

WABASH NATIONAL CORP /DE  
Form 10-Q  
October 28, 2014

**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, 2014

**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)

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Delaware

52-1375208

(State of Incorporation)

(IRS Employer

Identification Number)

1000 Sagamore Parkway South,

Lafayette, Indiana

47905

(Address of Principal

(Zip Code)

Executive Offices)

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 24, 2014 was 68,983,702.

**WABASH NATIONAL CORPORATION**

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

(Dollars in thousands)

|                                              | September 30,<br>2014<br>(Unaudited) | December 31,<br>2013 |
|----------------------------------------------|--------------------------------------|----------------------|
| <b>ASSETS</b>                                |                                      |                      |
| <b>CURRENT ASSETS</b>                        |                                      |                      |
| Cash and cash equivalents                    | \$ 79,551                            | \$ 113,262           |
| Accounts receivable                          | 151,621                              | 120,358              |
| Inventories                                  | 259,794                              | 184,173              |
| Deferred income taxes                        | 17,162                               | 21,576               |
| Prepaid expenses and other                   | 6,911                                | 9,632                |
| Total current assets                         | \$ 515,039                           | \$ 449,001           |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>         | 137,170                              | 142,082              |
| <b>DEFERRED INCOME TAXES</b>                 | 27                                   | 1,401                |
| <b>GOODWILL</b>                              | 149,503                              | 149,967              |
| <b>INTANGIBLE ASSETS</b>                     | 142,718                              | 159,181              |
| <b>OTHER ASSETS</b>                          | 12,852                               | 10,613               |
|                                              | \$ 957,309                           | \$ 912,245           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                      |                      |
| <b>CURRENT LIABILITIES</b>                   |                                      |                      |
| Current portion of long-term debt            | \$ 490                               | \$ 3,245             |
| Current portion of capital lease obligations | 1,500                                | 1,609                |
| Accounts payable                             | 137,842                              | 112,151              |
| Other accrued liabilities                    | 98,902                               | 99,358               |
| Total current liabilities                    | \$ 238,734                           | \$ 216,363           |
| <b>LONG-TERM DEBT</b>                        | 323,689                              | 358,890              |
| <b>CAPITAL LEASE OBLIGATIONS</b>             | 6,127                                | 6,851                |
| <b>DEFERRED INCOME TAXES</b>                 | 886                                  | 1,234                |
| <b>OTHER NONCURRENT LIABILITIES</b>          | 17,608                               | 6,528                |
| <b>COMMITMENTS AND CONTINGENCIES</b>         |                                      |                      |

STOCKHOLDERS' EQUITY

|                                                                                                                          |            |   |            |   |
|--------------------------------------------------------------------------------------------------------------------------|------------|---|------------|---|
| Common stock 200,000,000 shares authorized, \$0.01 par value, 68,983,702 and 68,523,419 shares outstanding, respectively | 709        |   | 705        |   |
| Additional paid-in capital                                                                                               | 633,552    |   | 625,971    |   |
| Accumulated deficit                                                                                                      | (235,285   | ) | (277,128   | ) |
| Accumulated other comprehensive income                                                                                   | (63        | ) | (18        | ) |
| Treasury stock at cost, 1,987,073 and 1,873,870 common shares, respectively                                              | (28,648    | ) | (27,151    | ) |
| Total stockholders' equity                                                                                               | \$ 370,265 |   | \$ 322,379 |   |
|                                                                                                                          | \$ 957,309 |   | \$ 912,245 |   |

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

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

(Dollars in thousands, except per share amounts)

(Unaudited)

|                                     | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |             |
|-------------------------------------|-------------------------------------|-----------|------------------------------------|-------------|
|                                     | 2014                                | 2013      | 2014                               | 2013        |
| NET SALES                           | \$491,697                           | \$439,977 | \$1,335,838                        | \$1,177,332 |
| COST OF SALES                       | 430,069                             | 378,480   | 1,165,925                          | 1,014,796   |
| Gross profit                        | \$61,628                            | \$61,497  | \$169,913                          | \$162,536   |
| GENERAL AND ADMINISTRATIVE EXPENSES | 14,957                              | 14,559    | 44,890                             | 43,208      |
| SELLING EXPENSES                    | 6,271                               | 7,628     | 20,361                             | 23,029      |
| AMORTIZATION OF INTANGIBLES         | 5,471                               | 5,454     | 16,413                             | 16,278      |
| ACQUISITION EXPENSES                | -                                   | 26        | -                                  | 883         |
| Income from operations              | \$34,929                            | \$33,830  | \$88,249                           | \$79,138    |
| OTHER INCOME (EXPENSE):             |                                     |           |                                    |             |
| Interest expense                    | (5,454 )                            | (6,252 )  | (16,904 )                          | (20,364 )   |
| Other, net                          | (610 )                              | (605 )    | (1,626 )                           | 1,300       |
| Income before income taxes          | \$28,865                            | \$26,973  | \$69,719                           | \$60,074    |
| INCOME TAX EXPENSE                  | 10,558                              | 10,737    | 27,877                             | 23,968      |
| Net income                          | \$18,307                            | \$16,236  | \$41,842                           | \$36,106    |
| BASIC NET INCOME PER SHARE          | \$0.26                              | \$0.24    | \$0.60                             | \$0.52      |
| DILUTED NET INCOME PER SHARE        | \$0.25                              | \$0.23    | \$0.58                             | \$0.52      |

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



**WABASH NATIONAL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Dollars in thousands)

|                                         | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-----------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                         | 2014                                | 2013      | 2014                               | 2013      |
| NET INCOME                              | \$ 18,307                           | \$ 16,236 | \$ 41,842                          | \$ 36,106 |
| Other comprehensive (loss) income:      |                                     |           |                                    |           |
| Foreign currency translation adjustment | (295 )                              | 191       | (45 )                              | (152 )    |
| Total other comprehensive (loss) income | (295 )                              | 191       | (45 )                              | (152 )    |
| COMPREHENSIVE INCOME                    | \$ 18,012                           | \$ 16,427 | \$ 41,797                          | \$ 35,954 |

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

**WABASH NATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

|                                                                                  | Nine Months Ended<br>September 30, |              |
|----------------------------------------------------------------------------------|------------------------------------|--------------|
|                                                                                  | 2014                               | 2013         |
| Cash flows from operating activities                                             |                                    |              |
| Net income                                                                       | \$41,842                           | \$36,106     |
| Adjustments to reconcile net income to net cash provided by operating activities |                                    |              |
| Depreciation                                                                     | 12,730                             | 12,429       |
| Amortization of intangibles                                                      | 16,413                             | 16,278       |
| Loss on debt extinguishment                                                      | 1,042                              | 1,304        |
| Deferred income taxes                                                            | 14,571                             | 23,559       |
| Stock-based compensation                                                         | 5,509                              | 5,525        |
| Accretion of debt discount                                                       | 3,624                              | 3,455        |
| Changes in operating assets and liabilities                                      |                                    |              |
| Accounts receivable                                                              | (31,263 )                          | (33,419 )    |
| Inventories                                                                      | (79,534 )                          | (49,173 )    |
| Prepaid expenses and other                                                       | 2,721                              | 1,788        |
| Accounts payable and accrued liabilities                                         | 25,094                             | 33,315       |
| Other, net                                                                       | 1,961                              | 2,593        |
| Net cash provided by operating activities                                        | \$14,710                           | \$53,760     |
| Cash flows from investing activities                                             |                                    |              |
| Capital expenditures                                                             | (9,017 )                           | (11,566 )    |
| Acquisition, net of cash acquired                                                | -                                  | (15,985 )    |
| Other                                                                            | 4,228                              | 2,500        |
| Net cash used in investing activities                                            | \$(4,789 )                         | \$(25,051 )  |
| Cash flows from financing activities                                             |                                    |              |
| Proceeds from exercise of stock options                                          | 1,789                              | 447          |
| Borrowings under revolving credit facilities                                     | 565                                | 910          |
| Payments under revolving credit facilities                                       | (565 )                             | (910 )       |
| Principal payments under capital lease obligations                               | (1,492 )                           | (1,309 )     |
| Principal payments under term loan credit facility                               | (42,078 )                          | (42,135 )    |
| Principal payments under industrial revenue bond                                 | (354 )                             | (265 )       |
| Debt issuance costs paid                                                         | -                                  | (981 )       |
| Stock repurchase                                                                 | (1,497 )                           | (35 )        |
| Net cash used in financing activities                                            | \$(43,632 )                        | \$(44,278 )  |
| Net decrease in cash and cash equivalents                                        | \$ (33,711 )                       | \$ (15,569 ) |

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|                                                  |          |          |
|--------------------------------------------------|----------|----------|
| Cash and cash equivalents at beginning of period | 113,262  | 81,449   |
| Cash and cash equivalents at end of period       | \$79,551 | \$65,880 |

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. 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 periods previously reported. 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 2013 Annual Report on Form 10-K.

#### 2. ACQUISITION

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

|                               |          |
|-------------------------------|----------|
| Current assets                | \$1,035  |
| Property, plant and equipment | 2,714    |
| Intangibles                   | 8,860    |
| Goodwill                      | 1,784    |
| Total assets                  | \$14,393 |
| Current liabilities           | \$(462 ) |
| Total liabilities             | \$(462 ) |
| Acquisition                   | \$13,931 |

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

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

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

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

The Company incurred various costs related to recent acquisitions including professional fees for diligence, legal and accounting services. These costs have been recorded as *Acquisition Expenses* in the Condensed Consolidated Statements of Operations.

### 3. INVENTORIES

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

|                              | September 30,<br>2014 | December 31,<br>2013 |
|------------------------------|-----------------------|----------------------|
| Raw materials and components | \$ 80,544             | \$ 54,699            |
| Work in progress             | 30,757                | 20,749               |
| Finished goods               | 128,019               | 82,673               |
| Aftermarket parts            | 8,367                 | 10,389               |
| Used trailers                | 12,107                | 15,663               |
|                              | \$ 259,794            | \$ 184,173           |

### 4. DEBT

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

|                          | September 30,<br>2014 | December 31,<br>2013 |
|--------------------------|-----------------------|----------------------|
| Convertible senior notes | \$ 150,000            | \$ 150,000           |

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|                            |            |   |            |   |
|----------------------------|------------|---|------------|---|
| Term loan credit agreement | 192,845    |   | 234,923    |   |
| Industrial revenue bond    | 1,765      |   | 2,119      |   |
|                            | \$ 344,610 |   | \$ 387,042 |   |
| Less: unamortized discount | (20,431    | ) | (24,907    | ) |
| Less: current portion      | (490       | ) | (3,245     | ) |
|                            | \$ 323,689 |   | \$ 358,890 |   |

*Convertible Senior Notes*

In April 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. 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; and (3) 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. As of September 30, 2014, the Notes were not convertible based on the above criteria. If the Notes were converted as of September 30, 2014, the if-converted value would exceed the principal amount by approximately \$21 million.

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 acquisition of Walker Group Holdings LLC ("Walker").

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 required 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 Notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of the Notes to be 7.0%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the Notes, which resulted in a fair value of the liability component of \$123.8 million upon issuance, calculated as the present value of implied future payments based on the \$150.0 million aggregate principal amount. The \$21.7 million difference between the cash proceeds before offering expenses of \$145.5 million and the estimated fair value of the liability component was recorded in additional paid-in capital. The discount on the liability portion of the Notes is being amortized over the life of the Notes using the effective interest rate method.

The Company applies the treasury stock method in calculating the dilutive impact of the Notes. For the three and nine month periods ended September 30, 2014, the Notes had a dilutive impact.



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

|                                                                      | September 30,<br>2014 | December 31,<br>2013 |
|----------------------------------------------------------------------|-----------------------|----------------------|
| Principal amount of the Notes outstanding                            | \$ 150,000            | \$ 150,000           |
| Unamortized discount of liability component                          | (16,418 )             | (19,372 )            |
| Net carrying amount of liability component                           | 133,582               | 130,628              |
| Less: current portion                                                | -                     | -                    |
| Long-term debt                                                       | \$ 133,582            | \$ 130,628           |
| Carrying value of equity component, net of issuance costs            | \$ 20,993             | \$ 20,993            |
| Remaining amortization period of discount on the liability component | 3.6 years             | 4.3 years            |

Contractual coupon interest expense and accretion of discount on the liability component for the Notes for the three and nine month periods ended September 30, 2014 were as follow (in thousands):

|                                                  | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|--------------------------------------------------|----------------------------------|----------|---------------------------------|----------|
|                                                  | 2014                             | 2013     | 2014                            | 2013     |
| Contractual coupon interest expense              | \$ 1,266                         | \$ 1,266 | \$ 3,797                        | \$ 3,797 |
| Accretion of discount on the liability component | \$ 1,002                         | \$ 935   | \$ 2,954                        | \$ 2,759 |

#### *Revolving Credit Agreement*

In May 2012 the Company entered into an amendment and restatement of its then-existing senior secured revolving credit facility 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 in May 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 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 in excess of \$25 million. Availability under the Amended and Restated Revolving Credit Agreement will be based upon monthly (or more frequent under certain circumstances) borrowing base certifications of the Borrowers' eligible inventory and eligible accounts receivable, and will be reduced by certain reserves in effect from time to time. Subject to availability, the Amended and Restated Revolving Credit Agreement provides for a letter of credit subfacility in an amount not in excess of \$15 million, and allows for swingline loans in an amount not in excess of \$10 million. Outstanding borrowings under the Amended and Restated Revolving Credit Agreement will bear interest at a rate, at the Borrowers' election, equal to (i) LIBOR plus a margin ranging from 1.75% to 2.25% or (ii) a base rate plus a margin ranging from 0.75% to 1.25%, in each case depending upon the monthly average excess availability under the revolving loan facility. The Borrowers are required to pay a monthly unused line fee equal to 0.375% times the average daily unused availability along with other customary fees and expenses of the Revolver Agent and the lenders.

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

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

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

As of September 30, 2014, the Company had no outstanding borrowings under the Amended and Restated Revolving Credit Agreement and was in compliance with all covenants. The Company's liquidity position, defined as cash on hand and available borrowing capacity on the revolving credit facility, amounted to \$219.7 million as of September 30, 2014.



*Term Loan Credit Agreement*

In May 2012 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, as amended (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 in May 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”).

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

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. In addition, the Amendment amended the Term Loan Credit Agreement, by among other things, removing the covenant that the Company be required to maintain a minimum interest coverage ratio. The Term Loan Credit Agreement requires the Company to maintain a maximum senior secured leverage ratio tested as of the last day of each fiscal quarter for the four consecutive fiscal quarters then ending of not more than (A) 4.5 to 1.0 through September 30, 2013, (B) 4.0 to 1.0 thereafter through September 30, 2015, and (C) 3.5 to 1.0 thereafter. 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, as amended, to be calculated annually with the delivery of financial statements.

The Term Loan Credit Agreement contains customary covenants limiting the Company's 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.

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.

As of September 30, 2014, the Company's senior secured leverage ratio was 0.8:1.0, and the Company was in compliance with all covenants under the Term Loan Credit Agreement.

For the nine months ended September 30, 2014 and 2013, under the Term Loan Credit Agreement the Company paid interest of \$7.9 million and \$12.0 million, respectively, and principal of \$42.1 million during each nine month periods. As of September 30, 2014, the Company had \$192.8 million outstanding under the Term Loan Credit Agreement, all of which was classified as long-term debt on the Company's Condensed Consolidated Balance Sheet as a result of the Company's election to apply a voluntary principal payment in September 2014 in a manner that fulfilled the Company's obligation to pay the future mandatory quarterly amortization installments as required by the Term Loan Credit Agreement. In connection with the closing of the Term Loan Credit Agreement in May 2012 and the Amendment in April 2013, the Company paid a total of \$8.5 million in original issuance discount fees which are being amortized over the life of the facility using the effective interest rate method.

For each of the nine months ended September 30, 2014 and 2013, the Company charged \$0.7 million of amortization for original issuance discount fees as *Interest Expense* in the Condensed Consolidated Statements of Operations. In addition, for each of the nine month periods ended September 30, 2014 and 2013, the Company charged \$0.9 million of accelerated amortization in connection with its voluntary principal payments as *Other, net* in the Condensed Consolidated Statements of Operations.

#### *Other Debt Facilities*

In November 2012, the Company entered into a loan agreement with GE Government Finance, Inc. as lender and the County of Trigg, Kentucky as issuer for a \$2.5 million Industrial Revenue Bond. The funds received were used to purchase the equipment needed for the expansion of the Company's Cadiz, Kentucky facility. The loan bears interest at a rate of 4.25% and matures in March 2018. As of September 30, 2014, the Company had \$1.8 million outstanding, of which \$0.5 million was classified as current on the Condensed Consolidated Balance Sheet.

## **5. FAIR VALUE MEASUREMENTS**

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

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

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

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

*Recurring Fair Value Measurements*

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

The investments purchased by the Company (asset) include mutual funds, \$0.4 million of which are classified as Level 1, and life-insurance contracts valued based on the performance of underlying mutual funds, \$7.0 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 acquisition of certain assets of Beall.

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

*Estimated Fair Value of Debt*

The estimated fair value of long-term debt at September 30, 2014 consists primarily of the Notes and borrowings under its Term Loan Credit Agreement (see Note 4). The fair value of the Notes, the Term Loan Credit Agreement and the revolving credit facility are based upon third party pricing sources, which generally does not represent daily market activity, nor does it represent data obtained from an exchange, and are classified as Level 2. The interest rates on the Company's borrowings under the revolving credit facility are adjusted regularly to reflect current market rates and thus carrying value approximates fair value for these borrowings. All other debt and capital lease obligations approximate their fair value as determined by discounted cash flows and are classified as Level 3.

The Company's carrying and estimated fair value of debt, at September 30, 2014 and December 31, 2013 were as follows:

| Instrument                 | September 30, 2014 |                    |           |         | December 31, 2013 |                    |           |          |
|----------------------------|--------------------|--------------------|-----------|---------|-------------------|--------------------|-----------|----------|
|                            | Carrying Value     | Fair Value Level 1 | Level 2   | Level 3 | Carrying Value    | Fair Value Level 1 | Level 2   | Level 3  |
| Convertible senior notes   | \$133,582          | \$-                | \$198,360 | \$-     | \$130,628         | \$-                | \$197,718 | \$-      |
| Term loan credit agreement | 188,832            | -                  | 191,399   | -       | 229,388           | -                  | 236,684   | -        |
| Industrial revenue bond    | 1,765              | -                  | -         | 1,765   | 2,119             | -                  | -         | 2,119    |
| Capital lease obligations  | 7,627              | -                  | -         | 7,627   | 8,460             | -                  | -         | 8,460    |
|                            | \$331,806          | \$-                | \$389,759 | \$9,392 | \$370,595         | \$-                | \$434,402 | \$10,579 |

**6. STOCK-BASED COMPENSATION**

The Company recognizes all share-based payments based upon their fair value. To value new stock option awards the Company uses a binomial option-pricing model, which incorporates various assumptions including expected volatility, expected term, dividend yield and risk-free interest rates. The expected volatility is based upon the Company's historical experience. The expected term represents the period of time that options granted are expected to be outstanding. The risk-free interest rate utilized for periods throughout the contractual life of the options are based upon U.S. Treasury security yields at the time of grant. The Company also grants restricted stock units subject to service, performance and/or market conditions. The Company's policy is to recognize expense for awards that have service conditions only subject to graded vesting using the straight-line attribution method. The fair value of service and performance based units is based on the market price of a share of underlying common stock at the date of grant. The fair value of the market based units is based on a lattice valuation model. The amount of compensation costs related to stock options, nonvested restricted stock, restricted stock units and performance units not yet recognized was \$10.2 million at September 30, 2014, for which the expense will be recognized through 2017.

## **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, 2014, 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 are any of its properties the subject of, any pending legal proceeding or governmental examination other than certain of 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 Operations.

#### *Brazil Joint Venture*

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

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



A bench (non-jury) trial was held on March 30, 2010 in Curitiba, Paraná, Brazil. On November 22, 2011, the Fourth Civil Court of Curitiba partially granted BK's claims, and ordered Wabash to pay BK lost profits, compensatory, economic and moral damages in excess of the amount of compensatory damages asserted by BK. The total ordered damages amount is approximately R\$26.7 million (Brazilian Reais), which is approximately \$11.0 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 \$58 million, at current exchange rates, but may change with the passage of time and/or the discretion of the court at the time of final judgment in this matter). Due, in part, to the amount and type of damages awarded by the Fourth Civil Court of Curitiba, Wabash immediately filed for clarification of the judgment. The Fourth Civil Court has issued its clarification of judgment, leaving the underlying decision unchanged and referring the parties to the State of Paraná Court of Appeals for any further appeal of the decision. As such, Wabash filed its notice of appeal with the Court of Appeals, as well as its initial appeal papers, on April 22, 2013. The Court of Appeals has the authority to re-hear all facts presented to the lower court, as well as to reconsider the legal questions presented in the case, and to render a new judgment in the case without regard to the lower court's findings. Pending outcome of this appeal process, the judgment is not enforceable by the plaintiff. Any ruling from the Court of Appeals is not expected prior to the end of 2014, 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, 2014. Furthermore, at this time, the Company does not have sufficient information to predict the ultimate outcome of the case and is unable to reasonably estimate the amount of any possible loss or range of loss that it may be required to pay at the conclusion of the case. The Company will reassess the need for the recognition of a loss contingency upon official assignment of the case in the Court of Appeals, upon a decision to settle this case with the plaintiffs or an internal decision as to an amount that the Company would be willing to settle or upon the outcome of the appeals process.

### *Intellectual Property*

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

The Company believes that its claims against Vanguard have merit and that the claims asserted by Vanguard are without merit. The Company intends to vigorously defend its position and intellectual property. The Company believes that the resolution of this lawsuit will not have a material adverse effect on its financial position, liquidity or

future results of operations. However, at this stage of the proceeding, no assurance can be given as to the ultimate outcome of the case.

*Walker Acquisition*

In connection with the Company's acquisition of Walker in May 2012, there is an outstanding claim of approximately \$2.9 million for unpaid benefits owed by the Seller that is currently in dispute and that is not expected to have a material adverse effect on the Company's financial condition or results of operations.

*Environmental Disputes*

In August 2014, the Company was noticed as a potentially responsible party (“PRP”) by the South Carolina Department of Health and Environmental Control (“DHEC”) pertaining to the Philip Services Site located in Rock Hill, South Carolina pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) and corresponding South Carolina statutes. PRPs include parties identified through manifest records as having contributed to deliveries of hazardous substances to the Philip Services Site between 1979 and 1999. The DHEC’s allegation that the Company is a PRP arises out of four manifest entries in 1989 under the name of a company unaffiliated with Wabash National (or any of its former or current subsidiaries) that purport to be delivering a de minimis amount of hazardous waste to the Philip Services Site “c/o Wabash National Corporation.” As such, the Philip Services Site PRP Group (“PRP Group”) notified the Company in August 2014 that it was offering the Company the opportunity to resolve any liabilities associated with the Philip Services Site by entering into a Cash Out and Reopener Settlement Agreement (the “Settlement Agreement”) with the PRP Group, as well as a Consent Decree with the DHEC. The Company is presently evaluating its liability associated with the Philip Services Site, as well as the offer from the PRP Group to enter into the Settlement Agreement and Consent Decree. If the Company were to determine it will accept the offer to enter into the proposed Settlement Agreement and Consent Decree, the requested settlement payment is immaterial to the Company’s financial conditions or operations, and as a result, the entry into the Settlement Agreement and Consent Decree is not expected to have a material adverse effect on the Company’s financial condition or results of operations.

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. Bulk completed all required corrective actions and received a Certification of Clean Industry from PROPAEG, and is seeking the same certification from PROFEPA, which the Company expects it will receive following the conclusion of a final audit process that is scheduled for December 2014. As a result, 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 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 CERCLA and corresponding Louisiana statutes. PRPs include current and former owners and operators of facilities at which hazardous substances were allegedly disposed. The EPA’s allegation that the Company is a PRP arises out of one alleged shipment of waste to the MSP Site in 1992 from the Company’s branch facility in Dallas, Texas. As such, the MSP Site PRP Group notified the Company in January 2012 that, as a result of a March 18, 2009 Cooperative Agreement for Site Investigation and Remediation entered into between the MSP Site PRP Group and the LDEQ, the Company was being offered a “De Minimis Cash-Out Settlement” to contribute to the remediation costs, which would remain open until February 29, 2012. The Company chose not to enter into the settlement and has denied any liability. In addition, the Company has requested that the MSP Site PRP Group remove the Company from the list of PRPs for the MSP Site, based upon the following facts: the Company acquired this branch facility in 1997 – five years after the alleged shipment - as part of the assets the Company acquired out of the Fruehauf Trailer Corporation (“Fruehauf”) bankruptcy (Case No. 96-1563, United States Bankruptcy Court,

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

In September 2003, the Company was noticed as a PRP by the EPA pertaining to the Motorola 52nd Street, Phoenix, Arizona Superfund Site (the "Superfund Site") pursuant to the CERCLA. The EPA's allegation that the Company was a PRP arises out of the Company's acquisition of a former branch facility located approximately five miles from the original Superfund Site. The Company acquired this facility in 1997, operated the facility until 2000, and sold the facility to a third party in 2002. In June 2010, the Company was contacted by the Roosevelt Irrigation District ("RID") informing it that the Arizona Department of Environmental Quality ("ADEQ") had approved a remediation plan in excess of \$100 million for the RID portion of the Superfund Site, and demanded that the Company contribute to the cost of the plan or be named as a defendant in a CERCLA action to be filed in July 2010. The Company initiated settlement discussions with the RID and the ADEQ in July 2010 to provide a full release from the RID, and a covenant not-to-sue and contribution protection regarding the former branch property from the ADEQ, in exchange for payment from the Company. If the settlement is approved by all parties, it will prevent any third party from successfully bringing claims against the Company for environmental contamination relating to this former branch property. The Company has been awaiting approval from the ADEQ since the settlement was first proposed in July 2010. Based on communications with the RID and ADEQ in September 2014, the Company does not expect to receive a response regarding the approval of the settlement from the ADEQ for, at least, several additional months. Based upon the Company's limited period of ownership of the former branch property, and the fact that it no longer owns the former branch property, it does not anticipate that the ADEQ will reject the proposed settlement, but no assurance can be given at this time as to the ADEQ's response to the settlement proposal. The proposed settlement terms have been accrued and did not have a material adverse effect on the Company's financial condition or results of operations, and the Company believes that any ongoing proceedings will not have a material adverse effect on the Company's financial condition or results of operations.

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

## 8.NET INCOME PER SHARE

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

|                                                                                                       | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-------------------------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                                                       | 2014                                | 2013      | 2014                               | 2013      |
| Basic net income per share:                                                                           |                                     |           |                                    |           |
| Net income applicable to common stockholders                                                          | \$ 18,307                           | \$ 16,236 | \$ 41,842                          | \$ 36,106 |
| Undistributed earnings allocated to participating securities                                          | (103 )                              | (117 )    | (340 )                             | (293 )    |
| Net income applicable to common stockholders excluding amounts applicable to participating securities | \$ 18,204                           | \$ 16,119 | \$ 41,502                          | \$ 35,813 |
| Weighted average common shares outstanding                                                            | 68,976                              | 68,487    | 68,862                             | 68,442    |
| Basic net income per share                                                                            | \$ 0.26                             | \$ 0.24   | \$ 0.60                            | \$ 0.52   |
| Diluted net income per share:                                                                         |                                     |           |                                    |           |
| Net income applicable to common stockholders                                                          | \$ 18,307                           | \$ 16,236 | \$ 41,842                          | \$ 36,106 |
| Undistributed earnings allocated to participating securities                                          | (103 )                              | (117 )    | (340 )                             | (293 )    |
| Net income applicable to common stockholders excluding amounts applicable to participating securities | \$ 18,204                           | \$ 16,119 | \$ 41,502                          | \$ 35,813 |
| Weighted average common shares outstanding                                                            | 68,976                              | 68,487    | 68,862                             | 68,442    |
| Dilutive shares from assumed conversion of convertible senior notes                                   | 1,949                               | -         | 1,806                              | -         |
| Dilutive stock options and restricted stock                                                           | 994                                 | 524       | 855                                | 458       |
| Diluted weighted average common shares outstanding                                                    | 71,919                              | 69,011    | 71,523                             | 68,900    |
| Diluted net income per share                                                                          | \$ 0.25                             | \$ 0.23   | \$ 0.58                            | \$ 0.52   |

Average diluted shares outstanding for the three and nine month periods ended September 30, 2014 and 2013 exclude options to purchase common shares totaling 504 and 1,018, respectively, and 538 and 1,301, 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 for the three and nine month periods ended September 30, 2013 excludes the impact of the Notes as the average stock price of the Company's common stock during these periods was below the initial conversion price.

## 9. INCOME TAXES

The Company recognized income tax expense of \$27.9 million in the first nine months of 2014 compared to \$24.0 million for the same period in the prior year. The effective tax rate for the first nine months of 2014 was 40.0%, which differs from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes, the revaluation of the Company's net deferred tax assets due to a reduction in its state and local statutory income tax rates and the benefit of the U.S. Internal Revenue Code domestic manufacturing deduction. The effective tax rate for the first nine months of 2013 was 39.9%, which differs from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes.

**10. OTHER ACCRUED LIABILITIES**

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

|                           | September 30,<br>2014 | December 31,<br>2013 |
|---------------------------|-----------------------|----------------------|
| Payroll and related taxes | \$ 24,869             | \$ 29,399            |
| Customer deposits         | 24,490                | 30,730               |
| Accrued taxes             | 17,492                | 8,520                |
| Warranty                  | 15,485                | 14,719               |
| Self-insurance            | 8,451                 | 9,399                |
| All other                 | 8,115                 | 6,591                |
|                           | \$ 98,902             | \$ 99,358            |

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

|                                                          | 2014      | 2013      |
|----------------------------------------------------------|-----------|-----------|
| Balance as of January 1                                  | \$ 14,719 | \$ 14,886 |
| Provision for warranties issued in current year          | 4,975     | 4,462     |
| Provision for (Recovery of) pre-existing warranties, net | (112 )    | 508       |
| Payments                                                 | (4,097 )  | (4,256 )  |
| Balance as of September 30                               | \$ 15,485 | \$ 15,600 |

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

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

The Company manages its business in three segments: Commercial Trailer Products, Diversified Products and Retail. The Commercial Trailer Products segment produces and sells new trailers to the Retail segment and to customers who

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

|                                                 | Commercial<br>Trailer<br>Products | Diversified<br>Products | Retail     | Corporate<br>and<br>Eliminations | Consolidated   |
|-------------------------------------------------|-----------------------------------|-------------------------|------------|----------------------------------|----------------|
| Three Months Ended September 30, 2014           |                                   |                         |            |                                  |                |
| Net sales                                       |                                   |                         |            |                                  |                |
| External customers                              | \$ 333,873                        | \$ 112,860              | \$ 44,964  | \$ -                             | \$ 491,697     |
| Intersegment sales                              | 17,771                            | 19,319                  | 202        | (37,292)                         | ) -            |
| Total net sales                                 | \$ 351,644                        | \$ 132,179              | \$ 45,166  | \$ (37,292)                      | ) \$ 491,697   |
| Income (Loss) from operations                   | \$ 26,429                         | \$ 12,027               | \$ 859     | \$ (4,386)                       | ) \$ 34,929    |
| Reconciling items to income before income taxes |                                   |                         |            |                                  |                |
| Interest expense                                |                                   |                         |            |                                  | (5,454 )       |
| Other, net                                      |                                   |                         |            |                                  | (610 )         |
| Income before income taxes                      |                                   |                         |            |                                  | \$ 28,865      |
| 2013                                            |                                   |                         |            |                                  |                |
| Net sales                                       |                                   |                         |            |                                  |                |
| External customers                              | \$ 276,564                        | \$ 117,990              | \$ 45,423  | \$ -                             | \$ 439,977     |
| Intersegment sales                              | 16,946                            | 14,141                  | 573        | (31,660)                         | ) -            |
| Total net sales                                 | \$ 293,510                        | \$ 132,131              | \$ 45,996  | \$ (31,660)                      | ) \$ 439,977   |
| Income (Loss) from operations                   | \$ 17,323                         | \$ 18,538               | \$ 743     | \$ (2,774)                       | ) \$ 33,830    |
| Reconciling items to income before income taxes |                                   |                         |            |                                  |                |
| Interest expense                                |                                   |                         |            |                                  | (6,252 )       |
| Other, net                                      |                                   |                         |            |                                  | (605 )         |
| Income before income taxes                      |                                   |                         |            |                                  | \$ 26,973      |
| Nine Months Ended September 30, 2014            |                                   |                         |            |                                  |                |
| Net Sales                                       |                                   |                         |            |                                  |                |
| External customers                              | \$ 859,867                        | \$ 334,281              | \$ 141,690 | \$ -                             | \$ 1,335,838   |
| Intersegment sales                              | 54,880                            | 52,890                  | 696        | (108,466)                        | ) -            |
| Total net sales                                 | \$ 914,747                        | \$ 387,171              | \$ 142,386 | \$ (108,466)                     | ) \$ 1,335,838 |
| Income (Loss) from operations                   | \$ 58,447                         | \$ 37,623               | \$ 3,190   | \$ (11,011)                      | ) \$ 88,249    |
| Reconciling items to income before income taxes |                                   |                         |            |                                  |                |
| Interest expense                                |                                   |                         |            |                                  | (16,904 )      |
| Other, net                                      |                                   |                         |            |                                  | (1,626 )       |
| Income before income taxes                      |                                   |                         |            |                                  | \$ 69,719      |

2013

Net Sales

|                    |            |            |            |             |                |
|--------------------|------------|------------|------------|-------------|----------------|
| External customers | \$ 704,712 | \$ 338,937 | \$ 133,683 | \$ -        | \$ 1,177,332   |
| Intersegment sales | 52,708     | 40,677     | 1,292      | (94,677)    | ) -            |
| Total net sales    | \$ 757,420 | \$ 379,614 | \$ 134,975 | \$ (94,677) | ) \$ 1,177,332 |

|                               |           |           |          |             |             |
|-------------------------------|-----------|-----------|----------|-------------|-------------|
| Income (Loss) from operations | \$ 37,197 | \$ 51,320 | \$ 2,877 | \$ (12,256) | ) \$ 79,138 |
|-------------------------------|-----------|-----------|----------|-------------|-------------|

Reconciling items to income before income taxes

|                            |           |   |
|----------------------------|-----------|---|
| Interest expense           | (20,364)  | ) |
| Other, net                 | 1,300     |   |
| Income before income taxes | \$ 60,074 |   |

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*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<br>\$ | Diversified<br>Products<br>\$ | Retail<br>\$ | Consolidated<br>\$ | %     |
|---------------------------------------|--------------------------------------|-------------------------------|--------------|--------------------|-------|
| Three Months Ended September 30, 2014 |                                      |                               |              |                    |       |
| New trailers                          | 326,679                              | 53,689                        | 20,701       | 401,069            | 81.6  |
| Used trailers                         | 1,956                                | 908                           | 4,164        | 7,028              | 1.4   |
| Components, parts and service         | 817                                  | 20,936                        | 19,228       | 40,981             | 8.3   |
| Equipment and other                   | 4,421                                | 37,327                        | 871          | 42,619             | 8.7   |
| Total net external sales              | 333,873                              | 112,860                       | 44,964       | 491,697            | 100.0 |

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

|                                      | Commercial<br>Trailer Products<br>\$ | Diversified<br>Products<br>\$ | Retail<br>\$ | Consolidated<br>\$ | %     |
|--------------------------------------|--------------------------------------|-------------------------------|--------------|--------------------|-------|
| Nine Months Ended September 30, 2014 |                                      |                               |              |                    |       |
| New trailers                         | 825,859                              | 162,627                       | 65,283       | 1,053,769          | 78.9  |
| Used trailers                        | 21,788                               | 3,345                         | 12,970       | 38,103             | 2.9   |
| Components, parts and service        | 2,085                                | 71,564                        | 60,868       | 134,517            | 10.1  |
| Equipment and other                  | 10,135                               | 96,745                        | 2,569        | 109,449            | 8.1   |
| Total net external sales             | 859,867                              | 334,281                       | 141,690      | 1,335,838          | 100.0 |

|      | Commercial<br>Trailer Products<br>\$ | Diversified<br>Products<br>\$ | Retail<br>\$ | Consolidated<br>\$ | % |
|------|--------------------------------------|-------------------------------|--------------|--------------------|---|
| 2013 |                                      |                               |              |                    |   |

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|                               |         |         |         |           |       |
|-------------------------------|---------|---------|---------|-----------|-------|
| New trailers                  | 670,869 | 150,750 | 60,706  | 882,325   | 74.9  |
| Used trailers                 | 20,407  | 2,412   | 9,747   | 32,566    | 2.8   |
| Components, parts and service | 6,576   | 75,962  | 59,575  | 142,113   | 12.1  |
| Equipment and other           | 6,860   | 109,813 | 3,655   | 120,328   | 10.2  |
| Total net external sales      | 704,712 | 338,937 | 133,683 | 1,177,332 | 100.0 |

## 12. NEW ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, *Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This ASU requires an entity to present unrecognized tax benefits as a reduction to deferred tax assets when a net operating loss carryforward, similar tax loss or a tax credit carryforward exists, with limited exceptions. ASU 2013-11 became effective for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. The adoption did not have a material effect on the Company’s unaudited condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605, *Revenue Recognition*. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date will be the first quarter of fiscal year 2017 using one of two retrospective application methods. The Company is currently assessing the potential impact of the adoption of ASU 2014-09 on its financial statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern*, which requires management to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and provide related footnote disclosures. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The standard allows for either a full retrospective or modified retrospective transition method. The Company does not expect this standard to have a material impact on the Company’s financial statements upon adoption.

## **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 the acquisitions of Walker Group Holdings (“Walker”) and certain assets of

- Beall Corporation (“Beall”), the amount of transaction costs associated with the acquisitions and our ability to effectively integrate Walker and the Beall assets and realize the expected synergies and benefits;

the benefits of, and our plans relating to the transitioning of our three former West Coast retail branch locations to

- independent dealer facilities and our ability to realize the expected benefits of expanding our dealer network and continuing to grow and diversify our Retail operations;

- our expected revenues, income or loss and capital expenditures;

- our ability to manage our indebtedness;

- our strategic plan and plans for future operations;
- financing needs, plans and liquidity, including for working capital and capital expenditures;
- our ability to achieve sustained profitability;
- reliance on certain customers and corporate relationships;
- our ability to diversify the product offerings of non-trailer businesses and opportunities to leverage the acquired Walker and Beall businesses to grow sales in our existing products;
- availability and pricing of raw materials;
- availability of capital and financing;
- dependence on industry trends;
- the outcome of any pending litigation;
- export sales and new markets;
- engineering and manufacturing capabilities and capacity;
- acceptance of new technology and products;
- government regulation; and
- assumptions relating to the foregoing.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in this Quarterly Report. Important risks and factors that could cause our actual results to be materially different from our expectations include the factors that are disclosed in “Item 1A. Risk Factors” in our Form 10-K for the year ended December 31, 2013. Each forward-looking statement contained in this Quarterly Report reflects our management’s view only as of the date on which that forward-looking statement was made. We are not obligated to update forward-looking statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events.

## RESULTS OF OPERATIONS

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

|                                     | Percentage of Net Sales |        |                   |         |
|-------------------------------------|-------------------------|--------|-------------------|---------|
|                                     | Three Months            |        | Nine Months Ended |         |
|                                     | Ended September 30,     |        | September 30,     |         |
|                                     | 2014                    | 2013   | 2014              | 2013    |
| Net sales                           | 100.0%                  | 100.0% | 100.0 %           | 100.0 % |
| Cost of sales                       | 87.5                    | 86.0   | 87.3              | 86.2    |
| Gross profit                        | 12.5                    | 14.0   | 12.7              | 13.8    |
| General and administrative expenses | 3.0                     | 3.3    | 3.4               | 3.7     |
| Selling expenses                    | 1.3                     | 1.7    | 1.5               | 2.0     |
| Amortization of intangibles         | 1.1                     | 1.3    | 1.2               | 1.4     |
| Income from operations              | 7.1                     | 7.7    | 6.6               | 6.7     |
| Interest expense                    | (1.1 )                  | (1.5 ) | (1.3 )            | (1.7 )  |
| Other, net                          | (0.1 )                  | (0.1 ) | (0.1 )            | 0.1     |
| Income before income taxes          | 5.9                     | 6.1    | 5.2               | 5.1     |
| Income tax expense                  | 2.2                     | 2.4    | 2.1               | 2.0     |
| Net income                          | 3.7 %                   | 3.7 %  | 3.1 %             | 3.1 %   |

For the three and nine month periods ended September 30, 2014, we recorded net sales of \$491.7 million and \$1,335.8 million, respectively, compared to \$440.0 million and \$1,177.3 million, respectively, in the prior year periods. Net sales for the three month period ended September 30, 2014 increased \$51.7 million, or 11.8%, compared to the prior year period due to an increase in new trailer shipments of approximately 3,000 units, or 23.8%. Gross profit margin declined to 12.5% in the third quarter of 2014 compared to 14.0% in the prior year period due to a higher percentage of our consolidated net sales occurring within our lower-margin Commercial Trailer Products segment, higher raw material and operating costs associated with our wood flooring business, and competitive market pressures within certain product lines. We continue to be encouraged by the strong demand in the overall trailer market throughout the first nine months of 2014, and our expectation is that overall industry shipment and production levels will remain above replacement demand for the remainder of 2014 and 2015, as many 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 and continue to expand our Diversified Products segment customer base and focus on developing innovative new products that both add value to our customers' operations and allow us to continue to differentiate our products from the competition.

Selling, general and administrative expenses decreased \$1.0 million in the third quarter of 2014 as compared to the same period in 2013. This decrease is primarily due to lower salaries and employee related costs, including employee incentive programs, of \$0.9 million and bad debt expense of \$0.4 million partially offset by higher outside professional services and technology costs of \$0.2 million. As a percentage of net sales, selling, general and administrative expenses decreased to 4.3% as compared to 5.0% 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 offerings 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, 2014**

## Net Sales

Net sales in the third quarter of 2014 increased \$51.7 million, or 11.8%, compared to the third quarter of 2013. By business segment, net external sales and related units sold were as follows (dollars in millions):

|                             | Three Months Ended<br>September 30, |         | Change |        |
|-----------------------------|-------------------------------------|---------|--------|--------|
|                             | 2014                                | 2013    | \$     | %      |
| Sales by Segment            |                                     |         |        |        |
| Commercial Trailer Products | \$333.8                             | \$276.6 | \$57.2 | 20.7   |
| Diversified Products        | 112.9                               | 118.0   | (5.1 ) | (4.3 ) |
| Retail                      | 45.0                                | 45.4    | (0.4 ) | (0.9 ) |
| Total                       | \$491.7                             | \$440.0 | \$51.7 | 11.8   |

(units)

|                             |        |        |       |      |
|-----------------------------|--------|--------|-------|------|
| New Trailers                |        |        |       |      |
| Commercial Trailer Products | 13,950 | 10,950 | 3,000 | 27.4 |
| Diversified Products        | 850    | 850    | -     | -    |
| Retail                      | 800    | 800    | -     | -    |
| Total                       | 15,600 | 12,600 | 3,000 | 23.8 |

(units)

|                             |     |       |       |        |
|-----------------------------|-----|-------|-------|--------|
| Used Trailers               |     |       |       |        |
| Commercial Trailer Products | 200 | 1,000 | (800) | (80.0) |
| Diversified Products        | 50  | 50    | -     | -      |
| Retail                      | 350 | 350   | -     | -      |
| Total                       | 600 | 1,400 | (800) | (57.1) |

Commercial Trailer Products segment sales were \$333.8 million for the third quarter of 2014, an increase of \$57.2 million, or 20.7%, compared to the third quarter of 2013. The increase in sales was primarily due to a 27.4% increase in new trailer shipments, as approximately 13,950 trailers were shipped in the third quarter of 2014 compared to 10,950 trailers shipped in the prior year period. The increase in trailer shipments and improved pricing was offset by product mix, which lowered average selling prices by 2.4% as compared to the prior year period. Used trailer sales decreased \$7.1 million, or 78.5%, compared to the previous year period primarily due to decreased availability of product through fleet trade packages, as approximately 800 fewer used trailers shipped in the third quarter of 2014

compared to the prior year period.

Diversified Products segment sales were \$112.9 million for the third quarter of 2014, down \$5.1 million, or 4.3%, compared to the third quarter of 2013. New trailer shipments in the third quarter remained comparable to the prior year period totaling 850 trailers, while new trailer sales decreased \$2.3 million, or 4.1%, as a result of product mix and competitive market pressures within certain product lines, which lowered average selling prices by 4.0% as compared to the prior year period. Sales of our composite product offerings decreased \$4.2 million, or 22.4%, as compared to the previous year period. The decreases in new trailer sales and composite product offerings were partially offset by a \$2.8 million, or 8.0%, increase in equipment sales as compared to the prior year period due to improved demand for our non-trailer truck mounted equipment and other engineered products.

Retail segment sales were \$45.0 million in the third quarter of 2014, down \$0.4 million, or 0.9%, compared to the prior year period. New trailer shipments in the third quarter remained comparable to the prior year period totaling 800 trailers, while new trailer sales decreased \$0.2 million, or 0.9%, as a result of product mix which lowered average selling prices by 1.8% compared to the prior year period. Used trailer shipments in the third quarter also remained comparable with the prior year period totaling 350 trailers, while used trailer sales increased \$0.7 million, or 21.0%, primarily due to a 16.6% increase in used trailer average selling prices as a result of favorable product mix. Parts and service sales were down \$0.9 million, or 4.3%, as compared with the prior year period due to the transitioning of three of our former branches to independent dealer locations in May 2014.

## Cost of Sales

Cost of sales for the third quarter of 2014 was \$430.1 million, an increase of \$51.6 million, or 13.6%, compared to the third quarter of 2013. As a percentage of net sales, cost of sales was 87.5% in the third quarter of 2014 compared to 86.0% in the third quarter of 2013.

Commercial Trailer Products segment cost of sales, as detailed in the following table, was \$301.8 million for the third quarter of 2014, an increase of \$48.9 million, or 19.3%, compared to the third quarter of 2013. As a percentage of net sales, cost of sales was 90.4% for the current quarter compared to 91.4% in the prior year period.

| Commercial Trailer Products Segment | Three Months Ended September 30, |                |   |          |                |   |
|-------------------------------------|----------------------------------|----------------|---|----------|----------------|---|
|                                     | 2014                             |                |   | 2013     |                |   |
|                                     | (dollars in millions)            |                |   |          |                |   |
|                                     |                                  | % of Net Sales |   |          | % of Net Sales |   |
| Material Costs                      | \$ 243.6                         | 73.0           | % | \$ 204.4 | 73.9           | % |
| Other Manufacturing Costs           | 58.2                             | 17.4           | % | 48.5     | 17.5           | % |
|                                     | \$ 301.8                         | 90.4           | % | \$ 252.9 | 91.4           | % |

Cost of sales is comprised of material costs, a variable expense, and other manufacturing costs, comprised of both fixed and variable expenses, including direct and indirect labor, outbound freight, and overhead expenses. Material costs were 73.0% of net sales in the third quarter of 2014 compared to 73.9% for the same period in 2013. The 0.9% decrease was primarily driven by customer and product mix and improved pricing as compared to the prior year period. Other manufacturing costs increased \$9.7 million in the current year period as compared to the prior year period, resulting from increased variable costs related to increases in new trailer production volumes. As a percentage of sales, other manufacturing costs remained relatively consistent with the prior year period at 17.4%.

Diversified Products segment cost of sales was \$89.0 million in the third quarter of 2014, an increase of \$2.3 million, or 2.7%, compared to the same period in 2013. As a percentage of net sales prior to the elimination of intersegment sales, cost of sales was 81.9% in the third quarter of 2014 compared to 76.3% in the third quarter of 2013. The 5.6% increase as a percentage of net sales was primarily the result of higher raw material and operating costs attributable to our wood flooring manufacturing activities and a reduction in average selling prices for tank trailers due to product mix as compared to the prior year period, as well as competitive market pressures within certain product lines of both the composite product and tank trailer businesses.

Retail segment cost of sales was \$40.1 million in the third quarter of 2014 as compared to \$40.2 million in the prior year period. As a percentage of net sales, cost of sales was 89.1% for the third quarter of 2014 compared to 88.5% for the same period in 2013. The increase in cost of sales as a percentage of net sales was primarily the result of product mix driven by a decreased percentage of sales from our higher margin parts and service product line in the third quarter of 2014 as compared to the previous year period.

## Gross Profit

Gross profit was \$61.6 million in the third quarter of 2014, an increase of \$0.1 million from the prior year period. Gross profit as a percentage of sales was 12.5% for the current quarter and 14.0% for the same period in 2013. Gross profit by segment was as follows (in millions):

|                             | Three Months Ended September 30, |         |              |         |
|-----------------------------|----------------------------------|---------|--------------|---------|
|                             | 2014                             | 2013    | Change<br>\$ | %       |
| Gross Profit by Segment:    |                                  |         |              |         |
| Commercial Trailer Products | \$ 32.0                          | \$ 23.6 | \$ 8.4       | 35.6    |
| Diversified Products        | 23.9                             | 31.3    | (7.4 )       | (23.6 ) |
| Retail                      | 4.9                              | 5.2     | (0.3 )       | (5.8 )  |
| Corporate and Eliminations  | 0.8                              | 1.4     | (0.6 )       |         |
| Total                       | \$ 61.6                          | \$ 61.5 | \$ 0.1       | 0.2     |

Commercial Trailer Products segment gross profit was \$32.0 million for the third quarter of 2014 compared to \$23.6 million for the third quarter of 2013. Gross profit, prior to the elimination of intersegment sales, as a percentage of net sales was 9.1% in the third quarter of 2014 as compared to 8.0% in the 2013 period. The increase in gross profit margin as compared to the prior year period was primarily driven by the increase in new trailer volumes and improved pricing partially offset by customer and product mix.

Diversified Products segment gross profit was \$23.9 million for the third quarter of 2014 compared to \$31.3 million in the third quarter of 2013. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales, was 18.1% in the third quarter of 2014 compared to 23.7% in the third quarter of 2013. The decreases in gross profit and gross profit as a percentage of net sales, as compared to the prior year period, are due primarily to higher raw material and operating-related costs associated with our wood flooring operations and lower average selling prices for tank trailers due to product and customer mix, as well as competitive market pressures within certain product lines of both the composite product and tank trailer businesses.

Retail segment gross profit was \$4.9 million for the third quarter of 2014 compared to \$5.2 million in the third quarter of 2013. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales for the third quarter of 2014 was 10.8% compared to 11.4% for the prior year period. The decrease in gross profit margin was the result of product mix as a larger percentage of sales were from the lower-margin new and used trailer products.

### **General and Administrative Expenses**

General and administrative expenses for the third quarter of 2014 increased \$0.4 million, or 2.7%, from the prior year period as a result of a \$0.2 million increase in salaries and employee related costs, including employee incentive programs, and from a \$0.3 million increase in outside professional fees and technology costs, partially offset by a \$0.4 million decrease in bad debt expense due to certain uncollectable accounts receivable identified in the prior year period. As a percentage of sales, general and administrative expenses were 3.0% for the current quarter as compared to 3.3% for the third quarter of 2013.

### **Selling Expenses**

Selling expenses were \$6.3 million in the third quarter of 2014, a decrease of \$1.4 million, or 17.8%, compared to the prior year period primarily due to a \$1.1 million decrease in salaries and employee related costs, including employee incentive programs. As a percentage of net sales, selling expenses were 1.3% for the third quarter of 2014 compared to 1.7% for the prior year period.

### **Amortization of Intangibles**

Amortization of intangibles was \$5.5 million for the third quarters of both 2014 and 2013. Amortization of intangibles for both periods primarily includes amortization expense recognized for intangible assets recorded from the acquisition of Walker in May 2012 and certain assets of Beall in February 2013.

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

*Interest expense* for the third quarter of 2014 totaled \$5.5 million compared to \$6.3 million in the third quarter of 2013. Interest expense for both periods is primarily related to interest and non-cash accretion charges on our Convertible Senior Notes and Term Loan Credit Agreement. The decrease from the previous year period is due to lower outstanding loan commitments through voluntary debt payments made over the previous year.

*Other, net* for the third quarter of 2014 includes a loss on early extinguishment of debt of \$0.5 million representing the write-off of debt issuance costs recognized on \$20 million of voluntary principal payments made on our Term Loan Credit Agreement.

## Income Taxes

We recognized income tax expense of \$10.6 million in the third quarter of 2014, compared to \$10.7 million in the third quarter of 2013. The effective tax rate for the third quarter of 2014 was 36.6%, which differs from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes and the benefit of the U.S. Internal Revenue Code domestic manufacturing deduction. As of September 30, 2014, we had fully utilized our remaining U.S. Federal income tax net operating loss carryforwards and various U.S. Federal income tax credit carryforwards. We do have various multi-state income tax net operating loss carryforwards, which have been recorded as a deferred income tax asset, of approximately \$5 million, before valuation allowances. For the remainder of 2014 and 2015, we anticipate an increase in our cash tax payments as compared to the previous years, which could limit the amount of liquidity available to fund working capital requirements and capital expenditure needs during this period.

**Nine Months Ended September 30, 2014**

## Net Sales

Net sales for the first nine months of 2014 increased \$158.5 million, or 13.5%, compared to the 2013 period. By business segment, net external sales and related units sold were as follows (dollars in millions):

|                             | Nine Months Ended September 30, |           |         |        |
|-----------------------------|---------------------------------|-----------|---------|--------|
|                             | 2014                            | 2013      | Change  |        |
|                             |                                 |           | \$      | %      |
| Sales by Segment            |                                 |           |         |        |
| Commercial Trailer Products | \$859.8                         | \$704.7   | \$155.1 | 22.0   |
| Diversified Products        | 334.3                           | 338.9     | (4.6 )  | (1.4 ) |
| Retail                      | 141.7                           | 133.7     | 8.0     | 6.0    |
| Total                       | \$1,335.8                       | \$1,177.3 | \$158.5 | 13.5   |

|                             | (units) |        |       |      |
|-----------------------------|---------|--------|-------|------|
| New Trailers                |         |        |       |      |
| Commercial Trailer Products | 35,450  | 28,100 | 7,350 | 26.2 |
| Diversified Products        | 2,500   | 2,250  | 250   | 11.1 |
| Retail                      | 2,500   | 2,250  | 250   | 11.1 |
| Total                       | 40,450  | 32,600 | 7,850 | 24.1 |

|                             | (units) |       |       |      |
|-----------------------------|---------|-------|-------|------|
| Used Trailers               |         |       |       |      |
| Commercial Trailer Products | 3,050   | 2,400 | 650   | 27.1 |
| Diversified Products        | 100     | 100   | -     | -    |
| Retail                      | 1,300   | 950   | 350   | 36.8 |
| Total                       | 4,450   | 3,450 | 1,000 | 29.0 |

Commercial Trailer Products segment sales were \$859.8 million for the first nine months of 2014, an increase of \$155.1 million, or 22.0%, compared to the first nine months of 2013. The increase in sales was primarily due to a 26.2% increase in new trailer shipments, as approximately 35,450 trailers were shipped in the first nine months of 2014 compared to 28,100 trailers shipped in the prior year period. The increase in trailer shipments was offset by product mix, which lowered average selling prices by 2.4% as compared to the prior year period. Used trailer sales increased \$1.4 million, or 6.8%, compared to the previous year period primarily due to strong demand and increased availability of product through fleet trade packages as approximately 650 more used trailers shipped in the first nine

months of 2014 compared to the prior year period.

Diversified Products segment sales were \$334.3 million for the first nine months of 2014, down \$4.6 million, or 1.4%, compared to the prior year period. New trailer sales increased \$11.9 million, or 7.9%, due to an 11.1% increase in new trailer shipments, as approximately 2,500 trailers were shipped in the first nine months of 2014 compared to 2,250 trailers shipped in the prior year period. Used trailer sales increased \$0.9 million, or 38.7%, as a result of a favorable customer and product mix, which increased used trailer average selling prices by 18.5% as compared to the prior year period. Parts and service sales decreased \$4.4 million, or 5.8%, compared to the prior year period due to decreased demand. Equipment and other sales decreased \$13.1 million, or 11.9%, due to the timing of shipments and customer acceptance for our non-trailer truck mounted equipment and other engineered products.

Retail segment sales were \$141.7 million in the first nine months of 2014, up \$8.0 million, or 6.0%, compared to the prior year period. New trailer sales increased \$4.6 million, or 7.5%, as approximately 250 more trailers were shipped in the current year as compared to the prior year period. As compared to the prior year period, new trailer average selling prices decreased 3.4%, primarily due to customer and product mix. Used trailer sales increased \$3.2 million, or 33.1%, primarily due to an increase in volume demand, as approximately 350 more used trailers were shipped in the first nine months of 2014 as compared to the prior year period. Parts and service sales were up \$1.3 million, or 2.2%, as compared to the prior year period.

## Cost of Sales

Cost of sales for the first nine months of 2014 was \$1.2 billion, an increase of \$151.1 million, or 14.9%, as compared to the first nine months of 2013. As a percentage of net sales, cost of sales was 87.3% in the first nine months of 2014, compared to 86.2% in the prior year period.

Commercial Trailer Products segment cost of sales, as detailed in the following table, was \$784.1 million for the first nine months of 2014, an increase of \$135.8 million, or 20.9%, compared to the prior year period. As a percentage of net sales, cost of sales was 91.2% for the current year period, compared to 92.0% in the prior year period.

| Commercial Trailer Products Segment | Nine Months Ended September 30, |                |   |          |                |   |
|-------------------------------------|---------------------------------|----------------|---|----------|----------------|---|
|                                     | 2014                            |                |   | 2013     |                |   |
|                                     | (dollars in millions)           |                |   |          |                |   |
|                                     |                                 | % of Net Sales |   |          | % of Net Sales |   |
| Material Costs                      | \$ 629.7                        | 73.2           | % | \$ 515.7 | 73.2           | % |
| Other Manufacturing Costs           | 154.4                           | 18.0           | % | 132.6    | 18.8           | % |
|                                     | \$ 784.1                        | 91.2           | % | \$ 648.3 | 92.0           | % |

Cost of sales is comprised of material costs, a variable expense, and other manufacturing costs, comprised of both fixed and variable expenses, including direct and indirect labor, outbound freight, and overhead expenses. Material costs were 73.2% of net sales in both the first nine months of 2014 and 2013. Material costs as a percentage of sales are consistent with the prior year period as raw material, commodity, and component costs have remained relatively consistent as compared to the prior year period. Other manufacturing costs increased \$21.8 million in the current year period as compared to the prior year period, resulting from increased variable costs related to increases in new trailer production volumes. As a percentage of sales, other manufacturing costs decreased from 18.8% in the first nine months of 2013 to 18.0% in the 2014 period due to increased leverage of fixed costs from higher production.

Diversified Products segment cost of sales was \$259.8 million in the first nine months of 2014, an increase of \$9.8 million, or 3.9%, compared to the same period in 2013. As a percentage of net sales prior to the elimination of intersegment sales, cost of sales was 80.8% in the first nine months of 2014, compared to 76.6% in the same 2013 period. The 4.2% increase as a percentage of net sales was primarily the result of higher raw material and operating costs attributable to our wood flooring manufacturing activities and lower average selling prices for tank trailers due to customer and product mix as compared to the prior year period, as well as competitive market pressures within certain product lines of both the composite product and tank trailer businesses.

Retail segment cost of sales was \$125.7 million in the first nine months of 2014, an increase of \$7.6 million, or 6.4%, compared to the same 2013 period. As a percentage of net sales, cost of sales was 88.7% for the first nine months of 2014 compared to 88.3% for the same period in 2013. Cost of sales as a percentage of net sales was consistent with the prior year period as a result of comparable product mix.

## Gross Profit

Gross profit was \$169.9 million in the first nine months of 2014, an improvement of \$7.4 million from the prior year period. Gross profit as a percentage of sales was 12.7% for the first nine months of 2014, as compared to 13.8% for the same period in 2013. Gross profit by segment was as follows (in millions):

|                             | Nine Months Ended September 30, |          |              |         |
|-----------------------------|---------------------------------|----------|--------------|---------|
|                             | 2014                            | 2013     | Change<br>\$ | %       |
| Gross Profit by Segment:    |                                 |          |              |         |
| Commercial Trailer Products | \$ 75.8                         | \$ 56.4  | \$ 19.4      | 34.4    |
| Diversified Products        | 74.5                            | 89.0     | (14.5 )      | (16.3 ) |
| Retail                      | 16.0                            | 15.6     | 0.4          | 2.6     |
| Corporate and Eliminations  | 3.6                             | 1.5      | 2.1          |         |
| Total                       | \$ 169.9                        | \$ 162.5 | \$ 7.4       | 4.6     |

Commercial Trailer Products segment gross profit was \$75.8 million for the first nine months of 2014 compared to \$56.4 million for the prior year period. Gross profit, prior to the elimination of intersegment sales, as a percentage of net sales was 8.3% in the first nine months of 2014, as compared to 7.4% in the same 2013 period. The increase in gross profit and profit margin as compared to the prior year period was primarily driven by the increase in new trailer volumes and improved pricing partially offset by customer and product mix.

Diversified Products segment gross profit was \$74.5 million for the first nine months of 2014, compared to \$89.0 million in the same 2013 period. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales, was 19.2% in the first nine months of 2014 compared to 23.4% in the first nine months of 2013. The decreases in gross profit and gross profit as a percentage of net sales, as compared to the prior year period, are due primarily to higher raw material and operating related costs associated with our wood flooring operations and lower average selling prices for tank trailers due to product mix and competitive market pressures within certain product lines.

Retail segment gross profit was \$16.0 million for the first nine months of 2014 compared to \$15.6 million in the same 2013 period. Gross profit, prior to the elimination of intersegment sales, as a percentage of sales for the first nine months of 2014 was 11.3% compared to 11.6% for the prior year period. Gross profit margin was relatively consistent

with the prior year period as the increased demand was offset product mix and an increase in costs to support growth initiatives.

### **General and Administrative Expenses**

General and administrative expenses for the first nine months of 2014 increased \$1.7 million, or 3.9%, from the prior year period as a result of a \$2.9 million increase in salaries and employee related costs, including employee incentive programs, partially offset by decreases in bad debt expense of \$0.6 million, due to certain uncollectable accounts receivable identified in the prior year period, as well as lower outside professional services of \$0.4 million. As a percentage of sales, general and administrative expenses were 3.4% for the first nine months of 2014, as compared to 3.7% for the same 2013 period.

## **Selling Expenses**

Selling expenses were \$20.4 million in the first nine months of 2014, a decrease of \$2.7 million, or 11.6%, compared to the prior year period, primarily due to a \$2.1 million decrease in salaries and employee related costs, including employee incentive programs, and lower advertising and promotional costs. As a percentage of net sales, selling expenses were 1.5% for the first nine months of 2014, compared to 2.0% for the prior year period.

## **Amortization of Intangibles**

Amortization of intangibles was \$16.4 million for the first nine months of 2014, as compared to \$16.3 million for the first nine months of 2013. Amortization of intangibles for both periods primarily includes amortization expense recognized for intangible assets recorded from the acquisition of Walker in May 2012 and certain assets of Beall in February 2013.

## **Other Income (Expense)**

*Interest expense* for the first nine months of 2014 totaled \$16.9 million, compared to \$20.4 million in the prior year period. Interest expense for both periods primarily relates to interest and non-cash accretion charges on our Convertible Senior Notes and Term Loan Credit Agreement. The decrease from the previous year period is due to lower outstanding loan commitments through voluntary debt payments made over the previous year, as well as reduced interest rates achieved as a result of repricing the Term Loan Credit Agreement in April 2013.

*Other, net* for the first nine months of 2014 includes a loss on early extinguishment of debt of \$1.0 million, representing the write-off of debt issuance costs recognized on \$40 million of voluntary principal payments made on our Term Loan Credit agreement, as well as a \$0.6 million loss on the transition of three of our Retail branch locations to independent dealer facilities.

## **Income Taxes**

We recognized income tax expense of \$27.9 million in the first nine months of 2014, compared to \$24.0 million in the first nine months of 2013. The effective tax rate for the first nine months of 2014 was 40.0%, which differs from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes, the revaluation of our net

deferred tax assets due to a reduction in state and local statutory income tax rates, and the benefit of the U.S. Internal Revenue Code domestic manufacturing deduction. As of September 30, 2014, we had fully utilized our remaining U.S. Federal income tax net operating loss carryforwards and various U.S. Federal income tax credit carryforwards. We do have various multi-state income tax net operating loss carryforwards, which have been recorded as a deferred income tax asset, of approximately \$5 million, before valuation allowances. For the remainder of 2014 and 2015, we anticipate an increase in our cash tax payments as compared to the previous years, which could limit the amount of liquidity available to fund working capital requirements and capital expenditure needs during this period.

## **Liquidity and Capital Resources**

### **Capital Structure**

Our capital structure is comprised of a mix of debt and equity. As of September 30, 2014 our debt to equity ratio was approximately 0.9:1.0. Our long-term objective is to generate operating cash flows sufficient to fund normal working capital and capital expenditure requirements and position ourselves to take advantage of market opportunities, including the ability to improve our capital structure through debt repayments. For the remainder of 2014 and 2015, we expect to fund operations, working capital requirements and capital expenditures through cash flows from operations, as well as from available borrowings under our Amended and Restated Revolving Credit Agreement (as described below in “Debt Agreements and Related Amendments” section).

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

#### **Convertible Senior Notes**

In April 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. 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; and (3) 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. As of September 30, 2014, the Notes were not convertible based on the above criteria.

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 required 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 Notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, we estimated the implied interest rate of the Notes to be 7.0%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the Notes, which resulted in a fair value of the liability component of \$123.8 million upon issuance, calculated as the present value of implied future payments based on the \$150.0 million aggregate principal amount. The \$21.7 million difference between the cash proceeds before offering expenses of \$145.5 million and the estimated fair value of the liability component was recorded in additional paid-in capital. The discount on the liability portion of the Notes is being amortized over the life of the Notes using the effective interest rate method.

## Revolving Credit Agreement

In May 2012 we entered into an amendment and restatement of our then-existing senior secured revolving credit facility among us, certain of our subsidiaries (collectively, the “Borrowers”), Wells Fargo Capital Finance, LLC, as joint lead arranger, joint bookrunner and administrative agent (the “Revolver Agent”), RBS Citizens Business Capital, a division of RBS Citizens, N.A., as joint lead arranger, joint bookrunner and syndication agent, and the other lenders named therein, as amended (the “Amended and Restated Revolving Credit Agreement”). Also in May 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 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 in excess of \$25 million. Availability under the Amended and Restated Revolving Credit Agreement will be based upon monthly (or more frequent under certain circumstances) borrowing base certifications of the Borrowers’ eligible inventory and eligible accounts receivable, and will be reduced by certain reserves in effect from time to time. Subject to availability, the Amended and Restated Revolving Credit Agreement provides for a letter of credit subfacility in an amount not in excess of \$15 million, and allows for swingline loans in an amount not in excess of \$10 million. Outstanding borrowings under the Amended and Restated Revolving Credit Agreement will bear interest at a rate, at the Borrowers’ election, equal to (i) LIBOR plus a margin ranging from 1.75% to 2.25% or (ii) a base rate plus a margin ranging from 0.75% to 1.25%, in each case depending upon the monthly average excess availability under the revolving loan facility. The Borrowers are required to pay a monthly

unused line fee equal to 0.375% times the average daily unused availability along with other customary fees and expenses of the Revolver Agent and the lenders.

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

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

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

As of September 30, 2014, we were in compliance with all covenants of the Amended and Restated Revolving Credit Agreement.

### **Term Loan Credit Agreement and Related Amendment**

In May 2012 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, as amended (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 in May 2012, certain of our subsidiaries (the "Term Guarantors") entered into a general continuing guarantee of the Company's obligations under the Term Loan Credit Agreement in favor of the Term Agent (the "Term Guarantee").

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

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. In addition, the Amendment amended the Term Loan Credit Agreement, by among other things, removing the covenant that we be required to maintain a minimum interest coverage ratio. As amended, the Term Loan Credit Agreement requires us to maintain a maximum senior secured leverage ratio tested as of the last day of each fiscal quarter for the four consecutive fiscal quarters then ending of not more than (A) 4.5 to 1.0 through September 30, 2013, (B) 4.0 to 1.0 thereafter through September 30, 2015, and (C) 3.5 to 1.0 thereafter. 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.

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.

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.

As of September 30, 2014, our senior secured leverage ratio was 0.8:1.0, and we were in compliance with all covenants under the Term Loan Credit Agreement.

For the nine months ended September 30, 2014 and 2013, under the Term Loan Credit Agreement we paid interest of \$7.9 million and \$12.0 million, respectively, and principal of \$42.1 million during each nine month periods. As of September 30, 2014, we had \$192.8 million outstanding under the Term Loan Credit Agreement all of which was classified as long-term debt on our Condensed Consolidated Balance Sheet as a result of our election to apply our voluntary principal payment in September 2014 in a manner that fulfilled our obligation to pay the future mandatory quarterly amortization installments required by the Term Loan Credit Agreement. In connection with the closing of the Term Loan Credit Agreement in May 2012 and related Amendment in April 2013, we paid a total of \$8.5 million in original issuance discount fees which are being amortized over the life of the facility using the effective interest rate method.

For each of the nine months ended September 30, 2014 and 2013, we charged \$0.7 million of amortization for original issuance discount fees as *Interest Expense* in the Condensed Consolidated Statements of Operations. Additionally, for

each of the nine month periods ended September 30, 2014 and 2013 we charged \$0.9 million of accelerated amortization in connection with our voluntary principal payments as *Other, net* in the Condensed Consolidated Statements of Operations.

## Cash Flow

Cash provided by operating activities for the first nine months of 2014 totaled \$14.7 million, compared to \$53.8 million provided by operating activities during the same period in 2013. Cash provided by operations during the current year period was the result of net income adjusted for various non-cash activities, including depreciation, amortization of intangibles, loss on debt extinguishment, deferred income taxes, stock-based compensation, and accretion of debt discount of \$95.7 million, offset by an \$81.0 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, as well as increased finished good levels commensurate with the current demand environment. Changes in key working capital accounts for the first nine months of 2014, as compared to the same period in 2013 are summarized below (in millions):

| Source (Use) of cash:                    | 2014     | 2013     | Change |
|------------------------------------------|----------|----------|--------|
| Accounts receivable                      | \$(31.3) | \$(33.4) | \$2.1  |
| Inventories                              | (79.5)   | (49.2)   | (30.3) |
| Accounts payable and accrued liabilities | 25.1     | 33.3     | (8.2)  |
| Net use of cash                          | (85.7)   | (49.3)   | (36.4) |

Accounts receivable increased by \$31.3 million in the first nine months of 2014, as compared to an increase of \$33.4 million in the prior year period. Days sales outstanding, a measure of working capital efficiency that measures the amount of time a receivable is outstanding, increased to approximately 28 days as of September 30, 2014, compared to 27 days as of the same period in 2013. The increase in accounts receivable during the first nine months of 2014 was primarily due to timing of shipments and a 13.5% increase in our consolidated net sales as compared to the prior year period. Inventory increased by \$79.5 million during the first nine months of 2014, as compared to an increase of \$49.2 million in the 2013 period. The increase in inventory for the 2014 period was primarily due to higher finished goods inventory resulting from production levels exceeding customer shipments for the first nine months of 2014. Our inventory turns, a commonly used measure of working capital efficiency that measures how quickly inventory turns per year, was approximately 7 times as of September 30, 2014, compared to 6 times as of the same period in 2013. Accounts payable and accrued liabilities increased by \$25.1 million in 2014, compared to an increase of \$33.3 million for the same period in 2013. The increase during the first nine months of 2014 was primarily due to increased production levels and increased purchasing activities required to meet current demand. Days payable outstanding, a measure of working capital efficiency that measures the amount of time a payable is outstanding, was 29 days in 2014 as compared to 33 days in the same period in 2013.

Investing activities used \$4.8 million during the first nine months of 2014, compared to \$25.1 million used in the same period in 2013. Investing activities for the first nine months of 2014 include proceeds from the sale of certain Retail branch location assets totaling \$4.1 million, as well as capital expenditures to support growth and improvement initiatives across several of our facilities totaling \$9.0 million. Cash used in investing activities in the first nine months of 2013 was primarily related to the acquisition of certain assets of Beall totaling \$13.9 million as well as capital expenditures totaling \$11.6 million.

Financing activities used \$43.6 million during the first nine months of 2014 primarily due to principal payments under our term loan credit facility of approximately \$42.1 million.

As of September 30, 2014, our liquidity position, defined as cash on hand and available borrowing capacity, amounted to \$219.7 million, representing an increase of \$11.5 million and a decrease of \$34.6 million as compared to September 30, 2013 and December 31, 2013, respectively. Total debt and capital lease obligations amounted to \$331.8 million as of September 30, 2014. As we continue to see a healthy demand environment within the trailer and transportation industries, as well as improving operating performance metrics, we believe our liquidity is adequate to fund operations, working capital needs and capital expenditures for the remainder of 2014 and 2015.

#### Capital Expenditures

Capital spending amounted to \$9.0 million for the first nine months of 2014 and is anticipated to be approximately \$20 million for 2014. Capital spending for 2014 has been and is expected to continue to be primarily utilized for maintenance related projects and to support growth and improvement initiatives within our facilities.

#### Off-Balance Sheet Transactions

As of September 30, 2014, we had approximately \$7.2 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, 2014.

#### 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, 2013. With the exception of the increase in our raw material purchases commitments (see “Item 3. Qualitative and Quantitative Disclosures About Market Risks—Commodity Prices” section below for further details) and a decrease in our term loan credit facility (see Note 4 of our condensed consolidated financial statements) there have been no material changes to the summary provided in that report.

#### Backlog

Orders that have been confirmed by customers in writing and can be produced during the next 18 months are included in our backlog. Orders that comprise our backlog may be subject to changes in quantities, delivery, specifications and terms. Our backlog of orders was approximately \$794 million at September 30, 2014, compared to \$711 million at December 31, 2013 and \$563 million at September 30, 2013. We expect to complete the majority of our existing

backlog orders within the next 12 months.

## OUTLOOK

The demand environment for trailers remained healthy during the first nine months of 2014, as evidenced by our strong and improving backlog, a trailer demand forecast by industry forecasters above replacement demand levels for the next several years and our ability to improve and recapture lost margins. Recent estimates from industry analysts, ACT Research Company (“ACT”) and FTR Associates (“FTR”), forecast strong demand levels for the remainder of 2014 and beyond, with ACT currently estimating demand to be approximately 267,000 trailers for 2014, representing an increase of 11% as compared to 2013, and forecasting continued strong demand levels into the foreseeable future, with annual average demand for the five year period ending 2019 estimated to be 269,000 new trailers. FTR anticipates new trailer demand to be approximately 265,000 new trailers in 2014, representing an increase of 13% as compared to 2013, while projecting a decrease in 2015 with demand totaling 254,000 trailers. Nevertheless, there remain downside concerns relating to issues with the U.S. and global economy, unemployment, and housing and construction-related markets in the U.S.

Other challenges we face as we finish 2014 and proceed into 2015 will primarily relate to managing raw material commodity and component costs. While most commodity costs have been stable in recent periods, raw material costs have historically had periods of volatility. As has been our policy, we will endeavor to pass along raw material and component price increases to our customers in addition to continuing our hedging activities in an effort to minimize the risk of changes in commodity prices having a significant impact on our operating results.

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

Based on the published industry demand forecasts, customer feedback 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 2014 total new trailers sold will be between 54,500 and 56,000, which reflects volumes approximately 16% to 20% stronger than 2013 demand levels. As a result of our commitment to recapture margins within our Commercial Trailer Products segment, our expectation for growth in trailer volumes is similar to the expected industry growth rate, and we have already begun to realize the improvements in pricing and gross margins and we expect continued improvements throughout the remainder of 2014.

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 could provide us the opportunity to address new markets, enhance our financial profile and reduce the cyclicality within our business. While demand for some of these products is dependent on the development of new products, customer acceptance of our product solutions and the general expansion of our customer base and distribution channels, we anticipate the near-term growth rate of demand for these products to be comparable to or slightly less than that of our Commercial Trailer Products segment in the current environment. The Walker acquisition completed in May 2012, as well as our purchase of certain assets of Beall completed in February 2013, further diversifies our business, complements our leadership position in trailer manufacturing and related products and technologies and potentially provides for additional growth and value creation as we actively pursue margin enhancing synergies. In addition, we have been and will continue to focus on developing innovative new products that both add value to our customers' operations and allow us to continue to differentiate our products from the competition.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have included a summary of our Critical Accounting Policies and Estimates in our annual report on Form 10-K for the year ended December 31, 2013. There have been no material changes to the summary provided in that report.



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

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

**Commodity Prices**

We are exposed to fluctuations in commodity prices through the purchase of various raw materials that are processed from commodities such as aluminum, steel, lumber, nickel and copper, as well as other raw material components. Given the historical volatility of certain commodity prices, this exposure can materially impact product costs. We manage commodity price changes by entering into fixed price contracts with our suppliers. As of September 30, 2014, we had \$33.0 million in raw material purchase commitments through December 2015 for materials that will be used in the production process, as compared to \$32.8 million as of December 31, 2013. 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, 2014, we had no floating rate debt outstanding under our revolving facility. During the nine month period ended September 30, 2014, we maintained an average floating rate borrowing level of less than \$0.1 million under our revolving line of credit. In addition, as of September 30, 2014, we had outstanding borrowings under our Term Loan Credit Agreement totaling \$192.8 million that bear interest at a floating rate, subject to a minimum interest rate. Based on the average borrowings under our revolving facility and the outstanding indebtedness under our Term Loan Credit Agreement, a hypothetical 100 basis-point change in the floating interest rate would result in a corresponding change in interest expense over a one-year period of \$0.3 million. This sensitivity analysis does not account for the change in the competitive environment indirectly related to the change in interest rates and the potential managerial action taken in response to these changes.

**Foreign Exchange Rates**

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

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

Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) were effective as of September 30, 2014.

## 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 2014 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

In February 2013, we completed the purchase of certain assets of Beall, which includes certain previously existing information systems and internal controls over financial reporting. We are currently in the process of evaluating and integrating Beall's historical internal controls over financial reporting with ours. We expect to complete this process by the end of fiscal year 2014.

## **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, 2013. 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, 2013, including those under the heading "Risk Factors" appearing in Item 1A of Part I of the Form 10-K and other information contained in this Quarterly Report before investing in our securities. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

### **ITEM 6.        EXHIBITS**

(a) Exhibits:

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31.01 Certification of Principal Executive Officer

31.02 Certification of Principal Financial Officer

32.01 Written Statement of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

101 Interactive Data File Pursuant to Rule 405 of Regulation S-T

**SIGNATURE**

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

WABASH  
NATIONAL  
CORPORATION

Date: October 28, 2014 By: /s/ Jeffery L.  
Taylor  
Jeffery L. Taylor  
Senior Vice  
President and Chief  
Financial Officer  
(Principal Financial  
Officer)