ 757,420	\$ 379,614	\$ 134,975	\$ (94,677)	\$ 1,177,332
Income (Loss) from operations					
Reconciling items to income before income taxes	\$ 37,197	\$ 51,320	\$ 2,877	\$ (12,256)	\$ 79,138
Interest expense					(20,364)
Loss on debt extinguishment					(1,304)
Other, net					2,604
Income before income taxes					\$ 60,074
2012					
Net Sales					

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External customers	\$ 756,651	\$ 178,855	\$ 110,501	\$ -	\$ 1,046,007
Intersegment sales	48,589	33,732	424	(82,745)	-
Total net sales	\$ 805,240	\$ 212,587	\$ 110,925	\$ (82,745)	\$ 1,046,007
Income (Loss) from operations	\$ 34,557	\$ 29,335	\$ 2,554	\$ (25,193)	\$ 41,253
Reconciling items to income before income taxes					
Interest expense					(13,934)
Other, net					151
Income before income taxes					\$ 27,470

**b. Product Information**

The Company offers products primarily in four general categories: (1) new trailers, (2) used trailers, (3) components, parts and service and (4) equipment and other. The following table sets forth the major product categories and their percentage of consolidated net sales (dollars in thousands):

	Commercial Trailer Products \$	Diversified Products \$	Retail \$	Consolidated \$	%
Three Months Ended September 30, 2013					
New trailers	263,018	55,997	20,899	339,914	77.3
Used trailers	9,092	792	3,442	13,326	3.0
Components, parts and service	1,175	26,648	20,101	47,924	10.9
Equipment and other	3,279	34,553	981	38,813	8.8
Total net external sales	276,564	117,990	45,423	439,977	100.0

	Commercial Trailer Products \$	Diversified Products \$	Retail \$	Consolidated \$	%
2012					
New trailers	249,827	51,546	23,925	325,298	80.1
Used trailers	7,644	1,007	3,903	12,554	3.1
Components, parts and service	645	14,355	18,480	33,480	8.2
Equipment and other	1,626	31,891	1,068	34,585	8.6
Total net external sales	259,742	98,799	47,376	405,917	100.0

	Commercial Trailer Products \$	Diversified Products \$	Retail \$	Consolidated \$	%
Nine Months Ended September 30, 2013					
New trailers	670,869	150,750	60,706	882,325	74.9
Used trailers	20,407	2,412	9,747	32,566	2.8
Components, parts and service	6,576	75,962	59,575	142,113	12.1
Equipment and other	6,860	109,813	3,655	120,328	10.2
Total net external sales	704,712	338,937	133,683	1,177,332	100.0

	Commercial Trailer Products \$	Diversified Products \$	Retail \$	Consolidated \$	%
2012					
New trailers	730,669	72,554	50,329	853,552	81.6
Used trailers	16,617	1,300	11,634	29,551	2.8
Components, parts and service	2,018	49,038	46,452	97,508	9.3
Equipment and other	7,347	55,963	2,086	65,396	6.3
Total net external sales	756,651	178,855	110,501	1,046,007	100.0

**12. NEW ACCOUNTING PRONOUNCEMENTS**

In February 2013, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends ASC 220, Comprehensive Income. This ASU requires the disclosure of amounts reclassified out of accumulated other comprehensive income by component and by net income line item. The disclosure may be provided either on the face of the financial statements or in the notes. ASU 2013-02 is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2012. The adoption did not have a material effect on the Company’s unaudited condensed consolidated financial statements.

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

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report of Wabash National Corporation (the "Company", "Wabash" or "we") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements may include the words "may," "will," "estimate," "intend," "contingent," "believe," "expect," "plan" or "anticipate" and other similar words. Our "forward-looking statements" include, but are not limited to, statements regarding:

- our business plan;
- the benefits of, and our plans relating to the acquisition of Walker Group Holdings ("Walker") and our recently completed acquisition of certain assets of Beall Corporation ("Beall"), the amount of transaction costs associated with the acquisitions, our ability to manage our indebtedness and our ability to effectively integrate Walker and the Beall assets and realize the expected synergies and benefits;
- our expected revenues, income or loss and capital expenditures;
- our strategic plan and plans for future operations;
- financing needs, plans and liquidity, including for working capital and capital expenditures;
- our ability to achieve sustained profitability;
- reliance on certain customers and corporate relationships;
- our ability to diversify the product offerings of non-trailer businesses and opportunities to leverage the acquired Walker and Beall businesses to grow sales in our existing products;
- availability and pricing of raw materials;
- availability of capital and financing;
- dependence on industry trends;
- the outcome of any pending litigation;
- export sales and new markets;
- engineering and manufacturing capabilities and capacity;
- acceptance of new technology and products;

- government regulation; and
- assumptions relating to the foregoing.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in this Quarterly Report. Important risks and factors that could cause our actual results to be materially different from our expectations include the factors that are disclosed in “Item 1A. Risk Factors” in our Form 10-K for the year ending December 31, 2012 and elsewhere herein. Each forward-looking statement contained in this Quarterly Report reflects our management’s view only as of the date on which that forward-looking statement was made. We are not obligated to update forward-looking statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events.

### RESULTS OF OPERATIONS

The following table sets forth certain operating data as a percentage of net sales for the periods indicated:

	Percentage of Net Sales							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales	86.0		87.7		86.2		89.5	
Gross profit	14.0		12.3		13.8		10.5	
General and administrative expenses	3.3		3.1		3.7		3.0	
Selling expenses	1.7		1.8		2.0		1.5	
Amortization of intangibles	1.3		0.7		1.4		0.7	
Acquisition expenses	-		-		-		1.4	
Income from operations	7.7		6.7		6.7		3.9	
Interest expense	(1.5)		(1.9)		(1.7)		(1.3)	
Loss on debt extinguishment	(0.1)		-		(0.1)		-	
Other, net	-		0.1		0.2		-	
Income before income taxes	6.1		4.9		5.1		2.6	
Income tax expense	2.4		0.4		2.0		0.2	
Net income	3.7	%	4.5	%	3.1	%	2.4	%

For the three and nine month periods ended September 30, 2013, we recorded net sales of \$440.0 million and \$1,177.3 million, respectively, compared to \$405.9 million and \$1,046.0 million, respectively, in the prior year periods. Net sales for the three month period ended September 30, 2013 increased \$34.1 million, or 8.4%, compared to the prior year period due to an increase in new trailer shipments of approximately 500 units, or 4.1%, and an increase demand in our components, parts and service product lines. Net sales for the nine month period ended September 30, 2013 increased \$131.3 million, or 12.6%, compared to the prior year period due to the acquisition of Walker, completed in May 2012, which generated net sales of \$300.6 million as compared to net sales of \$140.8 million for the prior year period from the date of acquisition through the end of the third quarter. Compared to the prior year period new trailer volumes decreased 1,900 units, or 5.5%, for the nine month period ended September 30, 2013, respectively. Gross profit margin was 14.0% in the third quarter of 2013 compared to 12.3% in the prior year period. The increase in gross profit margin is primarily due to improved pricing on new trailers and diversification into higher margin opportunities made available organically through product development and strategically through acquisitions of Walker and certain assets of Beall. We continue to be encouraged by the overall trailer market throughout the first nine months of 2013, and our expectation is that overall industry shipment and production levels will remain above replacement demand for the remainder of 2013 and 2014 as key structural and market drivers continue to support healthy demand for new trailers. In addition, we expect to continue to deliver improvements in our financial and operational results as we further optimize our production facilities, implement synergies related to the acquisitions of Walker and certain assets of Beall, and continue to expand our Diversified Products customer base and product offerings.

Selling, general and administrative expenses increased in the third quarter of 2013 as compared to the same period in 2012 due primarily to higher salaries and employee related costs. As a percentage of net sales, selling, general and administrative expenses increased to 5.0% as compared to 4.9% in the prior year period.

Our management team continues to be focused on positioning the Company to optimize profits as the industry continues to improve, maintaining our cost savings initiatives, strengthening our capital structure, developing innovative products that meet the needs of our customers and diversifying our product offering through growth in non-trailer products. As a recognized industry leader, we continue to focus on product innovation, lean manufacturing, strategic sourcing and workforce optimization in order to strengthen our industry position and improve operating results.

### **Three Months Ended September 30, 2013**

#### **Net Sales**

Net sales in the third quarter of 2013 increased \$34.1 million, or 8.4%, compared to the third quarter of 2012. By business segment, net external sales and related units sold were as follows (dollars in millions):

	Three Months Ended September 30,		Change	
	2013	2012	\$	%
<b>Sales by Segment</b>				
Commercial Trailer Products	\$ 276.6	\$ 259.7	\$ 16.9	6.5
Diversified Products	118.0	98.8	19.2	19.4
Retail	45.4	47.4	(2.0)	(4.2)
Total	\$ 440.0	\$ 405.9	\$ 34.1	8.4
<b>New Trailers</b>				
	(units)			
Commercial Trailer Products	11,000	10,500	500	4.8
Diversified Products	800	700	100	14.3
Retail	800	900	(100)	(11.1)
Total	12,600	12,100	500	4.1
<b>Used Trailers</b>				
	(units)			
Commercial Trailer Products	1,000	1,000	-	-
Retail	400	400	-	-
Total	1,400	1,400	-	-

Commercial Trailer Products segment sales were \$276.6 million for the third quarter of 2013, an increase of \$16.9 million, or 6.5%, compared to the third quarter of 2012. The increase in sales is due primarily to a 4.8% increase in new trailer shipments as approximately 11,000 trailers shipped in the third quarter of 2013 compared to 10,500 trailers shipped in the prior year period. As compared to the prior period, average new trailer selling prices increased by 0.5% in the third quarter of 2013. The increase is primarily due to increased pricing necessary to recapture lost margins, as well as favorable customer and product mix. Used trailer sales increased \$1.4 million, or 18.9%, compared to the previous year period. The increase primarily results from a favorable product mix as demand for used trailers remained constant during the current and prior year periods.

Diversified Products segment sales were \$118.0 million for the third quarter of 2013, up \$19.2 million, or 19.4%, compared to the same period in 2012. The increase in sales is primarily due to continued strong demand for Walker products as well as sales generated from the acquisition of certain assets of Beall, which combined to contribute \$98.0 million in the current year period as compared to \$89.1 million in the prior year period. In addition, our continued efforts to diversify our business organically and increase our market penetration and acceptance of our product offerings gained momentum and demand for our composite product offerings increased \$12.0 million, or 174.9%, as compared to the previous year period.

Retail segment sales were \$45.4 million in the third quarter of 2013, down \$2.0 million, or 4.2%, compared to the prior year period. New trailer sales decreased \$3.0 million, or 12.6%, as approximately 100 fewer trailers were shipped in the current year as compared to the prior year period. As compared to the prior period, new trailer average selling prices increased 3.9% primarily due to favorable customer and product mix. Used trailer sales decreased \$0.5 million, or 11.8%, primarily due to product mix as demand for used trailers was consistent with the prior year period. Parts and service sales were up \$1.6 million, or 8.8%.

## Cost of Sales

Cost of sales for the third quarter of 2013 was \$378.5 million, an increase of \$22.6 million, or 6.4%, compared to the third quarter of 2012. As a percentage of net sales, cost of sales was 86.0% in the third quarter of 2013 compared to 87.7% in the third quarter of 2012.

Commercial Trailer Products segment cost of sales, as detailed in the following table, was \$252.9 million for the third quarter of 2013, an increase of \$13.5 million, or 5.6%, compared to the third quarter of 2012. As a percentage of net sales, cost of sales was 91.4% for the current quarter compared to 92.2% in the prior year period.

Commercial Trailer Products Segment	Three Months Ended September 30,			
	2013		2012	
	(dollars in millions)			
		% of Net		% of Net
		Sales		Sales
Material Costs	\$ 204.4	73.9%	\$ 193.3	74.4%
Other Manufacturing Costs	48.5	17.5%	46.1	17.8%
	\$ 252.9	91.4%	\$ 239.4	92.2%

Cost of sales is comprised of material costs, a variable expense, and other manufacturing costs, comprised of both fixed and variable expenses, including direct and indirect labor, outbound freight, and overhead expenses. Material costs were 73.9% of net sales in the third quarter of 2013 compared to 74.4% for the same period in 2012. The 0.5% decrease was primarily driven by increases in the overall average selling prices for new trailers as raw material, commodity and component costs remained relatively consistent. Other manufacturing costs increased \$2.4 million in the current year period as compared to the prior year period, resulting from increased variable costs related to increases in new trailer production volumes. As a percentage of sales, other manufacturing costs decreased from 17.8% in the third quarter of 2012 to 17.5% in the 2013 period due to increased leverage of fixed costs from higher production.

Diversified Products segment cost of sales was \$86.7 million in the third quarter of 2013, an increase of \$12.1 million, or 16.2%, compared to the same 2012 period. As a percentage of net sales prior to the elimination of intersegment sales, cost of sales was 76.3% in the third quarter of 2013 compared to 77.8% in the third quarter of 2012. The 1.5% decrease as a percentage of net sales was primarily the result of an increased percentage of net sales from our higher-margined product lines as compared to the previous year period.

Retail segment cost of sales was \$40.2 million in the third quarter of 2013, a decrease of \$1.9 million, or 4.6%, compared to the same 2012 period. As a percentage of net sales, cost of sales was 88.5% for the third quarter of 2013 compared to 88.9% for the same period in 2012. The improvement in cost of sales as a percentage of net sales was primarily the result of product mix driven by an increased percentage of sales from our higher margin parts and service product line in the third quarter of 2013 as compared to the previous year period.

## Gross Profit

Gross profit was \$61.5 million in the third quarter of 2013, an improvement of \$11.4 million from the prior year period. Gross profit as a percent of sales was 14.0% for the current quarter, compared to 12.3% for the same period in 2012. Gross profit by segment was as follows (in millions):

	Three Months Ended September 30,		Change	
	2013	2012	\$	%
<b>Gross Profit by Segment:</b>				
Commercial Trailer Products	\$ 23.6	\$ 20.3	\$ 3.3	16.3
Diversified Products	31.3	24.2	7.1	29.3
Retail	5.2	5.3	(0.1)	(1.9)
Corporate and Eliminations	1.4	0.3	1.1	366.7
<b>Total</b>	<b>\$ 61.5</b>	<b>\$ 50.1</b>	<b>\$ 11.4</b>	<b>22.8</b>

Commercial Trailer Products segment gross profit was \$23.6 million for the third quarter of 2013 compared to \$20.3 million for the third quarter of 2012. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales was 8.0% in the third quarter of 2013 as compared to 7.2% in the 2012 period. The increase in gross profit margin was primarily driven by improved pricing necessary to recapture lost margins.

Diversified Products segment gross profit was \$31.3 million for the third quarter of 2013 compared to \$24.2 million in the third quarter of 2012. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales, was 23.7% in the third quarter of 2013 compared to 22.2% in the third quarter of 2012. The increases in gross profit and gross profit as a percentage of sales are due to increased demand and a favorable product mix within our composite offerings during the current year period as compared to the previous year period. Contributing to the improvement, gross profits resulting from our Walker products increased \$2.8 million, or 13.4%, to \$23.7 million during the current year period as compared to \$20.9 million in the prior year period.

Retail segment gross profit was \$5.2 million for the third quarter of 2013, which is relatively consistent with the same period in 2012. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales for the third quarter of 2013 was 11.4% compared to 11.0% for the prior year period. The increase in gross profit margin is primarily due to favorable customer and product mix as a larger percentage of sales were generated from the higher-margin parts and service products.

#### **General and Administrative Expenses**

General and administrative expenses for the third quarter increased \$2.0 million, or 16.0%, from the prior year period largely as a result of a \$1.4 million increase in salaries and employee related costs, including employee incentive programs. In addition, bad debt expense increased \$0.6 million due to certain uncollectable accounts receivable identified in the current quarter. As a percentage of sales, general and administrative expenses increased to 3.3% for the current quarter as compared to 3.1% for the third quarter of 2012.

#### **Selling Expenses**

Selling expenses were \$7.6 million in the third quarter of 2013, an increase of \$0.5 million, or 6.9%, compared to the prior year period primarily due to a \$0.3 million increase in salaries and employee related costs, including employee incentive programs. As a percentage of net sales, selling expenses were 1.7% for the third quarter of 2013 compared to 1.8% for the prior year period.

### **Amortization of Intangibles**

Amortization of intangibles was \$5.5 million for the third quarter of 2013, an increase of \$2.5 million, or 82.8%, compared to the prior year period due to amortization expense recognized for intangible assets recorded from the acquisitions of Walker and certain assets of Beall.

### **Acquisition Expenses**

Acquisition expenses totaling less than \$0.1 million for the third quarter of 2013 represent acquisition related costs incurred in connection with the acquisitions of Walker and certain assets of Beall.

### **Other Income (Expense)**

*Interest expense* for the third quarter of 2013 totaled \$6.3 million, an increase of \$1.5 million primarily due to interest and non-cash accretion charges related to our Convertible Senior Notes and Term Loan Credit Agreement entered into in connection with the Walker Acquisition. In addition, *Loss on debt extinguishment* for the third quarter of 2013 represents the write-off of debt issuance costs in connection with a \$20 million voluntary principal payment made on our Term Loan Credit Agreement during the third quarter.

### **Income Taxes**

We recognized income tax expense of \$10.7 million in the third quarter of 2013 compared to expense of \$1.2 million in the third quarter of 2012. The effective tax rate for the third quarter of 2013 was 39.8%, which differs from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes. During the fourth quarter of 2012, we released \$59.9 million of valuation allowance against our net deferred tax assets. Therefore, income tax expense for the first nine months of 2012 reflected the utilization of valuation allowance for federal, state and local income taxes resulting in an effective tax rate less than the U.S. Federal statutory rate of 35%. As of September 30, 2013, we had an estimated \$50 million of remaining U.S. Federal income tax net operating loss carryforwards, which will begin to expire in 2028 if unused, and which may be subject to other limitations under IRS rules. We also have various multi-state income tax net operating loss carryforwards, which have been recorded as a deferred income tax asset, of approximately \$9 million, before valuation allowances. We also have various U.S. Federal income tax credit carryforwards which will expire beginning in 2023, if unused. As a result, for the remainder of 2013 we estimate our effective tax rate to be approximately forty percent. However, due to our remaining income tax net operating loss carryforwards, we do not anticipate our cash taxes to be materially different from those paid in 2012 of approximately \$0.6 million.

## **Nine Months Ended September 30, 2013**

### **Net Sales**

Net sales for the first nine months of 2013 increased \$131.3 million, or 12.6%, compared to the 2012 period. By business segment, net external sales and related units sold were as follows (dollars in millions):

	Nine Months Ended September 30,		Change	
	2013	2012	\$	%
<b>Sales by Segment</b>				
Commercial Trailer Products	\$ 704.7	\$ 756.6	\$ (51.9)	(6.9)
Diversified Products	338.9	178.9	160.0	89.4
Retail	133.7	110.5	23.2	21.0
Total	\$ 1,177.3	\$ 1,046.0	\$ 131.3	12.6
<b>New Trailers</b>				
	(units)			
Commercial Trailer Products	28,100	31,400	(3,300)	(10.5)
Diversified Products	2,200	1,200	1,000	83.3
Retail	2,300	1,900	400	21.1
Total	32,600	34,500	(1,900)	(5.5)
<b>Used Trailers</b>				
	(units)			
Commercial Trailer Products	2,400	2,300	100	4.3
Diversified Products	100	100	-	-
Retail	1,000	1,200	(200)	(16.7)
Total	3,500	3,600	(100)	(2.8)

Commercial Trailer Products segment sales were \$704.7 million for the first nine months of 2013, down \$51.9 million, or 6.9%, compared to the first nine months of 2012. The decrease in sales is due primarily to a 10.5% decrease in new trailer shipments as approximately 28,100 trailers shipped in the first nine months of 2013 compared to 31,400 trailers shipped in the prior year period. However, the decrease in new trailer shipments were partially offset by a 2.6% increase in average selling prices in the first nine months of 2013 compared to the prior year period, due to increased pricing necessary to recapture lost margins, as well as favorable customer and product mix. Used trailer sales increased \$3.8 million, or 22.8%, compared to the previous year period. The increase was attributable to a 16.2% increase in the average unit selling price and a 4.3% increase in shipments due to increased market demand.

Diversified Products segment sales were \$338.9 million for the first nine months of 2013, up \$160.0 million, or 89.4%, compared to the same period in 2012. The increase in sales is primarily due to the acquisitions of Walker and certain assets of Beall, which contributed \$154.2 million more in sales during the current nine month period than compared to the prior year period. We continue to gain positive momentum in our efforts to diversify our business and increase our market penetration and overall acceptance of our product offerings.

Retail segment sales were \$133.7 million in the first nine months of 2013, up \$23.2 million, or 21.0%, compared to the prior year period. This increase in sales was partly due to the addition of six tank trailer parts and service locations as a result of the Walker acquisition, generating \$11.9 million more in sales during the nine month period than compared to the previous year period. Excluding the parts and service locations acquired from Walker, Retail segment sales were \$109.7 million, an increase of 11.4%, as compared to the prior year. Parts and service sales were up \$4.6 million, or 13.4%. New trailer sales increased \$10.4 million, or 20.6%, as approximately 400 additional units were shipped during the current year as compared to the prior year period. Used trailer sales decreased \$1.9 million, or 16.2%, primarily due to a 16.7% decrease in shipments compared to the prior year period.

**Cost of Sales**

Cost of sales for the first nine months of 2013 was \$1,014.8 million, an increase of \$78.3 million, or 8.4%, compared to the 2012 period. As a percentage of net sales, cost of sales was 86.2% for the first nine months of 2013 compared to 89.5% for the 2012 period.

Commercial Trailer Products segment cost of sales, as detailed in the following table, was \$648.3 million for the first nine months of 2013, a decrease of \$57.4 million, or 8.1%, compared to the first nine months of 2012. As a percentage of net sales, cost of sales was 92.0% for the first nine months compared to 93.3% in the prior year period.

Commercial Trailer Products Segment	Nine Months Ended September 30,					
	2013			2012		
	(dollars in millions)					
		% of Net Sales			% of Net Sales	
Material Costs	\$ 515.7	73.2	%	\$ 565.8	74.8	%
Other Manufacturing Costs	132.6	18.8	%	139.9	18.5	%
	\$ 648.3	92.0	%	\$ 705.7	93.3	%

Cost of sales is composed of material costs, a variable expense, and other manufacturing costs, comprised of both fixed and variable expenses, including direct and indirect labor, outbound freight, and overhead expenses. Material costs were 73.2% of net sales in the first nine months of 2013 compared to 74.8% for the prior year period. The 1.6% decrease was primarily driven by increases in average selling prices for new trailers as raw material, commodity and component costs remained relatively consistent as well as favorable customer and product mix. Other manufacturing costs decreased \$7.3 million in the current year period, as compared to the prior year period, resulting from lower variable costs related to decreases in new trailer production volumes. As a percentage of sales, other manufacturing costs increased slightly from 18.5% in the prior year period to 18.8% in the 2013 period due to reduced leverage of fixed costs from lower production.

Diversified Products segment cost of sales was \$250.0 million in the first nine months of 2013, an increase of \$118.3 million, or 89.8%, compared to the same 2012 period primarily resulting from the acquisitions of Walker and certain assets of Beall. As a percentage of net sales prior to the elimination of intersegment sales, cost of sales was 76.6% in the first nine months of 2013 compared to 77.8% in the first nine months of 2012. The 1.2% decrease as a percentage of net sales was primarily the result of an increased percentage of net sales from our higher-margined product lines as compared to the previous year period.

Retail segment cost of sales was \$118.1 million in the first nine months of 2013, an increase of \$19.4 million, or 19.7%, compared to the same 2012 period. The increase in cost of sales was primarily due to the addition of six tank trailer parts and service locations from the Walker acquisition, which added \$9.0 million in cost of sales during the nine month period than compared to the previous year period, as well as an increase in new trailer shipments for the year. As a percentage of net sales, cost of sales was 88.3% in the first nine months of 2013 compared to 89.3% in the first nine months of 2012. This improvement as a percentage of net sales was primarily the result of product mix as an increased percentage of net sales from the higher margin parts and service product line for the 2013 period as compared to the prior year period.

**Gross Profit**

Gross profit was \$162.5 million in the first nine months of 2013, an improvement of \$53.0 million, or 48.4%, from the prior year period. Gross profit as a percent of sales was 13.8% for the first nine months compared to 10.5% for the same period in 2012. Gross profit by segment was as follows (in millions):

	Nine Months Ended September 30,		Change	
	2013	2012	\$	%
Gross Profit by Segment:				
Commercial Trailer Products	\$ 56.4	\$ 50.9	\$ 5.5	10.8
Diversified Products	89.0	47.2	41.8	88.6
Retail	15.6	11.9	3.7	31.1
Corporate and Eliminations	1.5	(0.5)	2.0	(400.0)
Total	\$ 162.5	\$ 109.5	\$ 53.0	48.4

Commercial Trailer Products segment gross profit was \$56.4 million for the first nine months of 2013 compared to \$50.9 million in the prior year period. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales was 7.4% in the first nine months of 2013 as compared to 6.3% for the prior year period. The increase in gross profit as a percentage of net sales was primarily driven by improved pricing necessary to recapture lost margins.

Diversified Products segment gross profit was \$89.0 million for the first nine months of 2013 compared to \$47.2 million for the prior year period due primarily to the acquisition of Walker. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales was 23.4% in the first nine months of 2013 compared to 22.2% in the first nine months of 2012. The 1.2% increase as a percentage of net sales was largely the result of the inclusion of Walker for the entire nine months of 2013, as well as improved customer and product mix for our composite offerings as compared to the prior year.

Retail segment gross profit was \$15.6 million for the first nine months of 2013, an increase of \$3.7 million compared to the same period in 2012. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales for the first nine months of 2013 was 11.6% compared to 10.7% for the prior year period. As compared to the prior year period, the 31.1% increase in gross profit is primarily due to a 28.3% increase in parts and service sales and a 20.6% increase in new trailer sales. In addition, gross profit as a percentage of sales increased 0.9% due to the sales increases from our higher-margined product lines as compared to the previous year period.

**General and Administrative Expenses**

General and administrative expenses of \$43.2 million for the first nine months of 2013 increased \$12.3 million, or 40.0%, from the prior year period. The increase was largely due to the inclusion of a full year of expenses of Walker, which added expenses of approximately \$10.3 million during the current year period as compared to approximately \$5.6 million in the prior year, and the inclusion of expenses of Beall since the date of acquisition, or February 4, 2013. In addition, employee related costs, excluding Walker and Beall, increased \$4.0 million in the current year period due to higher salaries and other employee related costs, including employee incentive programs. The remainder of the increase is primarily attributable to higher outside professional fees and technology costs. As a percentage of sales, general and administrative expenses increased to 3.7% for the current year as compared to 3.0% for the prior year period.



## **Selling Expenses**

Selling expenses were \$23.0 million for the first nine months of 2013, an increase of \$6.9 million, or 42.9%, compared to the prior year period primarily due to the inclusion of a full year of selling expenses of Walker, which added expenses of approximately \$10.9 million during the current year period as compared to approximately \$5.6 million in the prior year and the inclusion of selling expenses of Beall since the date of acquisition, or February 4, 2013. In addition, employee related costs, excluding Walker and Beall, increased \$1.3 million in the current year period due to employee incentive programs. As a percentage of net sales, selling expenses were 2.0% for the first nine months of 2013 compared to 1.5% for the prior year period.

## **Amortization of Intangibles**

Amortization of intangibles was \$16.3 million for the first nine months of 2013, an increase of \$9.1 million, or 126.9%, as compared to the prior year period due to amortization expense recognized for intangible assets recorded from the acquisitions of Walker and certain assets of Beall.

## **Acquisition Expenses**

Acquisition expenses totaling \$0.9 million for the first nine months of 2013 represent acquisition related costs incurred in connection with the acquisitions of Walker and certain assets of Beall.

## **Other Income (Expense)**

*Interest expense* for the first nine months of 2013 totaled \$20.4 million, an increase of \$6.4 million, primarily due to interest and non-cash accretion charges related to our Convertible Senior Notes and Term Loan Credit Agreement entered into in connection with the Walker Acquisition. *Loss on debt extinguishment* represents the write-off of debt issuance costs recognized in connection with the amendment to our Term Loan Credit Agreement and \$40 million of voluntary principal payments made on our Term Loan Credit Agreement during 2013. In addition, *Other, net* for the first nine months of 2013 includes interest income of \$2.0 million due to the recovery of interest on past due accounts receivable.

## **Income Taxes**

We recognized income tax expense of \$24.0 million in the first nine months of 2013 compared to expense of \$2.0 million in the prior year period. The effective tax rate for the first nine months of 2013 was 39.9%, which differs from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes. During the fourth quarter of 2012, we released \$59.9 million of valuation allowance against our net deferred tax assets. Therefore, income tax expense for the first nine months of 2012 reflected the utilization of valuation allowance for federal, state and local income taxes resulting in an effective tax rate less than the U.S. Federal statutory rate of 35%. As of September 30, 2013, we had an estimated \$50 million of remaining U.S. Federal income tax net operating loss carryforwards, which will begin to expire in 2028 if unused, and which may be subject to other limitations under IRS rules. We also have various multi-state income tax net operating loss carryforwards, which have been recorded as a deferred income tax asset, of approximately \$9 million, before valuation allowances. We also have various U.S. Federal income tax credit carryforwards which will expire beginning in 2023, if unused. As a result, for the remainder of 2013 we estimate our effective tax rate to be approximately forty percent. However, due to our remaining income tax net operating loss carryforwards, we do not anticipate our cash taxes to be materially different from those paid in 2012 of approximately \$0.6 million.



## **Liquidity and Capital Resources**

### **Capital Structure**

Our capital structure is comprised of a mix of debt and equity. As of September 30, 2013, our debt to equity ratio was approximately 1.3:1.0. Our long-term objective is to generate operating cash flows sufficient to fund normal working capital requirements, to fund capital expenditures and to be positioned to take advantage of market opportunities, including the ability to improve our capital structure through debt repayments. For the remainder of 2013 and 2014, we expect to fund operations, working capital requirements and capital expenditures through cash flows from operations as well as from available borrowings under our Amended and Restated Revolving Credit Agreement (as described below in “Debt Agreements and Related Amendments” section).

### **Debt Agreements and Related Amendments**

#### **Convertible Senior Notes**

On April 23, 2012, we issued Convertible Senior Notes due 2018 (the “Notes”) with an aggregate principal amount of \$150 million in a public offering. The Notes bear interest at the rate of 3.375% per annum from the date of issuance, payable semi-annually on May 1 and November 1, commencing on November 1, 2012. The Notes are senior unsecured obligations and rank equally with our existing and future senior unsecured debt.

The Notes are convertible by their holders into cash, shares of our common stock or any combination thereof at our election, at an initial conversion rate of 85.4372 shares of our common stock per \$1,000 in principal amount of Notes, which is equal to an initial conversion price of approximately \$11.70 per share, only under the following circumstances: (A) before November 1, 2017 (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2012 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price (as defined in the indenture for the Notes) per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (3) if we call the Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; and (4) upon the occurrence of specified corporate events as described in the indenture for the Notes; and (B) at any time on or after November 1, 2017 until the close of business on the second business day immediately preceding the maturity date.

It is our intent to settle conversions through a net share settlement, which involves repayment of cash for the principal portion and delivery of shares of common stock for the excess of the conversion value over the principal portion. We used the net proceeds of approximately \$145.1 million from the sale of the Notes to fund a portion of the purchase price of the Walker Acquisition.

We account separately for the liability and equity components of the Notes in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. We determined that senior, unsecured corporate bonds traded on the market represent a similar liability to the convertible senior notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, we estimated the implied interest rate of the Notes to be 7.0%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the Notes, which resulted in a fair value of the liability component of \$123.8 million upon issuance, calculated as the present value of implied future payments based on the \$150.0 million aggregate principal amount. The \$21.7 million difference between the cash proceeds before offering expenses of \$145.5 million and the estimated fair value of the liability component was recorded in additional paid-in capital. The discount on the liability portion of the Notes is being amortized.

### **Revolving Credit Agreement**

On April 17, 2012, we entered into an amendment (the “Second Amendment”) to our then-existing credit agreement, dated June 28, 2011, by and among us, certain of our subsidiaries and the lender parties thereto (the “Existing Credit Agreement”). The Second Amendment was executed to permit the issuance of our Notes discussed above, and the conversion, possible redemption and other arrangements in connection with the Notes.

Furthermore, on May 8, 2012 and in connection with the completion of the Walker Acquisition and entering into the Term Loan Credit Agreement (as defined below), we repaid approximately \$51 million of borrowings under our senior secured revolving credit facility, dated June 28, 2011, and entered into an amendment and restatement of that credit agreement among us, certain of our subsidiaries (collectively, the “Borrowers”), Wells Fargo Capital Finance, LLC, as joint lead arranger, joint bookrunner and administrative agent (the “Revolver Agent”), RBS Citizens Business Capital, a division of RBS Citizens, N.A., as joint lead arranger, joint bookrunner and syndication agent, and the other lenders named therein, as amended (the “Amended and Restated Revolving Credit Agreement”). Also on May 8, 2012, certain of our subsidiaries (the “Revolver Guarantors”) entered into a general continuing guarantee of the Borrowers’ obligations under the Amended and Restated Revolving Credit Agreement in favor of the lenders (the “Revolver Guarantee”).

The Amended and Restated Revolving Credit Agreement is guaranteed by the Revolver Guarantors and is secured by (i) first priority security interests (subject only to customary permitted liens and certain other permitted liens) in substantially all personal property of the Borrowers and the Revolver Guarantors, consisting of accounts receivable, inventory, cash, deposit and securities accounts and any cash or other assets in such accounts and, to the extent evidencing or otherwise related to such property, all general intangibles, licenses, intercompany debt, letter of credit rights, commercial tort claims, chattel paper, instruments, supporting obligations, documents and payment intangibles (collectively, the “Revolver Priority Collateral”), and (ii) second-priority liens on and security interests in (subject only to the liens securing the Term Loan Credit Agreement, customary permitted liens and certain other permitted liens) (A) equity interests of each direct subsidiary held by the Borrower and each Revolving Guarantor (subject to customary limitations in the case of the equity of foreign subsidiaries), and (B) substantially all other tangible and intangible assets of the Borrowers and the Revolving Guarantors including equipment, general intangibles, intercompany notes, insurance policies, investment property, intellectual property and material owned real property (in each case, except to the extent constituting Revolver Priority Collateral) (collectively, the “Term Priority Collateral”). The respective priorities of the security interests securing the Amended and Restated Revolving Credit Agreement and the Term Loan Credit Agreement are governed by an Intercreditor Agreement, dated May 8, 2012, between the Revolver Agent and the Term Agent (as defined below) (the “Intercreditor Agreement”). The Amended and Restated Revolving Credit Agreement has a scheduled maturity date of May 8, 2017.

Under the Amended and Restated Revolving Credit Agreement, the lenders agree to make available to us a \$150 million revolving credit facility. We have the option to increase the total commitment under the facility to \$200 million, subject to certain conditions, including (i) obtaining commitments from any one or more lenders, whether or not currently party to the Amended and Restated Revolving Credit Agreement, to provide such increased amounts and (ii) the available amount of increases to the facility being reduced by the amount of any incremental loans advanced under the Term Loan Credit Agreement (as defined below) in excess of \$25 million. Availability under the Amended and Restated Revolving Credit Agreement will be based upon monthly (or more frequent under certain circumstances) borrowing base certifications of the Borrowers' eligible inventory and eligible accounts receivable, and will be reduced by certain reserves in effect from time to time. Subject to availability, the Amended and Restated Revolving Credit Agreement provides for a letter of credit subfacility in an amount not in excess of \$15 million, and allows for swingline loans in an amount not in excess of \$10 million. Outstanding borrowings under the Amended and Restated Revolving Credit Agreement will bear interest at a rate, at the Borrowers' election, equal to (i) LIBOR plus a margin ranging from 1.75% to 2.25% or (ii) a base rate plus a margin ranging from 0.75% to 1.25%, in each case depending upon the monthly average excess availability under the revolving loan facility. The Borrowers are required to pay a monthly unused line fee equal to 0.375% times the average daily unused availability along with other customary fees and expenses of the Revolver Agent and the lenders.

The Amended and Restated Revolving Credit Agreement contains customary covenants limiting our ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase stock, enter into transactions with affiliates, merge, dissolve, repay subordinated indebtedness, make investments and dispose of assets. In addition, we are required to maintain a minimum fixed charge coverage ratio of not less than 1.1 to 1.0 as of the end of any period of 12 fiscal months when excess availability under the Amended and Restated Revolving Credit Agreement is less than 12.5% of the total revolving commitment.

If availability under the Amended and Restated Revolving Credit Agreement is less than 15% of the total revolving commitment or if there exists an event of default, amounts in any of the Borrowers' and the Revolver Guarantors' deposit accounts (other than certain excluded accounts) will be transferred daily into a blocked account held by the Revolver Agent and applied to reduce the outstanding amounts under the facility.

Subject to the terms of the Intercreditor Agreement, if the covenants under the Amended and Restated Revolving Credit Agreement are breached, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding and foreclose on collateral. Other customary events of default in the Amended and Restated Revolving Credit Agreement include, without limitation, failure to pay obligations when due, initiation of insolvency proceedings, defaults on certain other indebtedness, and the incurrence of certain judgments that are not stayed, satisfied, bonded or discharged within 30 days.

As of September 30, 2013, we were in compliance with all covenants of the Amended and Restated Revolving Credit Agreement.

### **Term Loan Credit Agreement**

On May 8, 2012 and in connection with the completion of the Walker Acquisition, we entered into a credit agreement among us, the several lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as administrative agent, joint lead arranger and joint bookrunner (the "Term Agent"), and Wells Fargo Securities, LLC, as joint lead arranger and joint bookrunner (the "Term Loan Credit Agreement"), which provided for a senior secured term loan facility of \$300 million to be advanced at closing and provides for a senior secured incremental term loan facility of up to \$75 million, subject to certain conditions, including (i) obtaining commitments from any one or more lenders, whether or not currently party to the Term Loan Credit Agreement, to provide such increased amounts and (ii) the available amount of incremental loans being reduced by the amount of any increases in the maximum revolver amount under the Amended and Restated Revolving Credit Agreement (discussed above). Also on May 8, 2012, certain of

our subsidiaries (the “Term Guarantors”) entered into a general continuing guarantee of the Company’s obligations under the Term Loan Credit Agreement in favor of the Term Agent (the “Term Guarantee”).

The Term Loan Credit Agreement is guaranteed by the Term Guarantors and is secured by (i) first-priority liens on and security interests in the Term Priority Collateral, and (ii) second-priority security interests in the Revolver Priority Collateral. The Term Loan Credit Agreement has a scheduled maturity date of May 8, 2019 but provides for an accelerated maturity in the event the Company's outstanding 3.375% Convertible Senior Notes due 2018 are not converted, redeemed, repurchased or refinanced in full on or before the date that is 91 days prior to the maturity date thereof. The loans under the Term Loan Credit Agreement amortize in equal quarterly installments in aggregate amounts equal to 1% of the original principal amount of the term loans issued thereunder, with the balance payable at maturity. The Term Loan Credit Agreement also contains conditions providing for either voluntary or mandatory prepayments. Conditions for mandatory prepayments include but are not limited to asset sales with proceeds in excess of \$1 million and the amount of excess cash flows, as defined in the Term Loan Credit Agreement, to be calculated annually with the delivery of financial statements beginning with the fiscal year ending December 31, 2012. Outstanding borrowings under the Term Loan Credit Agreement will bear interest at a rate, at the Borrowers' election, equal to (i) LIBOR (subject to a floor of 1.25%) plus a margin of 4.75% or (ii) a base rate plus a margin of 3.75%.

The Term Loan Credit Agreement contains customary covenants limiting our ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase stock, enter into transactions with affiliates, merge, dissolve, pay off subordinated indebtedness, make investments and dispose of assets. In addition, we are required to maintain (i) a minimum interest coverage ratio tested as of the last day of each fiscal quarter for the four consecutive fiscal quarters then ending of not less than (A) 2.0 to 1.0 through September 30, 2013, (B) 3.0 to 1.0 thereafter through September 30, 2015, and (C) 4.0 to 1.0 thereafter, and (ii) a maximum senior secured leverage ratio tested as of the last day of each fiscal quarter for the four consecutive fiscal quarters then ending of not more than (A) 4.5 to 1.0 through September 30, 2013, (B) 4.0 to 1.0 thereafter through September 30, 2015, and (C) 3.5 to 1.0 thereafter.

Subject to the terms of the Intercreditor Agreement, if the covenants under the Term Loan Credit Agreement are breached, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding and foreclose on collateral. Other customary events of default in the Term Loan Credit Agreement include, without limitation, failure to pay obligations when due, initiation of insolvency proceedings, defaults on certain other indebtedness, and the incurrence of certain judgments that are not stayed, satisfied, bonded or discharged within 60 days.

#### **Amendment No. 1 to Credit Agreement**

On April 25, 2013, we entered into Amendment No.1 to Credit Agreement (the "Amendment"), which was effective on May 9, 2013, and amended the Term Loan Credit Agreement. As of April 25, 2013, there was approximately \$297.0 million of term loans outstanding under the Term Loan Credit Agreement (the "Initial Loans"), of which we paid \$20.0 million in connection with the Amendment. Under the Amendment, the lenders agreed to provide to us term loans in an aggregate principal amount of \$277.0 million, which were exchanged for and used to refinance the Initial Loans (the "Tranche B-1 Loans"). The Tranche B-1 Loans mature on May 8, 2019, but provide for an accelerated maturity in the event our outstanding 3.375% Convertible Senior Notes due 2018 are not converted, redeemed, repurchased or refinanced in full on or before the date that is 91 days prior to the maturity date thereof. The Tranche B-1 Loans shall amortize in equal quarterly installments in aggregate amounts equal to 0.25% of the Tranche B-1 Loan amount, with the balance payable at maturity, and will bear interest at a rate, at our election, equal to (i) LIBOR (subject to a floor of 1.00%) plus a margin of 3.50% or (ii) a base rate plus a margin of 2.50%.

In addition, the Amendment amended the Term Loan Credit Agreement, by among other things, removing the covenant that we be required to maintain a minimum interest coverage ratio, and providing for a 1% prepayment premium in the event that we enter into a refinancing of, or amendment in respect of, the Tranche B-1 Loans on or prior to the first anniversary of the effective date of the Amendment that, in either case, results in the all-in yield of such refinancing or amendment being less than the all-in yield on the Tranche B-1 Loans. As amended, the Term Loan Credit Agreement will continue to require us to maintain a maximum senior secured leverage ratio tested as of the last day of each fiscal quarter for the four consecutive fiscal quarters then ending of not more than (A) 4.5 to 1.0 through September 30, 2013, (B) 4.0 to 1.0 thereafter through September 30, 2015, and (C) 3.5 to 1.0 thereafter.

As of September 30, 2013, our senior secured leverage ratio was 1.3:1.0, and we were in compliance with all covenants under the Amendment.

Except as amended by the Amendment, the remaining terms of the Term Loan Credit Agreement remain in full force and effect.

For the nine months ended September 30, 2013, we paid \$12.0 million of interest and \$42.1 million of principal. As of September 30, 2013, we had \$255.6 million outstanding under the Term Loan Credit agreement, as amended, of which \$2.8 million was classified as current on our Condensed Consolidated Balance Sheet. In connection with the closing of the Term Loan Credit Agreement in May 2012 and related Amendment in April 2013, we paid a total of \$8.5 million in original issuance discount fees which will be amortized over the life of the facility using the effective interest rate method. For the nine months ended September 30, 2013, we charged \$0.7 million of amortization for original issuance discount fees as *Interest Expense* in the Condensed Consolidated Statements of Operations. Additionally, for the nine months ended September 30, 2013, we have charged \$0.9 million of accelerated amortization in connection with \$40 million of voluntary principal payments made on our Term Loan Credit Agreement, as amended, as *Loss on debt extinguishment* in the Condensed Consolidated Statements of Operations.

### **Cash Flow**

Cash provided by operating activities for the first nine months of 2013 totaled \$53.8 million, compared to \$27.5 million during the same period in 2012. Cash provided by operations during the current year period was the result of net income adjusted for various non-cash activities, including depreciation, amortization, deferred taxes, stock-based compensation, accretion of debt discount and loss on debt extinguishment, of \$98.7 million, offset by a \$44.9 million increase in our working capital. Increases in working capital for the current year period can be attributed to increased purchasing activities resulting from higher raw material requirements necessary to meet current production demand levels. Changes in key working capital accounts for the first nine months of 2013 as compared to the same period in 2012 are summarized below (in millions):

Source (Use) of cash:	2013	2012	Change
Accounts receivable	\$ (33.4)	\$ (0.6)	\$ (32.8)
Inventories	(49.2)	(1.1)	(48.1)
Accounts payable and accrued liabilities	33.3	(20.6)	53.9
Net use of cash	(49.3)	(22.3)	(27.0)

Accounts receivable increased by \$33.4 million in the first nine months of 2013 as compared to an increase of \$0.6 million in the prior year period. Days sales outstanding, a measure of working capital efficiency that measures the amount of time a receivable is outstanding, increased to approximately 27 days as of September 30, 2013, compared to 22 days as of the same period in 2012. The increase in accounts receivable for 2013 was primarily the result of the timing of shipments and a 12.6% increase in our consolidated net sales as compared to the prior year period. Inventory increased by \$49.2 million during the first nine months of 2013 as compared to an increase of \$1.1 million in the 2012 period. The increase in inventory for the 2013 period was primarily due to higher finished goods inventory resulting from increased production levels throughout the first nine months of 2013. Our inventory turns, a commonly used measure of working capital efficiency that measures how quickly inventory turns per year was approximately 6 times in both the 2013 and 2012 periods. Accounts payable and accrued liabilities increased by \$33.3 million in 2013 compared to a decrease of \$20.6 million for the same period in 2012. The increase in 2013 was primarily due to timing of production as compared to the previous year period. Days payable outstanding, a measure of working capital efficiency that measures the amount of time a payable is outstanding, was 33 days in 2013 as compared to 36 days in the same period in 2012.

Investing activities used \$25.1 million during the first nine months of 2013 compared to \$373.0 million used in the same period in 2012. Cash used in investing activities in the first nine months of 2013 was primarily related to the acquisition of certain assets of Beall completed in the first quarter for \$13.9 million. The current period also includes capital expenditures totaling \$11.6 million to support growth and improvement initiatives at our facilities. Cash used in investing activities in the first nine months of 2012 was primarily related to the Walker acquisition completed in the second quarter for \$364.0 million, net of cash acquired, and other acquisition related costs.

Financing activities used \$44.3 million during the first nine months of 2013 primarily due to principal payments under our term loan credit facility of approximately \$42.1 million. Financing activities provided \$364.8 million during the first nine months of 2012 as a result of the issuance of our Convertible Senior Notes and borrowings under our Term Loan Credit Agreement which provided net proceeds before offering expenses of approximately \$145.5 million and \$292.5 million, respectively. The net proceeds received were used to fund the purchase price of the Walker Acquisition completed in the second quarter of 2012 as well as related fees and expenses incurred as part of this transaction.

As of September 30, 2013, our liquidity position, defined as cash on hand and available borrowing capacity, amounted to \$208.2 million, representing an increase of \$26.0 million and a decrease of \$16.1 million as compared to September 30, 2012 and December 31, 2012, respectively. Total debt and capital lease obligations amounted to \$390.0 million as of September 30, 2013. As we continue to see improvements to the overall trailer industry, as well as our operating performance metrics, we believe our liquidity is adequate to fund operations, working capital needs and capital expenditures for the remainder of 2013 and 2014.

## **Capital Expenditures**

Capital spending amounted to \$11.6 million for the first nine months of 2013 and is anticipated to be approximately \$20 million for 2013. Capital spending for 2013 has been and is expected to continue to be primarily utilized to support growth and improvement initiatives within our facilities.

## **Off-Balance Sheet Transactions**

As of September 30, 2013, we had approximately \$8.6 million in operating lease commitments. We did not enter into any material off-balance sheet debt or operating lease transactions during the quarter ended September 30, 2013.

## **Contractual Obligations and Commercial Commitments**

We have included a summary of our Contractual Obligations and Commercial Commitments in our annual report on Form 10-K for the year ended December 31, 2012. With the exception of the decrease in our raw material purchases commitments (see “Item 3. Qualitative and Quantitative Disclosures About Market Risks – Commodity Prices” section below for further details), the increase in our capital lease commitments (see Note 2 of our condensed consolidated financial statements) and a decrease in our term loan credit facility (see Note 4 of our condensed consolidated financial statements) there have been no material changes to the summary provided in that report.

## **Backlog**

Orders that have been confirmed by customers in writing and can be produced during the next 18 months are included in our backlog. Orders that comprise our backlog may be subject to changes in quantities, delivery, specifications and terms. Our backlog of orders was approximately \$563 million at September 30, 2013 compared to \$666 million at December 31, 2012 and \$555 million at September 30, 2012. We expect to complete the majority of our existing backlog orders within the next 12 months.

## **OUTLOOK**

The demand environment for trailers remained healthy during the first nine months of 2013, as evidenced by a strong backlog, a trailer demand forecast by industry forecasters above replacement demand levels for the next several years and our ability to increase prices to improve and recapture lost margins. Recent estimates from industry analysts, ACT Research Company (“ACT”) and FTR Associates (“FTR”), forecast strong demand levels in 2013 and beyond, with ACT currently estimating demand to be approximately 241,000 trailers for 2013, representing an increase of 2% as compared to 2012, and forecasting continued strong demand levels into the foreseeable future with estimated new trailer demand for 2014 totaling approximately 252,000, an increase of 4% compared to the current year period, and annual average demand for the proceeding four year period ending 2018 in excess of 245,000 new trailers. FTR anticipates new trailer demand to be approximately 236,000 new trailers in 2013, representing an increase of 2% as compared to 2012 while projecting continued strong new trailer demand in 2014 totaling 237,000 trailers. Nevertheless, there remain downside concerns relating to issues with the global economy, unemployment, and housing and construction-related markets in the U.S.

Other challenges we face as we continue through 2013 and into 2014 will primarily relate to managing raw material commodity and component costs. While most commodity costs have recently stabilized, raw material costs remain volatile. As has been our policy, we will endeavor to pass along raw material and component price increases to our customers in addition to continuing our hedging activities in an effort to minimize the risk of changes in commodity

prices having a significant impact on our operating results.

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We believe we are well-positioned for long-term growth in the trailer industry because: (1) our core customers are among the dominant participants in the trucking industry; (2) our DuraPlate® and other industry leading brand trailers continue to have increased market acceptance; (3) our focus is on developing solutions that reduce our customers' trailer maintenance and operating costs providing the best overall value; and (4) our continued expansion of our presence through our Company-owned branch locations and independent dealer network.

Based on the published industry demand forecasts, conversations with our customers regarding their current requirements, our existing backlog of orders and our continued efforts to be selective in our order acceptance to ensure we obtain appropriate value for our products, we estimate that for the full year 2013 total new trailers sold will be between 46,000 and 47,000, which reflects volumes equal to or slightly stronger than 2012 demand levels. As a result of our commitment to recapture margins within our Commercial Trailer Products segment, our expectation for growth in trailer volumes is below the expected industry growth rate. However, we have already begun to realize the improvements in pricing and gross margins and we expect continued improvements for the remainder of 2013. In addition, if the trailer market expands further as currently forecasted by ACT, we may have the ability to exceed these estimated levels in 2013.

We are not relying solely on volume and price recovery within the trailer industry to improve operations and enhance our profitability. Executing our strategic initiative to become a diversified industrial manufacturer will provide us the opportunity to address new markets, enhance our financial profile and reduce the cyclicity within our business. The Diversified Products segment has continued to gain momentum and generate increased revenues and earnings. While demand for some of these products is dependent on the development of new products, customer acceptance of our product solutions and the general expansion of our customer base and distribution channels, we anticipate the long-term growth rate of demand for these products to exceed that of our Commercial Trailer Products. The Walker Acquisition completed in May 2012, as well as our purchase of certain assets of Beall Corporation completed in February 2013, further diversifies our business, complements our leadership position in trailer manufacturing and related products and technologies and potentially provides for additional growth and value creation as we actively pursue margin enhancing synergies. In addition, we have been and will continue to focus on developing innovative new products that both add value to our customers' operations and allow us to continue to differentiate our products from the competition.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We have included a summary of our Critical Accounting Policies and Estimates in our annual report on Form 10-K for the year ended December 31, 2012. There have been no material changes to the summary provided in that report.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

In addition to the risks inherent in our operations, we have exposure to financial and market risk resulting from volatility in commodity prices and interest rates. The following discussion provides additional detail regarding our exposure to these risks.

## **Commodity Prices**

We are exposed to fluctuations in commodity prices through the purchase of various raw materials that are processed from commodities such as aluminum, steel, nickel and copper as well as other raw material components. Given the historical volatility of certain commodity prices, this exposure can materially impact product costs. We manage commodity price changes by entering into fixed price contracts with our suppliers. As of September 30, 2013, we had \$17.0 million in raw material purchase commitments through December 2014 for materials that will be used in the production process as compared to \$18.6 million as of December 31, 2012. With the exception of certain long-term agreements with our core customers, we typically do not set prices for our products more than 45-90 days in advance of our commodity purchases and can, subject to competitive market conditions, take into account the cost of the commodity in setting our prices for each order. To the extent that we are unable to offset the increased commodity costs in product prices, our results would be materially and adversely affected.

## **Interest Rates**

As of September 30, 2013, we had no floating rate debt outstanding under our revolving facility. During the nine month period ending September 30, 2013, we maintained an average floating rate borrowing level of less than \$0.1 million under our revolving line of credit. In addition, as of September 30, 2013, we had outstanding borrowings under our Term Loan Credit Agreement, as amended, totaling \$255.6 million that bear interest at a floating rate, subject to a minimum interest rate. Based on the average borrowings under our revolving facility and the outstanding indebtedness under our Term Loan Credit Agreement, as amended, a hypothetical 100 basis-point change in the floating interest rate would result in a corresponding change in interest expense over a one-year period of \$0.5 million. This sensitivity analysis does not account for the change in the competitive environment indirectly related to the change in interest rates and the potential managerial action taken in response to these changes.

## **Foreign Exchange Rates**

We are subject to fluctuations in the British pound sterling and Mexican peso exchange rates that impact transactions with our foreign subsidiaries, as well as U.S. denominated transactions between these foreign subsidiaries and unrelated parties. A five percent change in the British pound sterling or Mexican peso exchange rates would have an immaterial impact on results of operations. We do not hold or issue derivative financial instruments for speculative purposes.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) were effective as of September 30, 2013.

### **Changes in Internal Controls over Financial Reporting**

There were no changes in the Company's internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the third quarter of fiscal year 2013 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.



On May 8, 2012, we completed the Walker Acquisition, which includes certain previously existing information systems and internal controls over financial reporting. We are currently in the process of evaluating and integrating Walker's historical internal controls over financial reporting with ours. We expect to complete this process by the end of fiscal year 2013.

On February 4, 2013, we completed the purchase of certain assets of Beall Corporation, which includes certain previously existing information systems and internal controls over financial reporting. In conducting our evaluation of the effectiveness of our internal control over financial reporting, we have elected to exclude Beall from our evaluation, as permitted under existing SEC rules. We are currently in the process of evaluating and integrating Beall's historical internal controls over financial reporting with ours.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

See Item 3 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2012. See also Note 7, "Contingencies", to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

### **ITEM 1A. RISK FACTORS**

You should carefully consider the risks described in our Annual Report on Form 10-K, for the year ended December 31, 2012, including those under the heading "Risk Factors" appearing in Item 1A of Part I of the Form 10-K and other information contained in this Quarterly Report before investing in our securities. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

### **ITEM 6. EXHIBITS**

- (a) Exhibits:
- |       |   |
|-------|---|
| 31.01 | Certification of Principal Executive Officer  |
| 31.02 | Certification of Principal Financial Officer  |
| 32.01 | Written Statement of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) |
| 101   | Interactive Data File Pursuant to Rule 405 of Regulation S-T  |

### **SIGNATURE**

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

WABASH NATIONAL CORPORATION

Date: October 29, 2013

By: /s/ Jeffery L. Taylor  
Jeffery L. Taylor  
Vice President and Acting Chief Financial  
Officer (Principal Financial Officer)

