

WABASH NATIONAL CORP /DE  
Form 10-Q  
November 01, 2012

**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, 2012  
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)

|   |   |
|---|---|
| <u>Delaware</u>   | 52-1375208                              |
| (State of Incorporation)                                  | (IRS Employer<br>Identification Number) |
| 1000 Sagamore Parkway South,<br><u>Lafayette, Indiana</u> | 47905                                   |
| (Address of Principal<br>Executive Offices)               | (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 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 26, 2012 was 68,430,508.

**WABASH NATIONAL CORPORATION**

**INDEX**

**FORM 10-Q**

|   | <b>Page</b> |
|---|-------------|
| <b>PART I – FINANCIAL INFORMATION</b>   |             |
| Item 1. Financial Statements  |             |
| Condensed Consolidated Balance Sheets at September 30, 2012 and December 31, 2011   | 3           |
| Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011 | 4           |
| Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011                     | 5           |
| Notes to Condensed Consolidated Financial Statements  | 6           |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations                             | 23          |
| Item 3. Quantitative and Qualitative Disclosures about Market Risks   | 42          |
| Item 4. Controls and Procedures   | 42          |
| <b>PART II – OTHER INFORMATION</b>  |             |
| Item 1. Legal Proceedings   | 43          |
| Item 1A. Risk Factors   | 43          |
| Item 6. Exhibits  | 49          |
| Signature   | 49          |

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

(Dollars in thousands)

|  | September 30,<br>2012<br>(Unaudited) | December 31,<br>2011 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>                                |                                      |                      |
| <b>CURRENT ASSETS</b>                        |                                      |                      |
| Cash   | \$ 39,307                            | \$ 19,976            |
| Accounts receivable                          | 98,726                               | 52,219               |
| Inventories                                  | 231,875                              | 189,533              |
| Deferred income taxes                        | 42                                   | -                    |
| Prepaid expenses and other                   | 6,305                                | 2,317                |
| Total current assets                         | \$ 376,255                           | \$ 264,045           |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>         | 129,387                              | 96,591               |
| <b>GOODWILL</b>                              | 149,940                              | -                    |
| <b>INTANGIBLE ASSETS</b>                     | 175,411                              | 19,821               |
| <b>OTHER ASSETS</b>                          | 12,054                               | 7,593                |
|  | \$ 843,047                           | \$ 388,050           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                      |                      |
| <b>CURRENT LIABILITIES</b>                   |                                      |                      |
| Current portion of long-term debt            | \$ 3,000                             | \$ -                 |
| Current portion of capital lease obligations | 1,017                                | 1,507                |
| Accounts payable                             | 141,896                              | 107,985              |
| Other accrued liabilities                    | 78,023                               | 59,024               |
| Total current liabilities                    | \$ 223,936                           | \$ 168,516           |
| <b>LONG-TERM DEBT</b>                        | 414,373                              | 65,000               |
| <b>CAPITAL LEASE OBLIGATIONS</b>             | 3,454                                | 3,314                |
| <b>OTHER NONCURRENT LIABILITIES</b>          | 3,928                                | 4,874                |
| <b>DEFERRED INCOME TAXES</b>                 | 1,666                                | -                    |
| <b>COMMITMENTS AND CONTINGENCIES</b>         |                                      |                      |
| <b>STOCKHOLDERS' EQUITY</b>                  |                                      |                      |

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|  |            |            |
|--|------------|------------|
| Common stock 200,000,000 shares authorized, \$0.01 par value, 68,375,258 and 68,165,668 shares outstanding, respectively | 702        | 704        |
| Additional paid-in capital   | 625,632    | 601,482    |
| Accumulated deficit  | (403,841 ) | (429,288 ) |
| Accumulated other comprehensive income   | 313        | -          |
| Treasury stock at cost, 1,870,205 and 1,815,671 common shares, respectively  | (27,116 )  | (26,552 )  |
| Total stockholders' equity   | \$ 195,690 | \$ 146,346 |
|  | \$ 843,047 | \$ 388,050 |

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

**WABASH NATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE INCOME**

(Dollars in thousands, except per share amounts)

(Unaudited)

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2012                                | 2011      | 2012                               | 2011      |
| NET SALES                               | \$405,917                           | \$336,433 | \$1,046,007                        | \$845,512 |
| COST OF SALES                           | 355,843                             | 323,113   | 936,523                            | 799,451   |
| Gross profit                            | \$50,074                            | \$13,320  | \$109,484                          | \$46,061  |
| GENERAL AND ADMINISTRATIVE EXPENSES     | 12,548                              | 7,157     | 30,870                             | 23,150    |
| SELLING EXPENSES                        | 7,134                               | 3,155     | 16,112                             | 9,300     |
| AMORTIZATION OF INTANGIBLES             | 2,984                               | 738       | 7,175                              | 2,215     |
| ACQUISITION EXPENSES                    | 172                                 | -         | 14,074                             | -         |
| Income from operations                  | \$27,236                            | \$2,270   | \$41,253                           | \$11,396  |
| OTHER INCOME (EXPENSE):                 |                                     |           |                                    |           |
| Interest expense                        | (7,760 )                            | (1,108 )  | (13,934 )                          | (3,181 )  |
| Loss on debt extinguishment             | -                                   | -         | -                                  | (668 )    |
| Other, net                              | 211                                 | 24        | 151                                | 191       |
| Income before income taxes              | \$19,687                            | \$1,186   | \$27,470                           | \$7,738   |
| INCOME TAX EXPENSE                      | 1,246                               | 94        | 2,023                              | 147       |
| Net income                              | \$18,441                            | \$1,092   | \$25,447                           | \$7,591   |
| BASIC AND DILUTED NET INCOME PER SHARE  | \$0.27                              | \$0.02    | \$0.37                             | \$0.11    |
| COMPREHENSIVE INCOME                    |                                     |           |                                    |           |
| Net income                              | \$18,441                            | \$1,092   | \$25,447                           | \$7,591   |
| Foreign currency translation adjustment | 207                                 | -         | 313                                | -         |

|                          |          |         |          |         |
|--------------------------|----------|---------|----------|---------|
| NET COMPREHENSIVE INCOME | \$18,648 | \$1,092 | \$25,760 | \$7,591 |
|--------------------------|----------|---------|----------|---------|

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<br>30, |             |
|--|------------------------------------|-------------|
|  | 2012                               | 2011        |
| Cash flows from operating activities   |                                    |             |
| Net income   | \$ 25,447                          | \$ 7,591    |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities |                                    |             |
| Depreciation   | 10,660                             | 9,539       |
| Amortization of intangibles  | 7,175                              | 2,215       |
| Loss on debt extinguishment  | -                                  | 668         |
| Deferred taxes   | 1,666                              | -           |
| Stock-based compensation   | 3,611                              | 1,947       |
| Accretion of debt discount   | 1,865                              | -           |
| Changes in operating assets and liabilities  |                                    |             |
| Accounts receivable  | (551                               | ) (8,039    |
| Inventories  | (1,097                             | ) (89,136   |
| Prepaid expenses and other   | 170                                | 1,493       |
| Accounts payable and accrued liabilities   | (20,558                            | ) 51,273    |
| Other, net   | (855                               | ) 86        |
| Net cash provided by (used in) operating activities  | \$ 27,533                          | \$ (22,363  |
|  |                                    | )           |
| Cash flows from investing activities   |                                    |             |
| Capital expenditures   | (9,013                             | ) (3,406    |
| Acquisition, net of cash acquired  | (364,012                           | ) -         |
| Net cash used in investing activities  | \$ (373,025                        | ) \$ (3,406 |
|  |                                    | )           |
| Cash flows from financing activities   |                                    |             |
| Proceeds from exercise of stock options  | 340                                | 466         |
| Borrowings under revolving credit facilities   | 205,786                            | 731,546     |
| Payments under revolving credit facilities   | (270,786                           | ) (676,546  |
| Principal payments under capital lease obligations   | (1,388                             | ) (476      |
| 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   | (1,500                             | ) -         |
| Debt issuance costs paid   | (5,065                             | ) (1,923    |
| Stock repurchase   | (564                               | ) (505      |
| Net cash provided by financing activities  | \$ 364,823                         | \$ 52,562   |



|                             |           |           |
|-----------------------------|-----------|-----------|
| Net increase in cash        | \$ 19,331 | \$ 26,793 |
| Cash at beginning of period | 19,976    | 21,200    |
| Cash at end of period       | \$ 39,307 | \$ 47,993 |

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 2011 Annual Report on Form 10-K. Certain reclassifications have been made to prior periods to conform to the current year presentation. These reclassifications had no effect on net income for the period previously reported.

#### **2. ACQUISITION OF 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 \$375.0 million in cash, subject to post-closing purchase price adjustments related to the acquired working capital.

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 has become part of the Company’s Diversified Products segment. Walker has manufacturing facilities for its liquid-transportation products in New Lisbon, Wisconsin; Fond du Lac, Wisconsin; Kansas City, Missouri; 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 Company incurred various costs related to the Walker Acquisition 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 totaling \$0.2 million and \$14.1 million for the three and nine month periods ending September 30, 2012, respectively. These costs have been recorded as *Acquisition Expenses* in the Condensed Consolidated Statements of Comprehensive Income.

The aggregate purchase price of \$375.0 million was allocated to the opening balance sheet of Walker at May 8, 2012, the date of acquisition, which is still preliminary and subject to adjustment as, follows (in thousands):

|                                   |             |
|-----------------------------------|-------------|
| Cash                              | \$10,982    |
| Current assets                    | 91,359      |
| Property, plant and equipment     | 32,541      |
| Intangibles                       | 162,800     |
| Deferred income taxes             | 42          |
| Goodwill                          | 149,942     |
| Total assets                      | \$447,666   |
| Current liabilities               | \$(72,672 ) |
| Total liabilities                 | \$(72,672 ) |
|                                   | \$374,994   |
| Acquisition, net of cash acquired | \$364,012   |

Intangible assets of \$162.8 million were recorded as a result of the acquisition. The intangible assets preliminarily 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 |                  |

Amortization expense, including the intangible assets preliminarily recorded from the Walker Acquisition, is estimated to be \$11.5 million, \$20.8 million, \$20.9 million, \$20.3 million and \$19.1 million for the years 2012 through 2016, respectively. As of September 30, 2012, the weighted average amortization period for the Company's intangible assets was approximately 12 years.

Goodwill of \$149.9 million was preliminarily recorded as a result of the Walker Acquisition. 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.

#### *Unaudited Pro forma Results*

The results of Walker are included in the Consolidated Statements of Comprehensive Income from the date of acquisition, including \$140.8 million and \$16.7 million of revenue and net income, respectively, for the nine months ended September 30, 2012. 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):

7

|  | Three Months Ended<br>September 30,<br>2011 | Nine Months Ended<br>September 30,<br>2012 | 2011         |
|--|---|--|--------------|
| Sales                                  | \$ 424,539                                  | \$ 1,182,073                               | \$ 1,101,402 |
| Operating income                       | \$ 9,985                                    | \$ 70,537                                  | \$ 33,028    |
| Net income                             | \$ 1,467                                    | \$ 44,641                                  | \$ 7,353     |
| Basic and diluted net income per share | \$ 0.02                                     | \$ 0.65                                    | \$ 0.11      |

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 the beginning of the respective periods, nor is it necessarily indicative of future operating results of the combined companies under the ownership and management of the Company.

### 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,<br>2012 | December 31,<br>2011 |
|------------------------------|-----------------------|----------------------|
| Raw materials and components | \$ 70,846             | \$ 54,000            |
| Work in progress             | 30,535                | 2,332                |
| Finished goods               | 103,212               | 115,095              |
| Aftermarket parts            | 10,388                | 5,762                |
| Used trailers                | 16,894                | 12,344               |
|                              | \$ 231,875            | \$ 189,533           |

### 4. DEBT

#### *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 as the Notes are not considered currently redeemable at the balance sheet date.

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 ending September 30, 2012, 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, 2012 |
|--|--------------------|
| Principal amount of convertible notes outstanding                    | \$ 150,000         |
| Unamortized discount of liability component                          | (23,970 )          |
| Net carrying amount of liability component                           | 126,030            |
| Less: current portion  | -                  |
| Long-term debt   | \$ 126,030         |
| Carrying value of equity component, net of issuance costs            | \$ 20,993          |
| Remaining amortization period of discount on the liability component | 5.6 years          |



Contractual coupon interest expense and accretion of discount on the liability component for the Note for the three and nine month periods ending September 30, 2012 were as follow (in thousands):

|  | Three Months Ended<br>September 30, 2012 | Nine Months Ended<br>September 30, 2012 |
|--|--|---|
| Contractual coupon interest expense              | \$ 1,266                                 | \$ 2,222                                |
| Accretion of discount on the liability component | \$ 873                                   | \$ 1,523                                |

### *Revolving Credit Facility*

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 will be 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 (subject to shorter testing periods until May 1, 2013) 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, 2012, the Company had no outstanding borrowings under the Amended and Restated Revolving Credit Agreement and was in compliance with all covenants.



*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 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%. For the three and nine month periods ending September 30, 2012, the Company has paid \$4.7 million and \$6.2 million of interest, respectively, and \$0.8 million and \$1.5 million of principal, respectively. As of September 30, 2012, the Company had \$298.5 million outstanding under the Term Loan Credit agreement, of which \$3.0 million was classified as current on the Company's Condensed Consolidated Balance Sheet. In connection with the closing of the Term Loan Credit Agreement, the Company paid \$7.5 million in original issuance discount fees which will be amortized over the life of the facility using the effective interest rate method. For the three and nine month periods ending September 30, 2012, the Company charged \$0.2 million and \$0.3 million, respectively, of amortization for original issuance discount fees as *Interest Expense* in the Condensed Consolidated Statements of Comprehensive Income.

The Term Loan 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, pay off subordinated indebtedness, make investments and dispose of assets. In addition, the Company will be 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.

As of September 30, 2012, the Company's interest coverage and senior secured leverage ratios were 9.7:1.0 and 1.9:1.0, respectively, and in compliance with all covenants under the Term Loan Credit Agreement.

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.

## 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. In order 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, \$2.7 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 Walker Acquisition.

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

#### *Estimated Fair Value of Debt*

The estimated fair value of long-term debt at September 30, 2012 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. 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, 2012 and December 31, 2011 were as follows:

| Instrument                 | September 30, 2012 |            |           | December 31, 2011 |            |         |          |         |
|----------------------------|--------------------|------------|-----------|-------------------|------------|---------|----------|---------|
|                            | Carrying           | Fair Value |           | Carrying          | Fair Value |         |          |         |
|                            | Value              | Level 1    | Level 2   | Level 3           | Value      | Level 1 | Level 2  | Level 3 |
| Convertible senior notes   | \$126,030          | \$-        | \$150,000 | \$-               | \$-        | \$-     | \$-      | \$-     |
| Term loan credit agreement | 291,342            | -          | 301,485   | -                 | -          | -       | -        | -       |
| Revolver                   | -                  | -          | -         | -                 | 65,000     | -       | 65,000   | -       |
| Capital lease obligations  | 4,471              | -          | -         | 4,471             | 4,821      | -       | -        | 4,821   |
|                            | \$421,843          | \$-        | \$451,485 | \$4,471           | \$69,821   | \$-     | \$65,000 | \$4,821 |

## 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, stock appreciation rights and performance units not yet recognized was \$8.5 million at September 30, 2012, for which the expense will be recognized through 2015.

## 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, 2012, 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 \$13.1 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 \$54 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, which renders the judgment unenforceable at this time. Upon receipt of a clarified judgment from the Fourth Civil Court of Curitiba, Wabash also plans to appeal the judgment to the State of Paraná Court of Appeals. 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 third quarter 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, 2012. 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 the receipt of a clarified judgment and 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 is complete and the Patent Office has 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.

### *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. 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. 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 CERCLA. PRPs include current and former owners and operators of facilities at which hazardous substances were allegedly disposed. 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 2012, 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 it 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 |          | Nine Months Ended |          |
|---|--------------------|----------|-------------------|----------|
|   | September 30,      |          | September 30,     |          |
|   | 2012               | 2011     | 2012              | 2011     |
| Basic net income per share:   |                    |          |                   |          |
| Net income applicable to common stockholders  | \$ 18,441          | \$ 1,092 | \$ 25,447         | \$ 7,591 |
| Undistributed earnings allocated to participating securities  | (166 )             | (7 )     | (218 )            | (44 )    |
| Net income applicable to common stockholders excluding amounts applicable to participating securities | \$ 18,275          | \$ 1,085 | \$ 25,229         | \$ 7,547 |
| Weighted average common shares outstanding  | 68,357             | 68,117   | 68,308            | 68,071   |
| Basic net income per share  | \$ 0.27            | \$ 0.02  | \$ 0.37           | \$ 0.11  |
| Diluted net income per share:   |                    |          |                   |          |
| Net income applicable to common stockholders  | \$ 18,441          | \$ 1,092 | \$ 25,447         | \$ 7,591 |
| Undistributed earnings allocated to participating securities  | (166 )             | (7 )     | (218 )            | (44 )    |
| Net income applicable to common stockholders excluding amounts applicable to participating securities | \$ 18,275          | \$ 1,085 | \$ 25,229         | \$ 7,547 |
| Weighted average common shares outstanding  | 68,357             | 68,117   | 68,308            | 68,071   |
| Dilutive stock options and restricted stock   | 159                | 341      | 234               | 399      |
| Diluted weighted average common shares outstanding  | 68,516             | 68,458   | 68,542            | 68,470   |
| Diluted net income per share  | \$ 0.27            | \$ 0.02  | \$ 0.37           | \$ 0.11  |

Average diluted shares outstanding for the three and nine month periods ending September 30, 2012 and 2011 exclude options to purchase common shares totaling 1,808 and 1,747, respectively, and 1,648 and 1,251, 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 ending September 30, 2012. 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

After considering available evidence, both positive and negative, management determined that it was necessary to continue to record a full valuation allowance against its net deferred tax assets as of September 30, 2012.

As detailed in Note 2, the acquisition of Walker, on May 8, 2012, created goodwill in the amount of \$149.9 million that is not amortized for book purposes. However, for tax purposes the value of this goodwill will be fully deductible over 15 years. This book to tax difference will create a deferred tax liability which, according to ASC 740, cannot be netted against other deferred tax assets and liabilities with specific identifiable lives and offset by the valuation allowance. As a result, a deferred tax expense of \$1.0 million and \$1.7 million was recognized for the three and nine month periods ending September 30, 2012, respectively.

**10. OTHER ACCRUED LIABILITIES**

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

|                                    | September 30,<br>2012 | December 31,<br>2011 |
|------------------------------------|-----------------------|----------------------|
| Warranty                           | \$ 15,795             | \$ 11,437            |
| Employee compensation and benefits | 28,768                | 19,627               |
| Accrued taxes                      | 5,723                 | 6,239                |
| Customer deposits                  | 16,009                | 16,282               |
| All other                          | 11,728                | 5,439                |
|                                    | \$ 78,023             | \$ 59,024            |

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

|   | 2012     | 2011     |
|---|----------|----------|
| Balance as of January 1                         | \$11,437 | \$11,936 |
| Provision for warranties issued in current year | 3,579    | 2,577    |
| Walker acquisition                              | 3,887    | -        |
| Payments  | (3,108 ) | (1,653 ) |
| Balance as of September 30                      | \$15,795 | \$12,860 |

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***

Through the third quarter of 2011, the Company segregated its operations into two reportable segments: Manufacturing and Retail and Distribution. In the fourth quarter of 2011, resulting from the execution of Company's strategic initiative to expand its customer base, diversify its product offerings and revenues and extend its market leadership, it began reporting three segments: Commercial Trailer Products, Diversified Products and Retail. The

Commercial Trailer Products segment produces and sells new trailers to the Retail segment or 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 trailers and transportation equipment. The results of Walker from the date of the Walker Acquisition, or May 8, 2012, are included as part of 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 manages its business in multiple operating segments. Because of the similar economic characteristics of these operations, including the nature of the products, the same or similar customers and similar production and distribution processes, those operations have been aggregated for segment reporting purposes. The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that the Company evaluates segment performance based on income from operations. 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. Reportable segment information is as follows (in thousands):

|   | Commercial<br>Trailer Products | Diversified<br>Products | Retail     | Corporate and<br>Eliminations | Consolidated   |
|---|--------------------------------|-------------------------|------------|-------------------------------|----------------|
| <u>Three Months Ended September 30, 2012</u>    |                                |                         |            |                               |                |
| Net sales                                       |                                |                         |            |                               |                |
| External customers                              | \$ 259,742                     | \$ 106,151              | \$ 40,024  | \$ -                          | \$ 405,917     |
| Intersegment sales                              | 21,389                         | 9,664                   | -          | (31,053)                      | ) -            |
| Total net sales                                 | \$ 281,131                     | \$ 115,815              | \$ 40,024  | \$ (31,053)                   | ) \$ 405,917   |
| Income (Loss) from operations                   | \$ 14,634                      | \$ 15,560               | \$ 707     | \$ (3,665)                    | ) \$ 27,236    |
| Assets  | \$ 625,129                     | \$ 498,580              | \$ 144,763 | \$ (425,425)                  | ) \$ 843,047   |
| <u>Three Months Ended September 30, 2011</u>    |                                |                         |            |                               |                |
| Net sales                                       |                                |                         |            |                               |                |
| External customers                              | \$ 296,856                     | \$ 10,191               | \$ 29,386  | \$ -                          | \$ 336,433     |
| Intersegment sales                              | 13,934                         | 16,727                  | -          | (30,661)                      | ) -            |
| Total net sales                                 | \$ 310,790                     | \$ 26,918               | \$ 29,386  | \$ (30,661)                   | ) \$ 336,433   |
| Income (Loss) from operations                   | \$ 2,154                       | \$ 2,394                | \$ 179     | \$ (2,457)                    | ) \$ 2,270     |
| Assets  | \$ 276,943                     | \$ 43,180               | \$ 133,311 | \$ (34,929)                   | ) \$ 418,505   |
|   | Commercial<br>Trailer Products | Diversified<br>Products | Retail     | Corporate and<br>Eliminations | Consolidated   |
| <u>Nine Months Ended September 30,<br/>2012</u> |                                |                         |            |                               |                |
| Net sales                                       |                                |                         |            |                               |                |
| External customers                              | \$ 756,651                     | \$ 190,866              | \$ 98,490  | \$ -                          | \$ 1,046,007   |
| Intersegment sales                              | 48,589                         | 33,054                  | -          | (81,643)                      | ) -            |
| Total net sales                                 | \$ 805,240                     | \$ 223,920              | \$ 98,490  | \$ (81,643)                   | ) \$ 1,046,007 |
| Income (Loss) from operations                   | \$ 34,557                      | \$ 30,805               | \$ 1,084   | \$ (25,193)                   | ) \$ 41,253    |
| Assets  | \$ 625,129                     | \$ 498,580              | \$ 144,763 | \$ (425,425)                  | ) \$ 843,047   |
| <u>Nine Months Ended September 30,<br/>2011</u> |                                |                         |            |                               |                |
| Net sales                                       |                                |                         |            |                               |                |
| External customers                              | \$ 719,491                     | \$ 33,544               | \$ 92,477  | \$ -                          | \$ 845,512     |

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|                               |           |          |           |           |             |
|-------------------------------|-----------|----------|-----------|-----------|-------------|
| Intersegment sales            | 44,098    | 40,626   | -         | (84,724   | ) -         |
| Total net sales               | \$763,589 | \$74,170 | \$92,477  | \$(84,724 | ) \$845,512 |
| Income (Loss) from operations | \$11,038  | \$9,635  | \$48      | \$(9,325  | ) \$11,396  |
| Assets                        | \$276,943 | \$43,180 | \$133,311 | \$(34,929 | ) \$418,505 |

21

*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<br>Trailer Products | Diversified<br>Products | Retail | Consolidated |       |
|---------------------------------------|--------------------------------|-------------------------|--------|--------------|-------|
| Three Months Ended September 30, 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                            | 20,663                  | 12,172 | 33,480       | 8.2   |
| Equipment and other                   | 1,626                          | 32,935                  | 24     | 34,585       | 8.6   |
| Total net external sales              | 259,742                        | 106,151                 | 40,024 | 405,917      | 100.0 |

|                                       | Commercial<br>Trailer Products | Diversified<br>Products | Retail | Consolidated |       |
|---------------------------------------|--------------------------------|-------------------------|--------|--------------|-------|
| Three Months Ended September 30, 2011 | \$                             | \$                      | \$     | \$           | %     |
| New trailers                          | 289,765                        | -                       | 14,068 | 303,833      | 90.3  |
| Used trailers                         | 4,286                          | -                       | 3,980  | 8,266        | 2.5   |
| Components, parts and service         | 863                            | 7,480                   | 11,314 | 19,657       | 5.8   |
| Equipment and other                   | 1,942                          | 2,711                   | 24     | 4,677        | 1.4   |
| Total net external sales              | 296,856                        | 10,191                  | 29,386 | 336,433      | 100.0 |

|                                      | Commercial<br>Trailer Products | Diversified<br>Products | Retail | Consolidated |       |
|--------------------------------------|--------------------------------|-------------------------|--------|--------------|-------|
| Nine Months Ended September 30, 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                          | 59,034                  | 36,456 | 97,508       | 9.3   |
| Equipment and other                  | 7,347                          | 57,978                  | 71     | 65,396       | 6.3   |
| Total net external sales             | 756,651                        | 190,866                 | 98,490 | 1,046,007    | 100.0 |

|                                      | Commercial<br>Trailer Products | Diversified<br>Products | Retail | Consolidated |       |
|--------------------------------------|--------------------------------|-------------------------|--------|--------------|-------|
| Nine Months Ended September 30, 2011 | \$                             | \$                      | \$     | \$           | %     |
| New trailers                         | 703,444                        | -                       | 48,193 | 751,637      | 88.9  |
| Used trailers                        | 9,661                          | -                       | 9,693  | 19,354       | 2.3   |
| Components, parts and service        | 2,453                          | 29,931                  | 34,520 | 66,904       | 7.9   |
| Equipment and other                  | 3,933                          | 3,613                   | 71     | 7,617        | 0.9   |
| Total net external sales             | 719,491                        | 33,544                  | 92,477 | 845,512      | 100.0 |

## 12. NEW ACCOUNTING PRONOUNCEMENTS

In July 2012, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2012-02, *Intangibles (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment* (“ASU 2012-02”). ASU 2012-02 permits an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is more than its carrying amount. If based on its qualitative assessment an entity concludes it is more likely than not that the fair value of an indefinite-lived intangible asset exceeds its carrying amount, quantitative impairment testing is not required. However, if an entity concludes otherwise, quantitative impairment testing is required. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of ASU 2012-02 is not expected to have a material impact on the Company’s unaudited condensed consolidated financial statements.



In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS* (“ASU 2011-04”). ASU 2011-04 is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments are of two types: (i) those that clarify the FASB’s intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The adoption of ASU 2011-04 did not have a material impact on the Company’s unaudited condensed consolidated financial statements.

In June 2011, the FASB amended ASU 2011-05, *Comprehensive Income, Presentation of Comprehensive Income*, which will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders’ equity. The guidance in ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured, or when it must be reclassified to net income. The guidance in ASU 2011-05 is effective for fiscal years and interim periods within those years beginning after December 15, 2011, and should be applied retrospectively. The adoption of ASU 2011-05 did not have a material impact on the Company’s unaudited condensed consolidated financial statements.

In December 2011, The FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*. ASU 2011-12 defers the requirement that companies present reclassification adjustments for each component of AOCI in both net income and OCI on the face of the financial statements. The effective dates for ASU 2011-12 are consistent with the effective dates for ASU 2011-05 and, similar to the Company’s adoption of ASU 2011-05, the adoption of this guidance did not have a material impact 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,” “continue,” “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, our recently completed acquisition of Walker, the amount of transaction costs associated with the acquisition, our ability to manage the cost of the financing of the acquisition and related indebtedness and our ability to effectively integrate Walker and realize expected synergies and benefits from the Walker Acquisition;
- our expected revenues, income or loss and capital expenditures;

- 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;
- 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; and
- government regulation.

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, 2011 and elsewhere herein, including, but not limited to, Item 1A of Part II hereof. 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:

|                                     | Three Months Ended |         | Nine Months Ended |         |
|-------------------------------------|--------------------|---------|-------------------|---------|
|                                     | September 30,      |         | September 30,     |         |
|                                     | 2012               | 2011    | 2012              | 2011    |
| Net sales                           | 100.0 %            | 100.0 % | 100.0 %           | 100.0 % |
| Cost of sales                       | 87.7               | 96.0    | 89.5              | 94.6    |
| Gross profit                        | 12.3               | 4.0     | 10.5              | 5.4     |
| General and administrative expenses | 3.1                | 2.1     | 3.0               | 2.7     |
| Selling expenses                    | 1.8                | 1.0     | 1.6               | 1.1     |
| Amortization of intangibles         | 0.7                | 0.2     | 0.7               | 0.3     |
| Acquisition expenses                | -                  | -       | 1.3               | -       |
| Income from operations              | 6.7                | 0.7     | 3.9               | 1.3     |
| Interest expense                    | (1.9 )             | (0.3 )  | (1.3 )            | (0.4 )  |
| Loss on debt extinguishment         | -                  | -       | -                 | (0.1 )  |
| Other, net                          | 0.1                | -       | -                 | 0.1     |
| Income before income taxes          | 4.9                | 0.4     | 2.6               | 0.9     |
| Income tax expense                  | 0.4                | 0.1     | 0.2               | -       |
| Net income                          | 4.5 %              | 0.3 %   | 2.4 %             | 0.9 %   |

For the three and nine month periods ended September 30, 2012, we recorded net sales of \$405.9 million and \$1,046.0 million, respectively, compared to \$336.4 million and \$845.5 million in the prior year periods. Net sales for the three and nine month periods ending September 30, 2012 increased due to the acquisition of Walker, completed on May 8, 2012, which generated net sales of \$96.5 million for the third quarter and \$140.8 million from the date of acquisition through the end of the third quarter. Compared to the prior year periods new trailer volumes decreased by approximately 1,400 units or 10.3% and increased by 600 units or 1.8% for the three and nine month periods ending September 30, 2012, respectively. Sales of our Diversified Products segment increased for the three and nine month periods by \$96.0 million and \$157.4 million, or 941% and 470%, respectively, due to the inclusion of Walker operations. Gross profit margin was 12.3% in the third quarter of 2012 compared to 4.0% in the prior year period. The increase in gross profit margin is primarily due to improved pricing on new trailers and the diversification into higher margin opportunities through the acquisition of Walker. We continue to be encouraged by the overall trailer market throughout the first nine months of 2012, and our expectation is that overall industry shipment and production levels will remain above replacement demand for both the remainder of 2012 and 2013 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 acquisition of Walker, and continue to expand our Diversified Products customer base and product offerings.



Selling, general and administrative expenses increased in the third quarter of 2012 as compared to the same period in 2011 due primarily to the acquisition of Walker as well as higher salaries and other employee related costs due to the full reinstatement of compensation levels that were reduced in previous years to adjust our cost structure to match market demand and conditions. As a percentage of net sales, selling, general and administrative expenses increased to 4.9% as compared to 3.1% 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, 2012**

#### Net Sales

Net sales in the third quarter of 2012 increased \$69.5 million, or 20.7%, compared to the third quarter of 2011. By business segment, net external sales and related units sold were as follows (dollars in millions):

|                             | Three Months Ended September 30, |         |          |        |
|-----------------------------|----------------------------------|---------|----------|--------|
|                             | 2012                             | 2011    | Change   |        |
|                             |                                  |         | \$       | %      |
| Sales by Segment            |                                  |         |          |        |
| Commercial Trailer Products | \$259.7                          | \$296.8 | \$(37.1) | (12.5) |
| Diversified Products        | 106.2                            | 10.2    | 96.0     | 941.2  |
| Retail                      | 40.0                             | 29.4    | 10.6     | 36.1   |
| Total                       | \$405.9                          | \$336.4 | \$69.5   | 20.7   |
| New Trailers (units)        |                                  |         |          |        |
| Commercial Trailer Products | 10,500                           | 13,000  | (2,500)  | (19.2) |
| Diversified Products        | 800                              | -       | 800      | -      |
| Retail                      | 900                              | 600     | 300      | 50.0   |
| Total                       | 12,200                           | 13,600  | (1,400)  | (10.3) |
| Used Trailers (units)       |                                  |         |          |        |
| Commercial Trailer Products | 1,000                            | 600     | 400      | 66.7   |
| Retail                      | 400                              | 500     | (100)    | (20.0) |

|       |       |       |     |      |
|-------|-------|-------|-----|------|
| Total | 1,400 | 1,100 | 300 | 27.3 |
|-------|-------|-------|-----|------|

Commercial Trailer Products segment sales were \$259.7 million for the third quarter of 2012, down \$37.1 million, or 12.5%, compared to the third quarter of 2011. The decrease in sales is due primarily to a 19.2% decrease in new trailer shipments as approximately 10,500 trailers shipped in the third quarter of 2012 compared to 13,000 trailers shipped in the prior year period. Average selling prices increased by 7.4% in the third quarter of 2012, compared to the prior year period, due to increased pricing necessary to offset higher raw material costs as well as favorable customer and product mix. Used trailer sales increased \$3.4 million, or 78.3%, compared to the previous year period as a result of a 66.7% increase in shipments due to increased demand and availability of used trailers.

Diversified Products segment sales, net of intersegment sales, were \$106.2 million for the third quarter of 2012, up \$96.0 million, or 941.2%, compared to the same period in 2011. The increase in sales is due to the acquisition of Walker, which contributed \$96.5 million in the current year period. Excluding Walker, Diversified Products segment sales for the current quarter was \$9.7 million, a decrease of \$0.5 million, or 4.9%, as compared to the previous year period.

Retail segment sales were \$40.0 million in the third quarter of 2012, up \$10.6 million, or 36.1%, compared to the prior year period. The increase in sales is primarily due to a \$9.9 million, or 70.1%, increase in new trailer sales as trailers shipped during the current quarter increased approximately 300 units as compared to the prior year period. Used trailer sales remained relatively unchanged compared to the prior year period as decreased shipments during the current year period were offset by an increase in average selling prices due to mix as compared to the prior year period.

#### Cost of Sales

Cost of sales for the third quarter of 2012 was \$355.8 million, an increase of \$32.7 million, or 10.1%, compared to the third quarter of 2011. As a percentage of net sales, cost of sales was 87.7% in the third quarter of 2012 compared to 96.0% in the third quarter of 2011.

Commercial Trailer Products segment cost of sales, as detailed in the following table, was \$239.4 million for the third quarter of 2012, a decrease of \$50.2 million, or 17.3%, compared to the third quarter of 2011. As a percentage of net sales, cost of sales was 92.2% for the current quarter compared to 97.6% in the prior year period.

| Commercial Trailer Products Segment | Three Months Ended September 30, |                |      |          |                |   |
|-------------------------------------|----------------------------------|----------------|------|----------|----------------|---|
|                                     | 2012                             |                | 2011 |          |                |   |
|                                     | (dollars in millions)            |                |      |          |                |   |
|                                     |                                  | % of Net Sales |      |          | % of Net Sales |   |
| Material Costs                      | \$ 193.3                         | 74.4           | %    | \$ 239.8 | 80.8           | % |
| Other Manufacturing Costs           | 46.1                             | 17.8           | %    | 49.8     | 16.8           | % |
|                                     | \$ 239.4                         | 92.2           | %    | \$ 289.6 | 97.6           | % |

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 74.4% of net sales in the third quarter of 2012 compared to 80.8% for the same period in 2011. The 6.4% decrease resulted from increases in the overall average selling prices for new trailers necessary to offset increased raw material, commodity and component costs. Other manufacturing costs decreased \$3.7 million in the current year period, as compared to the prior year period, resulting from decreases in new trailer production volumes as compared



to the prior year. As a percentage of sales, other manufacturing costs increased from 16.8% in the third quarter of 2011 to 17.8% in the 2012 period.

Diversified Products segment cost of sales was \$80.2 million in the third quarter of 2012, an increase of \$73.3 million, or 1,059.3%, compared to the same 2011 period due primarily to the acquisition of Walker in the current year. As a percentage of net sales prior to the elimination of intersegment sales, cost of sales was 77.6% in the third quarter of 2012 compared to 87.8% in the third quarter of 2011. The 10.2% decrease as a percentage of net sales was primarily the result of the inclusion of Walker during the current year period and an increased percentage of net sales from higher-margined product lines as compared to the previous year period.

Retail segment cost of sales was \$36.5 million in the third quarter of 2012, an increase of \$9.9 million, or 36.9%, compared to the same 2011 period. As a percentage of net sales, cost of sales was 91.3% in the third quarter of 2012, compared to 90.8% in the third quarter of 2011. This increase as a percentage of net sales was primarily the result of increased new trailer sales, which carry a lower gross margin than our parts and service product line.

## Gross Profit

Gross profit was \$50.1 million in the third quarter of 2012, an improvement of \$36.8 million from the prior year period. Gross profit as a percent of sales was 12.3% for the current quarter, compared to 4.0% for the same period in 2011. Gross profit by segment was as follows (in millions):

|                             | Three Months Ended September 30, |         |              |       |
|-----------------------------|----------------------------------|---------|--------------|-------|
|                             | 2012                             | 2011    | Change<br>\$ | %     |
| Gross Profit by Segment:    |                                  |         |              |       |
| Commercial Trailer Products | \$ 20.3                          | \$ 7.2  | \$ 13.1      | 181.9 |
| Diversified Products        | 26.0                             | 3.3     | 22.7         | 687.9 |
| Retail                      | 3.5                              | 2.7     | 0.8          | 29.6  |
| Corporate and Eliminations  | 0.3                              | 0.1     | 0.2          | 200.0 |
| Total                       | \$ 50.1                          | \$ 13.3 | \$ 36.8      | 276.7 |

Commercial Trailer Products segment gross profit was \$20.3 million for the third quarter of 2012 compared to \$7.2 million for the third quarter of 2011. Gross profit as a percentage of sales was 7.8% in the third quarter of 2012 as compared to 2.4% in the 2011 period. The increase in gross profit as a percentage of net sales was primarily driven by improved pricing necessary to offset increases in material costs.

Diversified Products segment gross profit was \$26.0 million for the third quarter of 2012 compared to \$3.3 million in the third quarter of 2011 primarily due to the acquisition of Walker. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales was 22.4% in the third quarter of 2012 compared to 12.2% in the third quarter of 2011. The 10.2% increase as a percentage of net sales was largely the result of the inclusion of Walker during the current year period as well as improved margins from our wood floor operations due to productivity improvements during the current year period as compared to the previous year period.

Retail segment gross profit was \$3.5 million for the third quarter of 2012, an increase of \$0.8 million compared to the same period in 2011. Gross profit as a percentage of sales for the third quarter of 2012 was 8.7% compared to 9.2%

for the prior year period. The decrease in gross profit margin, compared to the prior year period, is primarily due to an increase in new trailer sales, which carry a lower gross margin than our parts and service product line.

### **General and Administrative Expenses**

General and administrative expenses of \$12.5 million for the third quarter of 2012 increased \$5.4 million, or 75.3%, from the prior year period. The increase was largely due to the inclusion of Walker which added \$3.6 million during the current year period. In addition, salaries and other employee related costs, excluding Walker, increased \$1.5 million in the current year period due to the full reinstatement of compensation and benefit levels that were reduced in previous years to adjust our cost structure to match market demand as well as the mark-to-market of certain stock based compensation awards. As a percentage of sales, general and administrative expenses increased to 3.1% for the current quarter as compared to 2.1% for the third quarter of 2011.

### **Selling Expenses**

Selling expenses were \$7.1 million in the third quarter of 2012, an increase of \$4.0 million, or 126.1%, compared to the prior year period primarily due to the inclusion of Walker which added \$3.5 million during the current year period. Additionally, salaries and other employee related costs, excluding Walker, increased \$0.5 million in the current year period due to the full reinstatement of compensation and benefit levels that were reduced in previous years to adjust our cost structure to match market demand as well as the mark-to-market of certain stock based compensation awards. As a percentage of net sales, selling expenses were 1.8% for the third quarter of 2012 compared to 0.9% for the prior year period.

### **Amortization of Intangibles**

Amortization of intangibles was \$3.0 million for the third quarter of 2012, an increase of \$2.2 million, or 304.3%, compared to the prior year period due to amortization expense recognized for intangible assets recorded from the Walker Acquisition.

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

*Interest expense* for the third quarter of 2012 totaled \$7.8 million, an increase of \$6.7 million primarily due to interest and non-cash accretion charges of \$1.1 million related to our Convertible Senior Notes and Term Loan Credit Agreement entered into in connection with the Walker Acquisition.

### **Income Taxes**

After considering available evidence, both positive and negative, we have recorded a full valuation allowance against our net deferred tax assets as of September 30, 2012. Please refer to our “Critical Accounting Policies and Estimates” section below for additional information our position with respect to the expected timing to release all or a portion of our full valuation allowances.

The acquisition of Walker on May 8, 2012, preliminarily created goodwill in the amount of \$149.9 million which will have an indefinite life for book purposes. However, for tax purposes the value of this goodwill will be fully deductible over 15 years. This book to tax difference will create a deferred tax liability which, according to ASC 740, cannot be

netted against other deferred tax assets and liabilities with specific identifiable lives and offset by the valuation allowance. As a result, a deferred tax liability and deferred tax expense of \$1.0 million was recognized for the three month period ending September 30, 2012.

Nine Months Ended September 30, 2012

Net Sales

Net sales for the first nine months of 2012 were \$1.0 billion, an increase of \$200.5 million, or 23.7%, compared to the 2011 period. By business segment, net external sales and related units sold were as follows (dollars in millions):

|                             | Nine Months Ended September 30, |         |         |        |
|-----------------------------|---------------------------------|---------|---------|--------|
|                             | 2012                            | 2011    | Change  |        |
|                             |                                 |         | \$      | %      |
| <b>Sales by Segment</b>     |                                 |         |         |        |
| Commercial Trailer Products | \$756.6                         | \$719.5 | \$37.1  | 5.2    |
| Diversified Products        | 190.9                           | 33.5    | 157.4   | 469.9  |
| Retail                      | 98.5                            | 92.5    | 6.0     | 6.5    |
| Total                       | \$1,046.0                       | \$845.5 | \$200.5 | 23.7   |
| <b>New Trailers</b>         |                                 |         |         |        |
|                             | (units)                         |         |         |        |
| Commercial Trailer Products | 31,400                          | 31,900  | (500 )  | (1.6 ) |
| Diversified Products        | 1,200                           | -       | 1,200   | -      |
| Retail                      | 1,900                           | 2,000   | (100 )  | (5.0 ) |
| Total                       | 34,500                          | 33,900  | 600     | 1.8    |
| <b>Used Trailers</b>        |                                 |         |         |        |
|                             | (units)                         |         |         |        |
| Commercial Trailer Products | 2,300                           | 1,400   | 900     | 64.3   |
| Diversified Products        | 100                             | -       | 100     | -      |
| Retail                      | 1,200                           | 1,200   | -       | -      |
| Total                       | 3,600                           | 2,600   | 1,000   | 38.5   |

Commercial Trailer Products segment sales were \$756.6 million for the first nine months of 2012, up \$37.1 million, or 5.2%, compared to the first nine months of 2011. The increase in sales is primarily due to a 5.6% increase in average selling prices for the first nine months of 2012 compared to the prior year period due to increased pricing necessary to offset higher raw material costs as well as favorable customer and product mix. Used trailer sales increased \$7.0 million, or 72.0%, compared to the previous year period resulting primarily from a 64.3% increase in shipments due to increased market demand.

Diversified Products segment sales, net of intersegment sales, were \$190.9 million for the first nine months of 2012, up \$157.4 million, or 469.9%, compared to the same period in 2011. The increase in sales is primarily due to the inclusion of Walker, which added net sales of \$140.8 million since the date of acquisition, as well as increased demand across all our Wabash Composites and Energy and Environmental Solutions product offerings and new business opportunities identified as 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 \$98.5 million in the first nine months of 2012, up \$6.0 million, or 6.5%, compared to the prior year period. New trailer sales increased \$2.1 million, or 4.4%, as favorable customer and product mix, resulting in a 10.3% increase in average selling prices, more than offset the approximate 100 unit decline in shipments during the current year period as compared to the prior year period. Used trailer sales increased \$1.9 million, or 20.0%, due to increases in average selling price. Parts and service sales were up \$1.9 million, or 5.6%, due to increased market demand.

Cost of Sales

Cost of sales for the first nine months of 2012 was \$936.5 million, an increase of \$137.1 million, or 17.1%, compared to the 2011 period. As a percentage of net sales, cost of sales was 89.5% for the first nine months of 2012 compared to 94.6% for the 2011 period.

Commercial Trailer Products segment cost of sales, as detailed in the following table, was \$705.7 million for the first nine months of 2012, an increase of \$12.5 million, or 1.8%, compared to the first nine months of 2011. As a percentage of net sales, cost of sales was 93.3% for the first nine months compared to 96.3% in the prior year period.

| Commercial Trailer Products Segment | Nine Months Ended September 30, |        |         |        |
|-------------------------------------|---------------------------------|--------|---------|--------|
|                                     | 2012                            | 2011   |         |        |
|                                     | (dollars in millions)           |        |         |        |
|                                     |                                 | % of   |         | % of   |
|                                     |                                 | Net    |         | Net    |
|                                     |                                 | Sales  |         | Sales  |
| Material Costs                      | \$565.8                         | 74.8 % | \$561.6 | 78.1 % |
| Other Manufacturing Costs           | 139.9                           | 18.5 % | 131.6   | 18.2 % |
|                                     | \$705.7                         | 93.3 % | \$693.2 | 96.3 % |

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 74.8% of net sales in the first nine months of 2012 compared to 78.1% for the prior year period. The 3.3% decrease was the result of increases in average selling prices for new trailers necessary to offset increased raw material, commodity and component costs as well as favorable customer and product mix. Other manufacturing costs increased \$8.3 million in the current year period as compared to the prior year period primarily due to additional costs related to increases in new trailer production volumes. As a percentage of sales, other manufacturing costs increased slightly from 18.2% in the prior year period to 18.5% in the 2012 period.

Diversified Products segment cost of sales was \$140.7 million in the first nine months of 2012, an increase of \$119.4 million, or 560.0%, compared to the same 2011 period primarily resulting from the acquisition of Walker during the current year period. As a percentage of net sales prior to the elimination of intersegment sales, cost of sales was 77.6% in the first nine months of 2012 compared to 83.5% in the first nine months of 2011. The 5.9% 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 \$89.5 million in the first nine months of 2012, an increase of \$4.5 million, or 5.3%, compared to the same 2011 period. As a percentage of net sales, cost of sales was 90.9% in the first nine months of 2012 compared to 92.0% in the first nine months of 2011. 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 2012 period as compared to the prior year period.



## Gross Profit

Gross profit was \$109.5 million in the first nine months of 2012, an improvement of \$63.4 million from the prior year period. Gross profit as a percent of sales was 10.5% for the first nine months compared to 5.4% for the same period in 2011. Gross profit by segment was as follows (in millions):

|                             | Nine Months Ended September<br>30, |        | Change |         |
|-----------------------------|------------------------------------|--------|--------|---------|
|                             | 2012                               | 2011   | \$     | %       |
| Gross Profit by Segment:    |                                    |        |        |         |
| Commercial Trailer Products | \$50.9                             | \$26.3 | \$24.6 | 93.5    |
| Diversified Products        | 50.1                               | 12.2   | 37.9   | 310.7   |
| Retail                      | 9.0                                | 7.5    | 1.5    | 20.0    |
| Corporate and Eliminations  | (0.5 )                             | 0.1    | (0.6 ) | (600.0) |
| Total                       | \$109.5                            | \$46.1 | \$63.4 | 137.5   |

Commercial Trailer Products segment gross profit was \$50.9 million for the first nine months of 2012 compared to \$26.3 million in the prior year period. Gross profit as a percentage of sales was 6.7% in the first nine months of 2012 as compared to 3.6% for the prior year period. The increase in gross profit as a percentage of net sales was primarily driven by improved pricing necessary to offset increased material costs.

Diversified Products segment gross profit was \$50.1 million for the first nine months of 2012 compared to \$12.2 million for the prior year period due primarily to the acquisition of Walker during the current year period. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales was 22.4% in the first nine months of 2012 compared to 16.5% in the first nine months of 2011. The increase in gross profit margin was driven by the inclusion of Walker during the current year period, increased demand across all of our Diversified Product segment product offerings, and improved margins from our wood floor operations due to improved productivity and increased demand requirements for our dry van trailers during the current year period as compared to the previous year period.

Retail segment gross profit was \$9.0 million for the first nine months of 2012, an increase of \$1.5 million compared to the same period in 2011. Gross profit as a percentage of sales for the first nine months of 2012 was 9.1% compared to 8.0% for the prior year period. The increase in gross profit margin is primarily due to product mix as parts and service sales, which carry a higher margin, increased 5.6% and new trailer sales, which carry a lower margin, increased 4.4% as compared to the prior year period.

### General and Administrative Expenses

General and administrative expenses of \$30.9 million for the first nine months of 2012 increased \$7.7 million, or 33.3%, from the prior year period. The increase was largely due to the inclusion of Walker, which added expenses of \$5.6 million during the current year period. In addition, salaries and other employee related costs increased \$2.5 million due to the full reinstatement of compensation and benefit levels that were reduced in previous years to adjust our cost structure to match market demand as well as the mark-to-market of certain stock based compensation awards. This increase was offset by a \$0.8 million reduction in professional services due to reduced legal defense costs in the current period as compared to the prior period. As a percentage of sales, general and administrative expenses increased slightly to 3.0% in the current year period as compared to 2.7% in the prior year period.

### Selling Expenses

Selling expenses were \$16.1 million in the first nine months of 2012, an increase of \$6.8 million, or 73.2%, compared to the prior year period primarily due to the inclusion of Walker, which added \$5.6 million during the current year period. Additionally, salaries and other employee related costs increased \$0.9 million due to the full reinstatement of compensation and benefit levels that were reduced in previous years to adjust our cost structure to match market demand as well as the mark-to-market of certain stock based compensation awards. As a percentage of net sales, selling expenses were 1.5% for the first nine months of 2012 compared to 1.1% for the prior year period.

### Amortization of Intangibles

Amortization of intangibles was \$7.2 million for the first nine months of 2012, an increase of \$5.0 million, or 223.9%, compared to the prior year period due to amortization expense recognized for intangible assets recorded from the Walker Acquisition.

### Acquisition Expenses

Acquisition expenses totaling \$14.1 million for the first nine months of 2012 represent acquisition related costs incurred in connection with the Walker Acquisition 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.

Other Income (Expense)

*Interest expense* for the first nine months of 2012 totaled \$13.9 million, an increase of \$10.8 million, compared to the prior year period, primarily due to interest and non-cash accretion charges of \$1.9 million related to our Convertible Senior Notes and Term Loan Credit Agreement entered into in connection with the Walker Acquisition during the second quarter.

Income Taxes

After considering available evidence, both positive and negative, we have recorded a full valuation allowance against our net deferred tax assets as of September 30, 2012. Please refer to our “Critical Accounting Policies and Estimates” section below for additional information on our position with respect to the expected timing to release all or a portion of our full valuation allowances.

The acquisition of Walker on May 8, 2012, preliminarily created goodwill in the amount of \$149.9 million which will have an indefinite life for book purposes. However, for tax purposes the value of this goodwill will be fully deductible over 15 years. This book to tax difference will create a deferred tax liability which, according to ASC 740, cannot be netted against other deferred tax assets and liabilities with specific identifiable lives and offset by the valuation allowance. As a result, a deferred tax liability and deferred tax expense of \$1.7 million was recognized for the nine month period ending September 30, 2012.

## **Liquidity and Capital Resources**

### **Capital Structure**

Our capital structure is comprised of a mix of debt and equity. As of September 30, 2012, our debt to equity ratio was approximately 2.1:1.0. 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. For the remainder of 2012, 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**

## **Walker Acquisition and Issuance of Convertible Senior Notes**

On May 8, 2012, we completed the acquisition (the “Walker Acquisition”) of all of 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 us, Walker and Seller (the “Purchase and Sale Agreement”). The aggregate consideration we paid for the Walker Acquisition was \$375.0 million in cash, subject to post-closing purchase price adjustments related to the acquired working capital (the “Walker Acquisition”). We financed the Walker Acquisition and related fees and expenses using the proceeds from our offering of 3.375% Convertible Senior Notes due 2018 and our borrowings under the Term Loan Credit Agreement.

Walker is a manufacturer of liquid-transportation systems and engineered products based in New Lisbon, Wisconsin. Walker has become part of our Diversified Products segment. Walker has manufacturing facilities for its liquid-transportation products in New Lisbon, Wisconsin; Fond du Lac, Wisconsin; Kansas City, Missouri; 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.

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 as the Notes are not considered currently redeemable at the balance sheet date.

### **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 (together with us, 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 will be 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 (subject to shorter testing periods until May 1, 2013) 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, 2012, we were in compliance with all covenants under 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 our 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 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 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 beginning with the delivery of financial statements for 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%. For the three and nine month periods ending September 30, 2012, we have paid \$4.7 million and \$6.2 million of interest, respectively, and \$0.8 million and \$1.5 million of principal, respectively. As of September 30, 2012, we had \$298.5 million outstanding under the Term Loan Credit agreement, of which \$3.0 million was classified as current on our Condensed Consolidated Balance Sheet. In connection with the closing of the Term Loan Credit Agreement, we paid \$7.5 million in original issuance discount fees which will be amortized over the life of the facility using the effective interest rate method. For the three and nine month period ending September 30, 2012, we charged \$0.2 million and \$0.3 million, respectively, of amortization for original issuance discount fees as *Interest Expense* in the Condensed Consolidated Statements of Comprehensive Income.

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 will be 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.

As of September 30, 2012, our interest coverage and senior secured leverage ratios were 9.7:1.0 and 1.9:1.0, respectively, and we were in compliance with all covenants under the Term Loan Credit Agreement.

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.

## **Cash Flow**

Cash provided by operating activities for the first nine months of 2012 totaled \$27.5 million, compared to \$22.4 million used in operating activities in the same period in 2011. The 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 and accretion of debt discount of \$50.4 million, partially offset by a \$22.9 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 as well as an increase in new trailer shipments. Changes in key working capital accounts for the first nine months of 2012 compared to the same period in 2011 are summarized below (in millions):

| Source (Use) of cash:                    | 2012     | 2011     | Change  |
|--|----------|----------|---------|
| Accounts receivable                      | \$(0.6 ) | \$(8.0 ) | \$ 7.4  |
| Inventories                              | (1.1 )   | (89.1)   | 88.0    |
| Accounts payable and accrued liabilities | (20.6)   | 51.3     | (71.9 ) |
| Net use of cash                          | (22.3)   | (45.8)   | 23.5    |

Accounts receivable increased by \$0.6 million in the first nine month of 2012 as compared to an increase of \$8.0 million in the prior year period. Excluding Walker, days sales outstanding, a measure of working capital efficiency that measures the amount of time a receivable is outstanding, increased to approximately 18 days as of September 30, 2012, compared to 12 days as of the same period in 2011. The increase in accounts receivable for 2012 was primarily the result of the timing of shipments and a 23.7% increase in our consolidated net sales as compared to the prior year period. Inventory increased by \$1.1 million during the first nine months of 2012 as compared to an increase of \$89.1 million in the 2011 period. The increase in inventory for the 2012 period was due to higher raw material and work in process inventory resulting from increasing production levels throughout the first nine months of 2012 and increased inventory requirements for our Walker businesses. Our inventory turns, a commonly used measure of working capital efficiency that measures how quickly inventory turns per year was approximately 6 times in 2012 compared to approximately 7 times in the 2011 period. Accounts payable and accrued liabilities decreased by \$20.6 million in 2012 compared to an increase of \$51.3 million for the same period in 2011. The decrease in 2012 was due primarily to timing of production as compared to the previous year period. Excluding Walker, days payable outstanding, a measure of working capital efficiency that measures the amount of time a payable is outstanding, was 33 days in both the 2012 and 2011 periods.

Investing activities used \$373.0 million during the first nine months of 2012 compared to \$3.4 million used in the same period in 2011. 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. The current period also includes capital expenditures totaling \$9.0 million to support growth and improvement initiatives at our facilities.

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 as well as related fees and expenses incurred as part of this transaction.

As of September 30, 2012, our liquidity position, defined as cash on hand and available borrowing capacity, amounted to \$182.2 million, representing an increase of \$74.9 million and \$56.6 million as compared to September 30, 2011 and December 31, 2011, respectively. Total debt and capital lease obligations amounted to \$421.8 million as of September 30, 2012. 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 2012 and 2013.

#### Capital Expenditures

Capital spending amounted to \$9.0 million for the first nine months of 2012 and is anticipated to be in the range of \$13 million to \$15 million in the aggregate for 2012. Capital spending for 2012 has been and is expected to continue to be primarily utilized to support growth and improvement initiatives within our facilities, including a planned investment of approximately \$2.5 million to expand our paint capabilities at our Cadiz, Kentucky facility where we manufacture our platform trailers.

### **Off-Balance Sheet Transactions**

As of September 30, 2012, we had approximately \$9.2 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, 2012.

### **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, 2011. With the exception of the net increase in our long-term debt of \$349.4 million resulting from our offering of 3.375% Convertible Senior Notes due 2018 and our borrowings under the Term Loan Credit Agreement and a decrease in our raw material purchase commitments (see “Item 3. Qualitative and Quantitative Disclosures About Market Risks—Commodity Prices” section below for further details), 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 \$555 million at September 30, 2012 compared to \$587 million at December 31, 2011 and \$513 million at September 30, 2011. The backlog as of September 30, 2012 includes \$170 million related to our newly acquired Walker businesses. We expect to complete the majority of our existing backlog orders within the next 12 months.

### **OUTLOOK**

The demand environment for trailers has been strong throughout 2012, as evidenced by the increase in our new trailer shipments for the current year period as compared to the previous year, the strong demand forecast by industry forecasters and our ability to increase prices to recover material cost increases and improve margins. More specifically, ACT Research (“ACT”) and FTR Associates (“FTR”), continue to provide further support for strong demand levels in 2012 as ACT is currently estimating current year demand to be approximately 241,000 trailers, or an increase of 13% as compared to 2011, while FTR anticipates new trailer demand to be approximately 233,000 new trailers, or an increase of 9% for 2012 as compared to 2011. Based on these 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 2012 total new trailers sold, including Walker, will be between 46,000 and 48,000, which reflects volumes approximately flat from the previous year period. As a result of our commitment to recapture margins within the Commercial Trailer Products segment, our expectation for growth in trailer volumes is below the expected industry growth rate this year. However, we have already begun to realize the improvements in pricing and gross margins and we expect continued improvements as we progress through the remainder of 2012.



In addition, recent estimates from industry forecasters continue to provide for strong demand levels throughout the next couple of years. ACT estimates that total trailer industry demand for 2013 will continue to grow by an additional 8% to approximately 259,000 trailers, while FTR anticipates a decrease to approximately 208,000 trailers. While there are downside concerns relating to issues with the global economy, unemployment, and housing and construction-related markets in the U.S., taking into consideration these industry forecasts, discussions with both our customers and suppliers, the market's need to renew an excessively aged trailer fleet as well as the availability of financing, management expects demand for new trailers to continue to remain above industry replacement levels for the next several years.

Other challenges we face as we proceed into 2013 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 effort to minimize the risk of changes in commodity prices having a significant impact on our operating results.

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® trailers continue to have increased market acceptance; (3) our focus is on developing solutions that reduce our customers' trailer maintenance and operating costs; and (4) our continued expansion of our presence through our Company-owned branch locations and independent dealer network.

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 positive momentum and generate increased revenues and earnings. While demand for these products is dependent on the development of new products, customer acceptance of our product solutions and general expansion of our customer base and distribution channels, we anticipate the growth rate of these products to exceed that of our Commercial Trailer Products. The recent Walker Acquisition further diversifies our business, complements our leadership position in trailer manufacturing and related products and technologies and 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 continuing to develop 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, 2011. Based on events occurring subsequent to December 31, 2011, we are updating certain accounting policies and estimates.

The Company's deferred income taxes are primarily due to temporary differences between financial and income tax reporting for the depreciation of property, plant and equipment, amortization of intangibles, compensation adjustments, inventory adjustments, other accrued liabilities and tax credits and losses carried forward.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Companies are required to assess whether

valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence, both positive and negative, using a “more likely than not” standard. In making such judgments, significant weight is given to evidence that can be objectively verified.

The Company assesses, on a quarterly basis, the realizability of its deferred tax assets by evaluating all available evidence, both positive and negative, including: (1) the cumulative results of operations in recent years, (2) the nature of recent losses, (3) estimates of future taxable income, (4) the length of operating loss carryforward periods and (5) the uncertainty associated with a possible change in ownership, which imposes an annual limitation on the use of these carryforwards. The Company had been in a cumulative three-year pre-tax loss position as of December 31, 2011. The cumulative three-year loss is considered significant negative evidence that is objective and verifiable. Positive evidence considered by the Company in its assessment included lengthy operating loss carryforward periods, a lack of unused expired operating loss carryforwards in the Company’s history and estimates of future taxable income. However, there is uncertainty as to the Company’s ability to meet its estimates of future taxable income to recover its deferred tax assets in the United States.

After considering both the positive and negative evidence, management determined that it was necessary to continue to record a full valuation allowance against its net deferred tax assets as of September 30, 2012. However, we will continue to evaluate the necessity of the valuation allowance during 2012 considering our recent positive operating results, our ability to generate taxable income in 2012 and the development of our order backlog which materially impacts our projections of future taxable income in 2013. Based upon all of these factors, it is possible that we will be in a position to release all or a portion of our U.S. valuation allowance in 2012 or 2013.

### 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 raw materials that are processed from commodities such as aluminum, steel, nickel, wood and polyethylene. 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, 2012, we had \$22.9 million in raw material purchase commitments through December 2013 for materials that will be used in the production process as compared to \$37.8 million as of December 31, 2011. 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, 2012, we had no floating rate debt outstanding under our Revolver. However, for the three month period ending September 30, 2012 we maintained an average floating rate borrowing level of \$12.6 million under our revolver. Based on this average borrowing level, a hypothetical 100 basis-point change in the floating interest rate from the current level would result in a corresponding \$0.1 million change in interest expense over a one-year period. 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.

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, 2012.

## 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 2012 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 existing information systems and internal controls over financial reporting that previously existed. In conducting our evaluation of effectiveness of our internal control over financial reporting, we have elected to exclude Walker from our evaluation, as permitted under existing SEC rules. 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 integration in fiscal year 2013.

## **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, 2011, as updated by Item 1 of Part II of our Quarterly Report on Form 10-Q for the quarterly period ended March 31 and June 30, 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, 2011, 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. In addition, the following risk factors are provided to supplement and update the Risk Factors previously disclosed in the Risk Factors section of our Annual Report on Form 10-K. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

### **Risks Related to Our Indebtedness**

**Our debt has increased significantly as a result of completing the offering of our 3.375% Convertible Senior Notes due 2018 (the “Notes”), entering into the Term Loan Credit Agreement and the amendment and restatement of our revolving credit agreement. Our increased indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under our debt agreements.**

Our debt and debt service obligations have increased significantly as a result of our recently completed offering of Notes in April 2012, entering into the Term Loan Credit Agreement and the amendment and restatement of our revolving credit agreement. As of September 30, 2012 and as a result of these events, we had approximately \$299 million of secured indebtedness and approximately \$154 million of unsecured indebtedness which includes approximately \$4 million of capital lease obligations. This level of debt could have significant consequences on our future operations, including, among others:

- making it more difficult for us to meet our payment and other obligations under our outstanding debt agreements;

resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;

reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates;

limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and

- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the factors listed above could have a material adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under our debt agreements.

**Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.**

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness depends on our future performance, which is subject to regulatory, economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

**Despite our current debt levels, we may still incur substantially more debt or take other actions which would intensify the risks discussed above.**

Despite our current consolidated debt levels, we and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. We are not restricted under the terms of the indenture governing the Notes from incurring additional debt, securing existing or



future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture governing the Notes. Our Existing Credit Agreement does restrict our ability to incur additional indebtedness, including secured indebtedness, but if the facilities mature or are repaid, we may not be subject to such restrictions under the terms of any subsequent indebtedness.

**The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.**

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than cash in lieu of any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

**The accounting method for convertible debt securities that may be settled in cash, such as the Notes, is the subject of recent changes that could have a material effect on our reported financial results.**

In May 2008, the Financial Accounting Standards Board (the "FASB"), issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, (ASC 470-20). Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.



**Future sales of our common stock in the public market could lower the market price for our common stock and adversely impact the trading price of the Notes.**

In the future, we may sell additional shares of our common stock to raise capital. In addition, a substantial number of shares of our common stock are reserved for issuance upon the exercise of stock options and upon conversion of the Notes. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the market price of our common stock and the trading price of the Notes and impair our ability to raise capital through the sale of additional equity securities.

**Provisions of the Notes could discourage a potential future acquisition of us by a third party.**

Certain provisions of the Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Notes will have the right, at their option, to require us to repurchase all of their Notes or any portion of the principal amount of such Notes in integral multiples of \$1,000. We also may be required to issue additional shares upon conversion in the event of certain corporate transactions. In addition, the indenture for the Notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes. These and other provisions of the Notes could prevent or deter a third party from acquiring us even where the acquisition could be beneficial to you.

**Risks Related to the Acquisition of Walker**

**It may be difficult to integrate the business of Walker into our current business, including because of the more diversified nature of its business.**

If we experience greater than anticipated costs to integrate Walker into our existing operations or are not able to achieve the anticipated benefits of the Walker Acquisition, including cost savings and other synergies, our business and results of operations could be negatively affected. In addition, it is possible that the ongoing integration process could result in the loss of key employees, errors or delays in systems implementation, the disruption of our ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the Walker Acquisition. Integration efforts also may divert management attention and resources. These integration matters may have an adverse effect on us, particularly during any transition period. In addition, although Walker is subject to many of the same risks and uncertainties that we face in our business, the acquisition of Walker, through its Engineered Products division, also involves our entering new product areas, markets and industries, which present risks resulting from our

relative inexperience in these new areas. Walker's Engineered Products line could react differently to economic and other external factors than our traditional trailer business. We face the risk that we will not be successful with these products or in these new markets.

**We have made certain assumptions relating to the Walker Acquisition that may prove to be materially inaccurate.**

We have made certain assumptions relating to the Walker Acquisition which may prove to be inaccurate, including as a result of the failure to realize the expected benefits of the Walker Acquisition, higher than expected transaction and integration costs and unknown liabilities, as well as general economic and business conditions that adversely affect the combined company following the Walker Acquisition. These assumptions relate to numerous matters, including:

- our assessments of the asset quality and value of Walker and its assets;
- projections of the business and Walker's future financial performance;

our ability to incur additional indebtedness on attractive terms, in order to complete the Walker Acquisition and provide us with financial flexibility for our plans for growth;

our ability to realize synergies related to supply chain optimization, commercialization and distribution of new and existing products, back office and administrative consolidation, and further implementation of manufacturing best practices;

- acquisition costs, including restructuring charges and transaction costs;
- our ability to maintain, develop and deepen relationships with Walker's customers;

our belief that the markets served by Walker tend to be less cyclical than the van and platform trailer markets historically served by Wabash;

our belief that the indemnification and escrow arrangements that we have negotiated in the Purchase and Sale Agreement will prove adequate; and

- other financial and strategic risks of the Walker Acquisition.

If one or more of these assumptions are incorrect, it could have a material adverse effect on our business, manufacturing shipments, sales, and operating results, and the perceived benefits from the Walker Acquisition may not be realized.

**International operations are subject to increased risks, which could harm our business, operating results and financial condition.**

Walker has significantly greater international sales and operations than our current business. Our ability to manage our business and conduct operations internationally will require considerable management attention and resources and is subject to a number of risks, including the following:

challenges caused by distance, language and cultural differences and by doing business with foreign agencies and governments;

- longer payment cycles in some countries;
- uncertainty regarding liability for services and content;
- credit risk and higher levels of payment fraud;
- currency exchange rate fluctuations and our ability to manage these fluctuations;
- foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.;

import and export requirements that may prevent us from shipping products or providing services to a particular market and may increase our operating costs;

- potentially adverse tax consequences;
- higher costs associated with doing business internationally;
- different expectations regarding working hours, work culture and work-related benefits; and
- different employee/employer relationships and the existence of workers' councils and labor unions.

Compliance with complex foreign and U.S. laws and regulations that apply to the international operations of Walker may increase our cost of doing business and could expose us or our employees to fines, penalties and other liabilities. These numerous and sometimes conflicting laws and regulations include import and export requirements, content requirements, trade restrictions, tax laws, environmental laws and regulations, sanctions, internal and disclosure control rules, data privacy requirements, labor relations laws, U.S. laws such as the Foreign Corrupt Practices Act and substantially equivalent local laws prohibiting corrupt payments to governmental officials and/or other foreign persons. Although we have policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our officers, employees, contractors or agents will not violate our policies. Any violation of the laws and regulations that apply to our operations and properties, including those acquired through or after the Walker Acquisition, could result in, among other consequences, fines, environmental and other liabilities, criminal sanctions against us, our officers or our employees, prohibitions on our ability to offer our products and services to one or more countries and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results.

**Walker will be subject to business uncertainties and contractual restrictions which could adversely affect its financial results and the ability to retain key employees.**

Uncertainty about the effect of the Walker Acquisition on Walker's customers, employees or suppliers may have an adverse effect on Walker. These uncertainties may impair its ability to attract, retain and motivate key personnel for a period of time after the Walker Acquisition, and could cause disruptions in its relationships with customers, suppliers and other parties with which it deals.

In particular, we consider Walker's strong management team one of the most attractive aspects of Walker. The loss of any member of the Walker senior management team could have an adverse effect on our ability to operate the Walker business and integrate it into our consolidated operations. Retention of these key members may be particularly challenging even for a period of time after the completion of the Acquisition, as employees may experience uncertainty about their future roles. If, despite retention and recruiting efforts, key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Walker following the Walker Acquisition, its business operations and financial results could be adversely affected.

We also expect that matters relating to the Walker Acquisition and integration-related issues will place a significant burden on Walker's management, employees and internal resources, which could otherwise have been devoted to other business opportunities and improvements. These restrictions may have the effect of preventing Walker from pursuing otherwise attractive business opportunities and making other changes or improvements to its business.

**Walker typically has not entered into written agreements with its top suppliers and customers.**



Walker has many arrangements for the sale and purchase of products that are on a single transaction basis. As a result, we cannot assure you that most, or any, of the customers or suppliers of Walker will continue to trade with us. Should we, for any reason, lose or discontinue our business relationships with a substantial number of these customers, the impact to our revenues and results of operations could be substantial.

**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: November 1, 2012 By: /s/ Mark J. Weber

Mark J. Weber

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)