INDUSTRIAL DISTRIBUTION GROUP INC
Form 10-Q
May 16, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _________ TO _________
COMMISSION FILE NUMBER 001-13195
INDUSTRIAL DISTRIBUTION GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	58-2299339
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

950 East Paces Ferry Road, Suite 1575 Atlanta, Georgia 30326

(Address of principal executive offices and zip code)
(404) 949-2100

(Registrant s telephone number, including area code)

(Former Name, Former Address and Formal Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	Outstanding at April 28, 2008

Common Stock, $0.01 par value	9,605,502

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INDUSTRIAL DISTRIBUTION GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	MARCH 31, 2008 (Unaudited)	DECEMBER 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 438	$ 431
Accounts receivable, net	69,037	71,376
Inventory, net	57,441	60,259
Deferred tax assets	3,711	3,613
Prepaid and other current assets	2,843	3,328
Total current assets	133,470	139,007
PROPERTY AND EQUIPMENT, NET	4,216	4,352
INTANGIBLE ASSETS, NET	107	118
DEFERRED TAX ASSETS	1,433	1,442
OTHER ASSETS	684	773
Total assets	$ 139,910	$ 145,692
LIABILITIES & STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 175	$ 133
Accounts payable	40,016	46,309
Accrued compensation	2,360	1,892
Other accrued liabilities	4,545	4,850
Total current liabilities	47,096	53,184
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	10,262	11,055
OTHER LONG-TERM LIABILITIES	297	293
Total liabilities	57,655	64,532
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
STOCKHOLDERS EQUITY:		
Preferred stock, $0.10 par value per share; 10,000,000 shares authorized, no shares issued or outstanding at March 31, 2008 and at December 31, 2007	0	0
Common stock, par value $0.01 per share, 50,000,000 shares authorized; 9,458,113 shares issued and outstanding at March 31, 2008; 9,394,025 shares issued and outstanding at December 31, 2007	95	94
Additional paid-in capital	100,588	100,414

Accumulated deficit		(18,428)		(19,348)
Total stockholders equity		82,255		81,160
Total liabilities and stockholders equity	$	139,910	$	145,692

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

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INDUSTRIAL DISTRIBUTION GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share data)
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2008	**2007**
NET SALES	$ 127,267	$ 135,105
COST OF SALES	97,107	103,996
Gross profit	30,160	31,109
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	28,436	28,190
Operating income	1,724	2,919
INTEREST EXPENSE	239	500
OTHER INCOME	0	1
EARNINGS BEFORE INCOME TAXES	1,485	2,420
PROVISION FOR INCOME TAXES	565	951
NET EARNINGS	$ 920	$ 1,469
EARNINGS PER COMMON SHARE:		
Basic	$ 0.10	$ 0.16
Diluted	$ 0.10	$ 0.15
WEIGHTED AVERAGE SHARES:		
Basic	9,414,535	9,354,371
Diluted	9,683,317	9,654,010

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

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INDUSTRIAL DISTRIBUTION GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	THREE MONTHS ENDED MARCH 31, 2008	THREE MONTHS ENDED MARCH 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 920	$ 1,469
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	288	290
Loss on sale of assets	2	2
Deferred income taxes	(89)	(112)
Stock-based compensation expense	27	39
Amortization of restricted stock	159	167
Excess tax benefit from exercise of stock options	0	(46)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,339	(2,833)
Inventories, net	2,818	361
Prepaid and other assets	574	556
Accounts payable	(6,293)	1,497
Accrued compensation	468	(486)
Other accrued liabilities	(333)	97
Total adjustments	(40)	(468)
Net cash provided by operating activities	880	1,001
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment, net	(146)	(186)
Proceeds from the sale of property and equipment	2	0
Net cash used in investing activities	(144)	(186)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of issuance costs	22	116
Excess tax benefit from exercise of stock options	0	46
Repayments on revolving credit facility	(43,038)	(35,219)
Borrowings on revolving credit facility	42,275	34,767
Debt and capital lease repayments	(30)	(6)
Debt borrowings	42	0
Net cash used in financing activities	(729)	(296)
NET CHANGE IN CASH AND CASH EQUIVALENTS	7	519
CASH AND CASH EQUIVALENTS, beginning of period	431	349
CASH AND CASH EQUIVALENTS, end of period	$ 438	$ 868

Supplemental Disclosures:				
Interest paid	$	261	$	471
Income taxes paid, net of refunds	$	278	$	454

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

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INDUSTRIAL DISTRIBUTION GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2008 (Unaudited)
Industrial Distribution Group, Inc. (IDG or the Company), a Delaware corporation, was formed on February 12, 1997 to create a nationwide supplier of cost-effective, Flexible Procurement Solutions (FPS) for manufacturers and other users of maintenance, repair, operating, and production (MROP) products. The Company conducts business in 48 states and China, providing expertise in the procurement, management, and application of MROP products to a wide range of industries.

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements are prepared pursuant to the Securities and Exchange Commission s rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by U. S. generally accepted accounting principles for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature.

These interim statements should be read in conjunction with the Company s financial statements and notes thereto, included in its Annual Report on Form 10-K, for the fiscal year ended December 31, 2007.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

During 2007, the Company corrected errors primarily related to duplicate trade payables arising from inventory purchases made in prior years and the overstatement of inventory balances at certain FPS sites at December 31, 2006. These errors were identified by the Company during its monthly financial statement close processes throughout 2007. The Company has concluded that the aggregate of these prior year errors corrected during 2007 were not material to results of operations, to trends for those periods affected, or to a fair presentation of the Company s consolidated financial statements and, accordingly, results for the prior periods have not been restated. Instead, the errors were corrected during the twelve months ended December 31, 2007, which resulted in a net increase of cost of sales of $128,000, a decrease of inventory aggregating $616,000 and a decrease of accounts payable aggregating $488,000.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has elected not to adopt the fair value option in measuring certain financial assets and liabilities.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Company expects SFAS No. 141R will have an impact on its accounting for future business combinations once adopted but the effect is dependent upon acquisitions that are made in the future.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS No. 160 establishes requirements for ownership interests in subsidiaries held by parties other than the Company (sometimes called minority interests) be clearly identified, presented, and disclosed in the consolidated statement of financial position within equity, but separate from the parent s equity. All changes in the parent s ownership interests are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in deconsolidated subsidiaries must be measured initially at fair value. SFAS No. 160 is effective, on a prospective basis, on or after January 1, 2009. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The Company is currently assessing the impact of SFAS No. 160, if any, on its consolidated financial position, results of operations and cash flows.

earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 157 will have a material effect on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This statement shall be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 162 on its consolidated financial position, results of operations and cash flows.

3. CREDIT FACILITY

In December 2000, the Company entered into a $100.0 million revolving credit facility with a five financial institution syndicate. On July 18, 2005, the Company amended this agreement with the existing syndicate. The agreement provides a $75.0 million credit facility with an accordion option enabling the Company to expand the facility to $110.0 million and extends through July 18, 2010. The agreement contains a first security interest in the assets of the Company. The annual commitment fee on the unused portion of the amended facility is 25 basis points of the average daily unused portion of the greater of $75.0 million or $110.0 million if the accordion option is used. The agreement provides that the facility may be used for operations and acquisitions, and provides $7.5 million for swinglines and $10.0 million for letters of credit. Amounts outstanding under the amended credit facility bear interest at either the lead bank s corporate rate or LIBOR, as selected by the Company from time to time, plus applicable margins. This rate was 5.3% and 7.3% at March 31, 2008 and December 31, 2007, respectively.

The amounts outstanding under the facility at March 31, 2008 and December 31, 2007 were $9.8 million and $10.5 million, respectively, which have been classified as long-term liabilities in the consolidated balance sheets. Additionally, the Company had outstanding letters of credit of $1.2 million under the facility at March 31, 2008 and December 31, 2007. The amended credit facility contains a requirement for fixed charge coverage to be met if monthly average excess availability under the facility falls below $15.0 million. The Company has the ability to repurchase up to $5.0 million of its common stock during any one fiscal year under the terms of the agreement. Covenants under the amended Credit Facility prohibit the payment of cash dividends, among various other restrictions. The Company was in compliance with these covenants as of March 31, 2008 and December 31, 2007.

4. CAPITAL STOCK

The Company s Board of Directors terminated the employee stock purchase plan effective January 1, 2008. During the three month period ended March 31, 2008 the Company issued the remaining 1,362 shares of its common stock through its employee stock purchase plan related to the final employee purchases made during December 2007, and issued 1,000 shares of its common stock pursuant to the exercise of options. During the three months ended March 31, 2007 the Company issued 6,296 shares of its common stock through its employee stock purchase plan and issued 18,267 shares of its common stock pursuant to the exercise of options.

Options are included in the computation of diluted earnings per share when the options exercise price is less than the average market price of the common stock during the period. The number of options outstanding during the three months ended March 31, 2008 and 2007 had a dilutive effect of 268,782 shares and 299,639 shares, respectively, to the weighted average common stock outstanding. During the three months ended March 31, 2008 and 2007, options where the exercise price exceeded the average market price of the common stock totaled 9,000 and 38,490, respectively. Such shares were not included in the calculation of weighted average common stock outstanding because they were antidilutive.

On February 21, 2007, the Company s board of directors approved the extension of the Stock Repurchase Program to December 31, 2009 and provided for the purchase of up to an additional $5,000,000 of common stock. During the three months ended March 31, 2008 and 2007, no shares were repurchased. As of March 31, 2008, the Company is authorized to repurchase an additional $5.3 million of its outstanding shares of common stock under the current terms of the repurchase program.

5. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective transition method. Under this transition method, compensation expense is recognized for share-based payments granted after January 1, 2006 in addition to share-based payments granted prior to, but unvested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123.

The Company uses the Black-Scholes-Merton formula to estimate the value of stock options granted and recognizes stock compensation costs over the explicit vesting period. The Black-Scholes-Merton option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

	THREE MONTHS ENDED MARCH 31, 2007
Expected life (years)	7
Dividend yield	0%
Expected stock price volatility	48%
Risk-free interest rate (low-high)	4.43% - 4.89%

Expected volatilities are based on the historical volatility of our stock. The Company believes that historical volatility is the best indicator of future volatility. The Company also uses historical data to estimate the term options are expected to be outstanding and to estimate forfeitures of options granted. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

There were no options granted during the first quarter of 2008. The weighted average grant-date fair value of options granted during the fiscal quarter March 31, 2007 was $6.44. The total intrinsic value of options exercised was less than $0.1 million during the three months ended March 31, 2008 and $0.2 million during the three months ended March 31, 2007. The total weighted average grant-date fair value of options exercised during the quarters ended March 31, 2008 and 2007 was $4.13 and $1.88, respectively. As of March 31, 2008, unrecognized compensation cost related to unvested stock options awards totaled $0.1 million and is expected to be recognized over a weighted average period of 1.2 years.

The Company may issue stock options and restricted stock under its stock incentive plan, management incentive program and non-shareholder approved equity arrangements. Under all plans, stock options expire ten years from the date of grant and vest ratably over three-to-four year periods. Under all plans, restricted stock vests on the third anniversary of the date of grant or ratably over a three-year period.

The stock incentive plan was adopted to provide key employees, officers, and directors an opportunity to own common stock of the Company and to provide incentives for such persons to promote the financial success of the Company. Awards under the stock incentive plan may be structured in a variety of ways, including incentive and nonqualified stock options, shares of common stock subject to terms and conditions set by the Board of Directors (restricted stock awards), and stock appreciation rights (SARs). Incentive stock options may be granted only to full-time employees (including officers) of the Company and any subsidiaries. Nonqualified options, restricted stock awards, SARs, and other permitted forms of awards may be granted to any person employed by or performing services for the Company, including directors. The aggregate number of shares which are available for issuance pursuant to awards under the 2007 stock incentive plan is 1,122,180 plus any shares that are subject to outstanding grants under the Company s 1997 stock incentive plan, which expire, are forfeited, or otherwise terminate without delivery of the shares, the Share Pool. Under the 2007 stock incentive plan, each option awarded is counted as one share subject to an award deducted from the Share Pool. Each share of restricted stock, each restricted stock unit, and each performance award that may be settled in shares, is counted as 1.778 shares subject to an award and deducted from the Share Pool. The Company currently has 806,639 shares available for issue under the stock incentive plan.

Under the management incentive program, management may be awarded shares of stock or restricted stock based on attaining certain performance goals. The Company issued no shares in 2008 for 2007 performance based on the terms of the management incentive program. During 2007, the Company increased the number of available shares of the plan by 250,000. As of March 31, 2008 a maximum of 450,000 shares of common stock may be issued at fair market value under this plan. The Company has issued a total of 168,852 shares under the management incentive plan as of March 31, 2008. The Company currently has 281,148 shares available for issue under the management incentive plan.

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A summary of changes in outstanding stock options for the period ended March 31, 2008 is as follows:

	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	AGGREGATE INTRINSIC VALUE
Outstanding at December 31, 2007	621,696	$ 4.88		
Granted	0			
Forfeited and surrendered	(717)	$ 6.00		
Exercised	(1,000)	$ 6.78		
Outstanding at March 31, 2008	619,979	$ 4.87	3.54	$ 3,225,000
Vested/Exercisable at March 31, 2008	587,614	$ 4.66	3.29	$ 3,174,000

Cash received from stock options exercised for the three months ended March 31, 2008 was less than $0.1 million. The income tax benefits from share-based arrangements for the three months ended March 31, 2008 totaled less than $0.1 million.

A summary of changes in unvested shares of restricted stock for the period ended March 31, 2008 is as follows:

	SHARES	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE
Outstanding, unvested at December 31, 2007	190,463	$ 8.92
Granted	19,518	$ 10.76
Forfeited and surrendered	0	
Vested	(61,726)	$ 8.87
Outstanding, unvested at March 31, 2008	148,255	$ 9.18

As of March 31, 2008, unrecognized compensation cost related to unvested restricted stock awards totaled $0.7 million and is expected to be recognized over a weighted average period of 0.7 years. There were 61,726 shares that vested during the three month period ended March 31, 2008. No shares vested during the three month period ended March 31, 2007.

6. INCOME TAXES

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. As a result of the adoption of FIN 48, there was no material change to unrecognized tax benefits, which would have been accounted for as an adjustment to the January 1, 2007 balance of retained earnings.

With the adoption of FIN 48, the Company provides for interest as a part of income tax expense which is consistent with prior reporting periods. The Company recorded an additional $14,000 in interest related to the unrecognized tax benefit during the three months ended March 31, 2008. As of March 31, 2008 and December 31, 2007, the Company had recorded a liability of approximately $54,000 and $40,000, respectively, for payment of interest. The balance as of March 31, 2008 was $0.3 million and is recorded in other long-term liabilities.

During the next 12 months, it is possible the Company could recognize $201,000 of the unrecognized tax benefits, including interest and state benefits, due mainly to the expiration of statute of limitations. The recognition of these unrecognized tax benefits may have an impact on the 2008 effective tax rate.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions the Company is no longer subject to federal, state, and local, or non-U.S. income tax examinations by tax authorities for years before 2004.

The Company s net deferred tax assets totaled approximately $5.1 million at March 31, 2008 and at December 31, 2007, and are subject to periodic recoverability assessments. The realization of the Company s deferred tax assets is principally dependent upon the Company being able to generate sufficient future taxable income in certain tax jurisdictions. Factors used to assess the likelihood of realization are the Company s forecast of future taxable income (which is based upon estimates and assumptions) and available tax planning strategies that could be implemented to realize the net deferred tax assets.

On the basis of the Company s operating results and projections for future taxable income, management believes it is more likely than not that future operations will generate sufficient taxable income to realize the net deferred tax assets. The valuation allowance for net deferred tax assets was $0.5 million as of March 31, 2008 and December 31, 2007. The valuation allowance for deferred tax assets at March 31, 2008 is primarily for state net operating loss carryforwards for which the Company believes sufficient taxable income will not be realized prior to expiration.

The provision for income taxes was $0.6 million for the three months ended March 31, 2008, compared to $1.0 million for the three months ended March 31, 2007. The effective tax rate decreased to 38.0% as compared to 39.3% due to a decrease in non-deductible items as a percentage of pre-tax income.

7. COMMITMENTS AND CONTINGENCIES

From time to time, we are involved in various proceedings incidental to our businesses and we are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. The Company has and will continue to vigorously defend itself in such legal claims and proceedings. Although the ultimate outcome of these proceedings cannot be determined with certainty, based on presently available information management believes that adequate reserves have been established for probable losses with respect thereto. Management further believes that the ultimate outcome of these matters could be material to operating results in any given quarter but will not have a materially adverse effect on our long-term financial condition, our results of operations, or our cash flows.

8. SUBSEQUENT EVENTS

Merger Agreement

On April 25, 2008, the Company entered into an Agreement and Plan of Merger (the Eiger Merger Agreement) with Eiger Holdco, LLC, a Delaware limited liability company (Eiger), and Eiger Merger Corporation, a Delaware corporation and a wholly-owned subsidiary of Eiger (Merger Co). Under the Eiger Merger Agreement, the Company s stockholders will be paid $12.10 per share in cash, and the holders of outstanding options for Company common stock (which will become fully vested in connection with the merger) will be paid the positive difference, if any, between $12.10 per share and the exercise price of the options. The total value of the transaction is approximately $130.8 million, which includes the acquisition of all of the Company s outstanding shares and options for approximately $118.5 million, and the assumption of all Company debt.

The Eiger Merger Agreement may be terminated by the Company or Eiger in certain circumstances detailed in the Eiger Merger Agreement. Under specified circumstances, the Company would be required to pay Eiger, or Eiger would be required to pay the Company, a termination fee equal to 3% of the total purchase price.

Consummation of the merger is subject to approval of the Eiger Merger Agreement by the Company s stockholders and other customary closing conditions. If approved by the Company s stockholders, and if the conditions of the Eiger Merger Agreement are satisfied or waived, the parties expect to consummate the merger promptly thereafter.

Eiger and Merger Co are both affiliates of Luther King Capital Management Corporation (LKCM) which has become the largest stockholder of the Company as a result of purchases over the past seven months that brought its ownership to approximately 14.9% of the Company s outstanding common stock.

In connection with the execution and delivery of the Eiger Merger Agreement on April 25, 2008, the Company terminated its Agreement and Plan of Merger (as amended), dated as of February 20, 2008, with affiliates of Platinum Equity Advisors, LLC. In connection therewith, the Company paid to Platinum Equity the approximately $3.0 million termination fee it was owed under the Platinum Merger Agreement. Pursuant to the Eiger Merger Agreement, in the event the Eiger Merger Agreement is terminated under certain conditions, Eiger may be obligated to reimburse the Company for the payment of the Platinum Fee.

Tornado

The Company s Belmont, North Carolina, campus facility, on which the Company has 125,000 square feet of both warehouse and office space, was struck by a tornado in the early morning on May 9, 2008. The storm occurred prior to opening for business so none of our associates were present. The office building suffered no damage, beyond a temporary loss of electricity, and thus personnel were able to resume work without significant disruptions to any aspect of our business operations. The warehouse suffered significant physical damage, however, which included the destruction of a substantial portion of the roof, including over the section of the warehouse used to store certain inventory and shipment records, and led to the loss of some inventory. The Company was able to initiate clean-up and restoration activities within a couple of days, and arranged for approximately 80,000 square feet of temporary replacement warehouse space at a nearby location, which has enabled the Company to remain fully operational during this period. The restoration process is expected to take approximately six months.

At this time, the Company s insurers have not determined the extent of the loss of property, inventory, or business interruption. Some of the records that were stored in the warehouse suffered water damage, and may not be salvageable. However, the Company has been able to continue inventory shipments without significant disruptions to customers, and they do not believe the permanent loss of any records will be significant or have any material adverse effect on the business. Based on preliminary analyses and discussions with loss adjusters and the Company s insurance carrier, it is believed all of the damage and loss suffered will be covered by insurance, subject to the applicable deductible of $0.1 million.

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

The following discussion is based upon our historical financial results. In this discussion, most percentages and dollar amounts have been rounded to aid presentation; as a result, all such figures are approximations. References to such approximations have generally been omitted.

This discussion may contain certain forward-looking statements concerning our operations, performance, and financial condition, including, in particular, the likelihood of our success in developing and expanding our business. These statements are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ, include but are not limited to: our exploration of strategic alternatives may have an adverse affect on our operating results and/or financial outlook, our ability to compete successfully in the highly competitive and diverse MROP market, our ability to renew profitable contracts, the availability of key personnel for employment by us, our reliance on the expertise of our senior management, a change in our pricing model for certain customers, an interruption of business due to IT system failures could harm our business, the uncertainty of customers demand for our products and services, our relationships with and dependence upon third-party suppliers and manufacturers, discontinuance of our distribution rights, failure to successfully implement efficiency improvements and other factors discussed in more detail under Item 1A Risk Factors in our Annual Report on Form 10-K for fiscal year 2007.

Our discussions below in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, under Item 7. Our discussions here focus on our results during or as of the three-month period ended March 31, 2008, and the comparable period of 2007 and, to the extent applicable, any material changes from the information discussed in that Form 10-K or other important intervening developments or information since that time. These discussions should be read in conjunction with that Form 10-K for more detailed and background information.

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RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2008 AND 2007

The following table sets forth a summary of our operating data and shows such data as a percentage of net sales for the periods indicated (dollars in thousands):

	THREE MONTHS ENDED MARCH 31,			
	2008		2007	
Net Sales	$ 127,267	100.0%	$ 135,105	100.0%
Cost of Sales	97,107	76.3	103,996	77.0
Gross Profit	30,160	23.7	31,109	23.0
Selling, General, and Administrative Expenses	28,436	22.3	28,190	20.8
Operating Income	1,724	1.4	2,919	2.2
Interest Expense	239	0.2	500	0.4
Other Income	0	0.0	1	0.0
Earnings Before Taxes	1,485	1.2	2,420	1.8
Provision for Income Taxes	565	0.5	951	0.7
Net Earnings	$ 920	0.7%	$ 1,469	1.1%

Net sales

Net sales decreased $7.8 million or 5.8% to $127.3 million for the three months ended March 31, 2008 from $135.1 million for the three months ended March 31, 2007. Our FPS revenues comprised 61.8% of our total revenue for the quarter, compared with 60.0% in the prior year period. Total FPS revenue declined $2.5 million or 3.0% to $78.6 million as compared to $81.1 million in the prior year quarter. As of March 31, 2008 we had 307 FPS sites, 97 of which were storeroom management arrangements, as compared to 336 sites as of March 31, 2007, 100 of which were storeroom management arrangements. New sites implemented since the first quarter of 2007 generated incremental revenue of $4.2 million in the first quarter of 2008. We benefited from sites that were implemented in late 2006 through early 2007 achieving their full run rate in the first quarter of 2008. More than offsetting these improvements, however, was the loss of certain sites in the fourth quarter of 2007 for which we chose not to compete due to pricing.

General MROP revenue decreased $5.4 million or 10.0% to $48.6 million for the three months ended March 31, 2008, from $54.0 million for the same period in 2007, primarily as a result of a general business decline in the automotive and truck sector and declines in production and volume by associated job shops, which had significant impact on a broad portion of our customer base of tier-one and tier-two suppliers who support those industries. The manufactured housing and recreational vehicle industries continue to struggle to regain market share and represented $1.0 million of the sales decline. Customers in the auto related sectors have been adversely affected by the American Axle & Manufacturing, Inc. labor strike that began in the first quarter.

Cost of Sales

Cost of sales decreased $6.9 million or 6.6% to $97.1 million for the three months ended March 31, 2008, from $104.0 million for the three months ended March 31, 2007. As a percentage of sales, cost of sales decreased to 76.3% for the three months ended March 31, 2008, from 77.0% in 2007, resulting in a favorable gross margin variance. FPS margins improved due to more profitable FPS customer arrangements, due to increased services billings, including management, administrative and implementation fees and due to the unfavorable impact in the 2007 quarter of cost of sales adjustments related to 2006. Excluding the impact from the correction of errors in the prior year, General MROP gross margin improved 60 basis points as the result of strategic pricing initiatives.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses increased $0.2 million or 0.9% to $28.4 million for the three months ended March 31, 2008, from $28.2 million for the three months ended March 31, 2007. As a percentage of sales, total selling, general, and administrative expenses increased to 22.3% for the first quarter of 2008 from 20.8% for the first quarter of 2007. During the first quarter, we incurred $0.6 million of strategic alternatives review process expenses. The Company also incurred $0.1 million related to marketing initiatives such as the launch of the e-commerce website. Excluding the costs associated with the strategic alternatives review, which we believe are non-recurring expenditures, selling, general and administrative expenses decreased $0.4 million or 1.3%. The reduction was due to lower overall travel, training and consumable supplies as the Company continues to focus on cost containment.

Operating Income

Operating income decreased $1.2 million or 40.9% to $1.7 million for the three months ended March 31, 2008 as compared to $2.9 million for the three months ended March 31, 2007. As a percent of revenue, operating income decreased to 1.4% for the three months ended March 31, 2008, down from 2.2% for the prior year quarter. Excluding the costs associated with the strategic alternatives review, which we believe are non-recurring expenditures, operating income was $2.4 million or 1.8% of revenue representing a decline of $0.6 million compared to prior year quarter. The decline in operating income was primarily due to lower sales volume for the quarter.

Interest Expense

As compared to the prior year quarter, our quarterly average debt outstanding under our Credit Facility decreased by $14.2 million or 59.2% to $9.8 million for the three months ended March 31, 2008. Interest expense decreased $0.3 million as compared to the prior year quarter due to a combination of lower debt outstanding and lower LIBOR rates. The average quarterly interest rate decreased to 6.6% from 7.0%.

Provision for Income Taxes

The provision for income taxes decreased by $0.4 million, to a provision of $0.6 million, for the three months ended March 31, 2008, compared to $1.0 million for the three months ended March 31, 2007. Our effective tax rate decreased to 38.0% as compared to 39.3% due to a decrease in non-deductible items, such as foreign losses, as a percentage of pre-tax income.

LIQUIDITY AND CAPITAL RESOURCES

Capital Availability and Requirements

At March 31, 2008, our total working capital was $86.4 million, which included $0.4 million in cash and cash equivalents. We had an aggregate of $75.0 million of borrowing capacity under our Credit Facility. Based upon our current asset base (which serves as our collateral under the Credit Facility) and outstanding borrowings under the Credit Facility, we had borrowing availability under the Credit Facility of $62.0 million. We are in compliance with all applicable financial covenants under our Credit Facility.

Analysis of Cash Flows

Net cash provided by operating activities was $0.9 million and $1.0 million for the three months ended March 31, 2008 and 2007, respectively. For the first quarter of 2008, cash was primarily provided by net earnings. The cash provided by net earnings was partially offset by a use of cash due to changes in working capital. The changes in working capital were due to decreased accounts receivable as a result of an improvement in the number of days sales remained outstanding, and a reduction in inventory due to lower customer demands partially offset by decreased accounts payable. During the three months ended March 31, 2007, we used cash primarily in accounts receivable which was partially offset by cash provided from accounts payable as well as net earnings for the quarter.

Net cash used in investing activities for the three months ended March 31, 2008 and 2007 was $0.1 million and $0.2 million, respectively. In both periods, cash was used for fixed asset purchases in the normal course of business.

Net cash used in financing activities was $0.7 million and $0.3 million for the three months ended March 31, 2008 and 2007, respectively. Cash was used primarily for net repayments on our Credit Facility of $0.8 million and $0.5 million, respectively, for the three months ended March 31, 2008 and for the same period in 2007.

CERTAIN ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires our management to make estimates and assumptions that affect: the reported

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amounts of assets and liabilities at the date of the financial statements; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Our management regularly evaluates its estimates and assumptions. These estimates and assumptions are based on historical experience and on various other factors that are believed to be reasonable under the circumstances and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and these differences may be material.

While our significant accounting policies are described in Note 2 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K for fiscal 2007, we believe that the following accounting policies and estimates involve a higher degree of complexity and warrant specific description.

Allowance for Doubtful Accounts Methodology

We have established an allowance for doubtful accounts based on our collection experience and an assessment of the collectability of specific accounts. We evaluate the collectability of accounts receivable based on a combination of factors. Initially, we estimate an allowance for doubtful accounts as a percentage of accounts receivable based on historical collections experience. This initial estimate is periodically adjusted when we become aware of a specific customer s inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in the overall aging of accounts receivable. We do not believe our estimate of the allowance for doubtful accounts is likely to be adversely affected by any individual customer or group of customers, since our customers are geographically and functionally dispersed, and none are individually significant. The table below depicts our allowance for doubtful accounts, bad debt expense incurred or recovered and write-offs or recoveries during each of the first quarters of 2008 and 2007. Write-offs of accounts receivable have no effect on either our results of operations or cash flows, only charges to bad debt expense impact our earnings.

Allowance for Doubtful Accounts	**2008**	**2007**
	(dollars in thousands)	
Balance at December 31	$ 1,337	$ 1,382

. **Any payment on the securities is subject to our ability to satisfy our obligations as they become due**.

- **YOUR RETURN ON THE SECURITIES IS LIMITED TO THE FACE AMOUNT PLUS CONTINGENT COUPONS (IF ANY) AND YOU WILL NOT PARTICIPATE IN ANY INCREASE IN THE PRICES OF THE UNDERLYINGS** — The securities will not pay more than the Face Amount *plus* any Contingent Coupons that may be due for each $1,000 Face Amount of securities. You will not participate in any increase in the prices of any Underlyings even if the Final Prices of **all** the Underlyings are greater than or equal to their respective Initial Prices. The maximum payment upon an early redemption or at maturity, as applicable, will be the Face Amount per $1,000 Face Amount of securities (excluding any Contingent Coupons), regardless of any increase in the prices of any Underlyings, which may be significant.

- **YOU MAY NOT RECEIVE ANY CONTINGENT COUPONS** — The securities may not pay Contingent Coupons on some or all of the Coupon Payment Dates and, therefore, should **not** be viewed as conventional debt securities with periodic coupon payments. If the Closing Price of any Underlying on at least one scheduled trading day during any Coupon Period is less than its respective Coupon Barrier, you will not receive the Contingent Coupon applicable to such Coupon Period. If the Closing Price of any Underlying is less than its respective Coupon Barrier on at least one scheduled trading day during each Coupon Period, you will not receive any Contingent Coupons during the entire term of the securities and, therefore, you will not receive a positive return on your investment. Generally, non-payment of Contingent Coupons coincides with a greater risk that the Final Price of at least one of the Underlyings is less than its Trigger Price, which would result in the loss of a significant portion or all of your investment in the securities.

- **THE SECURITIES MAY BE REDEEMED PRIOR TO THE MATURITY DATE** — We may, in our sole discretion, redeem the securities in whole, but not in part, on any Coupon Payment Date prior to the Maturity Date. For United States federal income tax purposes, an early redemption of the securities at the Issuer's option would be a taxable event to you**.** In addition, if the securities are redeemed prior to the Maturity Date, you will not receive any Contingent Coupon that would have otherwise accrued after the Call Settlement Date.

- **REINVESTMENT RISK** — If your securities are redeemed by us prior to maturity, the term of the securities may be reduced to as short as approximately three months. There is no guarantee that you would be able to reinvest the proceeds from an investment in the securities at a comparable return for a similar level of risk in the event the securities are redeemed by us prior to the Maturity Date.

- **IF THE SECURITIES ARE NOT REDEEMED BY US PRIOR TO THE MATURITY DATE, YOUR PAYMENT AT MATURITY WILL BE DETERMINED BY THE FINAL PRICE OF THE LAGGARD UNDERLYING** — If we do not redeem the securities prior to the Maturity Date, the Payment at Maturity will be determined by reference to the Final Price of the Laggard Underlying, without taking into consideration the performance of the other Underlyings.

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- **A HIGHER CONTINGENT COUPON OR A LOWER COUPON BARRIER OR TRIGGER PRICE FOR EACH UNDERLYING MAY REFLECT A GREATER EXPECTED VOLATILITY OF ONE OR MORE OF THE UNDERLYINGS, WHICH IS GENERALLY ASSOCIATED WITH A GREATER RISK OF LOSS** — Volatility is a measure of the degree of variation in the trading prices of an asset over a period of time. The greater the expected volatility at the time the terms of the securities are set on the Trade Date, the greater the expectation is at that time that at least one Underlying may close below its Coupon Barrier on at least one scheduled trading day during a Coupon Period (resulting in a missed Contingent Coupon) or below its Trigger Price on the Final Valuation Date (resulting in a loss of a significant portion or all of your investment). In addition, the economic terms of the securities, including the Contingent Coupon, the Coupon Barriers and the Trigger Prices, are based, in part, on the expected volatility of the Underlyings at the time the terms of the securities are set on the Trade Date, where higher expected volatility will generally lead to a higher Contingent Coupon or a lower Coupon Barrier or Trigger Price for each Underlying. Accordingly, a higher Contingent Coupon as compared with the coupon on our conventional fixed income securities with a similar maturity or the coupon on our other similarly structured securities will generally indicate a greater risk of loss, while a lower Coupon Barrier or Trigger Price for each Underlying as compared with otherwise comparable securities does not necessarily indicate that the securities have a greater likelihood of paying Contingent Coupons or returning your investment at maturity. You should be willing to accept the downside market risk of each Underlying and the potential loss of a significant portion or all of your investment at maturity.

- **THE SECURITIES ARE SUBJECT TO THE CREDIT OF DEUTSCHE BANK AG** — The securities are senior unsecured obligations of Deutsche Bank AG and are not, either directly or indirectly, an obligation of any third party. Any payment(s) to be made on the securities depends on the ability of Deutsche Bank AG to satisfy its obligations as they become due. An actual or anticipated downgrade in Deutsche Bank AG's credit rating or increase in the credit spreads charged by the market for taking Deutsche Bank AG's credit risk will likely have an adverse effect on the value of the securities. As a result, the actual and perceived creditworthiness of Deutsche Bank AG will affect the value of the securities and, in the event Deutsche Bank AG were to default on its obligations or become subject to a Resolution Measure, you might not receive any amount(s) owed to you under the terms of the securities and you could lose your entire investment.

- **THE SECURITIES MAY BE WRITTEN DOWN, BE CONVERTED INTO ORDINARY SHARES OR OTHER INSTRUMENTS OF OWNERSHIP OR BECOME SUBJECT TO OTHER RESOLUTION MEASURES. YOU MAY LOSE SOME OR ALL OF YOUR INVESTMENT IF ANY SUCH MEASURE BECOMES APPLICABLE TO US** — Pursuant to the SRM Regulation, the Resolution Act and other applicable rules and regulations described above under "Resolution Measures and Deemed Agreement," the securities are subject to the powers exercised by the competent resolution authority to impose Resolution Measures on us, which may include: writing down, including to zero, any claim for payment on the securities; converting the securities into ordinary shares of (i) the Issuer, (ii) any group entity or (iii) any bridge bank or other instruments of ownership of such entities qualifying as common equity tier 1 capital; or applying any other resolution measure including, but not limited to, transferring the securities to another entity, amending, modifying or varying the terms and conditions of the securities or cancelling the securities. The competent resolution authority may apply Resolution Measures individually or in any combination.

The German law on the mechanism for the resolution of banks of November 2, 2015 (*Abwicklungsmechanismusgesetz*, or the "**Resolution Mechanism Act**") provides that, in a German insolvency proceeding of the Issuer, certain specifically defined senior unsecured debt instruments would rank junior to, without constituting subordinated debt, all other outstanding unsecured unsubordinated obligations of the Issuer and be satisfied only if all such other senior unsecured obligations of the Issuer have been paid in full. This prioritization would also be given effect if Resolution Measures are imposed on the Issuer, so that obligations under debt instruments that rank junior in insolvency as described above would be written down or converted into common equity tier 1 instruments before any other senior unsecured obligations of the Issuer are written down or converted. A large portion of our liabilities consist of senior unsecured obligations that either fall outside the statutory definition of debt instruments that rank junior to other senior unsecured obligations according to the Resolution Mechanism Act or are expressly exempted from such definition.

Among those unsecured unsubordinated obligations that are expressly exempted are money market instruments and senior unsecured debt instruments whose terms provide that (i) the repayment or the amount of the repayment depends on the occurrence or non-occurrence of an event which is uncertain at the point in time when the senior unsecured debt instruments are issued or is settled in a way other than by monetary payment, or (ii) the payment of interest or the amount of the interest payments depends on the occurrence or non-occurrence of an event which is uncertain at the point in time when the senior unsecured debt instruments are issued unless the payment of interest or the amount of the interest payments solely depends on a fixed or floating reference interest rate and is settled by monetary payment. This order of priority introduced by the Resolution Mechanism Act would apply in German insolvency proceedings instituted, or when Resolution Measures are imposed, on or after

January 1, 2017 with effect for debt instruments of the Issuer outstanding at that time. In a German insolvency proceeding or in the event of the imposition of Resolution Measures with respect to the Issuer, the competent regulatory authority or court would determine which of our senior debt securities issued under the prospectus have the terms described in clauses (i) or (ii) above, referred to herein as the "**Structured Debt Securities**," and which do not, referred to herein as the "**Non-Structured Debt Securities**." We expect the securities offered herein to be classified as Structured Debt Securities, but the competent regulatory authority or court may classify the securities differently. In a German insolvency proceeding or in the event of the imposition of Resolution Measures with respect to the Issuer, the Structured Debt Securities are expected to be among the unsecured unsubordinated obligations that would bear losses after the Non-Structured Debt Securities as described above. **Nevertheless**, **you may lose some or all of your investment in the securities if a Resolution Measure becomes applicable to us**. Imposition of a Resolution Measure would likely occur if we become, or are deemed by the competent supervisory authority to have become, "non-viable" (as defined under the then applicable law) and are unable to continue our regulated banking activities without a Resolution Measure becoming applicable to us. The Bank Recovery and Resolution Directive and the Resolution Act are intended to eliminate the need for public support of troubled banks, and you should be aware that public support, if any, would only potentially be used by the competent supervisory authority as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool.

By acquiring the securities, you would have no claim or other right against us arising out of any Resolution Measure and we would have no obligation to make payments under the securities following the imposition of a Resolution Measure. In particular, the imposition of any Resolution Measure will not constitute a default or an event of default under the securities, under the Indenture or for the purposes of, but only to the fullest extent permitted by, the Trust Indenture Act. Furthermore, because the securities are subject to any Resolution Measure, secondary market trading in the securities may not follow the trading behavior associated with similar types of securities issued by other financial institutions which may be or have been subject to a Resolution Measure.

In addition, by your acquisition of the securities, you waive, to the fullest extent permitted by the Trust Indenture Act and applicable law, any and all claims against the trustee and the indenture agents for, agree not to initiate a suit against the trustee or the indenture agents in respect of, and agree that the trustee and the indenture agents will not be liable for, any action that the trustee or the indenture agents take, or abstain from taking, in either case in accordance with the imposition of a Resolution Measure by the competent resolution authority with respect to the securities. **Accordingly**, **you may have limited or circumscribed rights to challenge any decision of the competent resolution authority to impose any Resolution Measure**.

- **THE ISSUER'S ESTIMATED VALUE OF THE SECURITIES ON THE TRADE DATE WILL BE LESS THAN THE ISSUE PRICE OF THE SECURITIES** — The Issuer's estimated value of the securities on the Trade Date (as disclosed on the cover of this pricing supplement) is less than the Issue Price of the securities. The difference between the Issue Price and the Issuer's estimated value of the securities on the Trade Date is due to the inclusion in the Issue Price of the agent's commissions, if any, and the cost of hedging our obligations under the securities through one or more of our affiliates. Such hedging cost includes our or our affiliates' expected cost of providing such hedge, as well as the profit we or our affiliates expect to realize in consideration for assuming the risks inherent in providing such hedge. The Issuer's estimated value of the securities is determined by reference to an internal funding rate and our pricing models. The internal funding rate is typically lower than the rate we would pay when we issue conventional debt securities on equivalent terms. This difference in funding rate, as well as the agent's commissions, if any, and the estimated cost of hedging our obligations under the securities, reduces the economic terms of the securities to you and is expected to adversely affect the price at which you may be able to sell the securities in any secondary market. In addition, our internal pricing models are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. If at any time a third party dealer were to quote a price to purchase your securities or otherwise value your securities, that price or value may differ materially from the estimated value of the securities determined by reference to our internal funding rate and pricing models. This difference is due to, among other things, any difference in funding rates, pricing models or assumptions used by any dealer who may purchase the securities in the secondary market.

- **INVESTING IN THE SECURITIES IS NOT THE SAME AS INVESTING IN THE UNDERLYINGS** — The return on the securities may not reflect the return you would have realized if you had directly invested in the Underlyings. For instance, any Payment at Maturity on the securities is *solely* dependent upon the performance of the Laggard Underlying, and you will not participate in any potential increase in the prices of any Underlyings, which could be significant.

- **IF THE PRICES OF THE UNDERLYINGS CHANGE, THE VALUE OF YOUR SECURITIES MAY NOT CHANGE IN THE SAME MANNER** — Your securities may trade quite differently from the prices of the Underlyings. Changes in the prices of the Underlyings may not result in comparable changes in the value of your securities.

- **NO DIVIDEND PAYMENTS OR VOTING RIGHTS** — As a holder of the securities, you will not have any voting rights or rights to receive cash dividends or other distributions or other rights that holders of the Underlyings would have.

- **YOUR INVESTMENT IS EXPOSED TO A DECLINE IN THE PRICE OF EACH UNDERLYING** — Your return on the securities, if any, is not linked to a basket consisting of the Underlyings. Rather, any payment on the securities will be determined by reference to the performance of *each* individual Underlying. Unlike an instrument with a return linked to a basket, in which risk is mitigated and diversified among all of the basket components, you will be exposed equally to the risks related to *each* of the Underlyings. Poor performance by *any* Underlying over the term of the securities may adversely affect your return on the securities and will not be offset or mitigated by any positive performance by any other Underlyings.

- **BECAUSE THE SECURITIES ARE LINKED TO THE LEAST PERFORMING OF THE THREE UNDERLYINGS, YOU ARE EXPOSED TO A GREATER RISK OF RECEIVING NO CONTINGENT COUPONS OR LOSING A SIGNIFICANT PORTION OR ALL OF YOUR INVESTMENT THAN IF THE SECURITIES WERE LINKED TO JUST ONE UNDERLYING** — The risk that you will not receive any Contingent Coupons and/or lose a significant portion or all of your investment in the securities is greater than in substantially similar securities that are linked to the performance of just one of the Underlyings. With three Underlyings, it is more likely that the Closing Price of at least one Underlying will be less than its Coupon Barrier on at least one scheduled trading day during each Coupon Period, and the Final Price of at least one Underlying will be less than its Trigger Price, than if the securities were linked to only one Underlying, and therefore, it is more likely that you will not receive any Contingent Coupons and will receive a Payment at Maturity that is significantly less than your investment. In addition, the performance of the Underlyings may not be correlated. If the performance of the Underlyings is not correlated, or is negatively correlated, the potential for the price of at least one Underlying to be less than its Coupon Barrier on at least one scheduled trading day during any Coupon Period or less than its Trigger Price on the Final Valuation Date is even greater. Although the correlation of the Underlyings' performance may change over the term of the securities, the Contingent Coupon, Coupon Barriers and Trigger Prices are determined, in part, based on the correlation of the Underlyings' performance at the time when the terms of the securities are finalized. A higher Contingent Coupon or lower Coupon Barrier or Trigger Price for an Underlying is generally associated with a lower correlation of the Underlyings, which reflects a greater potential for loss on your investment at maturity.

- **THERE ARE RISKS ASSOCIATED WITH INVESTMENTS IN EQUITY SECURITIES WITH CONCENTRATION IN THE CONSUMER STAPLES INDUSTRY** — The Underlyings are equity securities of companies whose primary business is directly associated with the consumer staples industry. The Underlyings may be more susceptible to economic, market, political or regulatory occurrences affecting the consumer staples industry. The consumer staples industry is highly competitive and consumer staples companies are subject to government regulation affecting their products, which may negatively impact these companies' performance. In addition, the success of consumer staples companies may be strongly affected by consumer trends, marketing campaigns and other factors affecting supply and demand, including the performance of the overall domestic and global economy, interest rates, ecommerce trends and consumer confidence and spending. Negative developments in the consumer staples industry could cause the price of some or all of the Underlyings to decline during the term of the securities, which may adversely affect the value of your securities.

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ANTI-DILUTION PROTECTION IS LIMITED AND THE CALCULATION AGENT MAY MAKE ADJUSTMENTS IN ADDITION TO, OR THAT DIFFER FROM, THOSE SET FORTH IN THE ACCOMPANYING PRODUCT SUPPLEMENT — For each Underlying, the calculation agent will make adjustments to the relevant Stock Adjustment Factor, which will initially be set at 1.0, for certain corporate events affecting such Underlying. The calculation agent is not required, however, to make such adjustments in response to all corporate events that could affect the Underlyings, including if the issuer of an Underlying or another party makes a partial tender or partial exchange offer for such Underlying. If such an event occurs that does not require the calculation agent to make an adjustment, the value of the securities may be materially and adversely affected. In addition, you should be aware that the calculation agent may, at its sole discretion, make adjustments to each Stock Adjustment Factor or any other terms of the securities that are in addition to, or that differ from, those described in the accompanying product supplement to reflect changes occurring in relation to the relevant Underlying or any other security received in a reorganization event in circumstances where the calculation agent determines that it is appropriate to reflect those changes to ensure an equitable result. Any alterations to the specified anti-dilution adjustments for an Underlying or any other security received in a reorganization event described in the accompanying product supplement may be materially adverse to investors in the securities. You should read "Description of Securities — Anti-Dilution Adjustments for Reference Stock" in the accompanying product supplement in order to understand the adjustments that may be made to the securities.

- **THERE IS NO AFFILIATION BETWEEN THE ISSUERS OF THE UNDERLYINGS AND US AND WE HAVE NOT PARTICIPATED IN THE PREPARATION OF, OR VERIFIED, ANY INFORMATION ABOUT THE UNDERLYINGS OR THE ISSUERS OF THE UNDERLYINGS** — We are not affiliated with the issuers of the Underlyings. However, we or our affiliates may currently, or from time to time in the future, engage in business with the issuers of the Underlyings, including extending loans to, making equity investments in, acting as underwriter in connection with future offerings of the Underlyings by, or providing advisory services (including merger and acquisition advisory services) to, such issuers. In the course of this business, we or our affiliates may acquire non-public information about the issuers of the Underlyings, and we will not disclose any such information to you. Nevertheless, neither we nor our affiliates have participated in the preparation of, or verified, any information about the Underlyings or the issuers of the Underlyings. You, as an investor in the securities, should make your own investigation into the Underlyings and the issuers of the Underlyings. The issuers of the Underlyings are not involved in this offering in any way and none of them has any obligation of any sort with respect to your securities. The issuers of the Underlyings do not have any obligation to take your interests into consideration for any reason, including when taking any corporate actions that would require the calculation agent to adjust the Stock Adjustment Factor for any Underlying, which may adversely affect the value of your securities.

- **PAST PERFORMANCE OF THE UNDERLYINGS IS NO GUIDE TO FUTURE PERFORMANCE** — The actual performance of the Underlyings over the term of the securities may bear little relation to the historical closing prices of the Underlyings and/or the hypothetical examples set forth elsewhere in this pricing supplement. We cannot predict the future performance of the Underlyings or whether the performance of the Underlyings will result in the return of any of your investment.

- **ASSUMING NO CHANGES IN MARKET CONDITIONS AND OTHER RELEVANT FACTORS, THE PRICE YOU MAY RECEIVE FOR YOUR SECURITIES IN SECONDARY MARKET TRANSACTIONS WOULD GENERALLY BE LOWER THAN BOTH THE ISSUE PRICE AND THE ISSUER'S ESTIMATED VALUE OF THE SECURITIES ON THE TRADE DATE** — While the payment(s) on the securities described in this pricing supplement is based on the full Face Amount of securities, the Issuer's estimated value of the securities on the Trade Date (as disclosed on the cover of this pricing supplement) is less than the Issue Price of the securities. The Issuer's estimated value of the securities on the Trade Date does not represent the price at which we or any of our affiliates would be willing to purchase your securities in the secondary market at any time. Assuming no changes in market conditions or our creditworthiness and other relevant factors, the price, if any, at which we or our affiliates would be willing to purchase the securities from you in secondary market transactions, if at all, would generally be lower than both the Issue Price and the Issuer's estimated value of the securities on the Trade Date. Our purchase price, if any, in secondary market transactions would be based on the estimated value of the securities determined by reference to (i) the then-prevailing internal funding rate (adjusted by a spread) or another appropriate measure of our cost of funds and (ii) our pricing models at that time, less a bid spread determined after taking into account the size of the repurchase, the nature of the assets underlying the securities and then-prevailing market conditions. The price we report to financial reporting services and to distributors of our securities for use on customer account statements would generally be determined on the same basis. However, during the period of approximately six months beginning from the Trade Date, we or our affiliates may, in our sole discretion, increase the purchase price determined as described above by an amount equal to the declining differential between the Issue Price and the Issuer's estimated value of the securities on the Trade Date, prorated over such period on a straight-line basis, for transactions that are individually and in the aggregate of the expected size for ordinary secondary market repurchases.

In addition to the factors discussed above, the value of the securities and our purchase price in secondary market transactions after the Trade Date, if any, will vary based on many economic and market factors, including our creditworthiness, and cannot be predicted with accuracy. These changes may adversely affect the value of your securities, including the price you may receive in any secondary market transactions. Any sale prior to the Maturity Date could result in a substantial loss to you. The securities are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your securities to maturity.

- **THE SECURITIES WILL NOT BE LISTED AND THERE WILL LIKELY BE LIMITED LIQUIDITY** — The securities will not be listed on any securities exchange. There may be little or no secondary market for the securities. We or our affiliates intend to act as market makers for the securities but are not required to do so and may cease such market making activities at any time. Even if there is a secondary market, it may not provide enough liquidity to allow you to sell the securities when you wish to do so or at a price advantageous to you. Because we do not expect other dealers to make a secondary market for the securities, the price at which you may be able to sell your securities is likely to depend on the price, if any, at which we or our affiliates are willing to buy the securities. If, at any time, we or our affiliates do not act as market makers, it is likely that there would be little or no secondary market in the securities. If you have to sell your securities prior to maturity, you may not be able to do so or you may have to sell them at a substantial loss, even in cases where the prices of the Underlyings have increased since the Trade Date.

- **MANY ECONOMIC AND MARKET FACTORS WILL AFFECT THE VALUE OF THE SECURITIES** — While we expect that, generally, the prices of the Underlyings will affect the value of the securities more than any other single factor, the value of the securities prior to maturity will also be affected by a number of other factors that may either offset or magnify each other, including:

o whether the Closing Price of any of the Underlyings on any scheduled trading day during any Coupon Period is less than its Coupon Barrier;

o the expected volatility of the Underlyings;

o the time remaining to the maturity of the securities;

o the dividend rates of the Underlyings;

o the real and anticipated results of operations of the issuers of the Underlyings;

o actual or anticipated corporate reorganization events, such as mergers or takeovers, which may affect any of the Underlyings;

o interest rates and yields in the markets generally;

o geopolitical conditions and economic, financial, political, regulatory or judicial events that affect any of the Underlyings or the markets generally;

o supply and demand for the securities; and

o our creditworthiness, including actual or anticipated downgrades in our credit ratings.

During the term of the securities, it is possible that their value may decline significantly due to the factors described above even if the prices of the Underlyings remain unchanged from their respective Initial Prices, and any sale prior to the Maturity Date could result in a substantial loss to you. You must hold the securities to maturity to receive the stated payout from the Issuer.

TRADING AND OTHER TRANSACTIONS BY US OR OUR AFFILIATES IN THE EQUITY AND EQUITY DERIVATIVE MARKETS MAY IMPAIR THE VALUE OF THE SECURITIES — We or our affiliates expect to hedge our exposure from the securities by entering into equity and equity derivative transactions, such as over-the-counter options, futures or exchange-traded instruments. We or our affiliates may also engage in trading in instruments linked or related to the Underlyings on a regular basis as part of our or their general broker-dealer and other businesses, for proprietary accounts, for other accounts under management or to facilitate transactions for customers, including block transactions. Such trading and hedging activities may adversely affect the prices of one or more Underlyings and, therefore, make it less likely that you will receive a positive return on your investment in the securities. It is possible that we or our affiliates could receive substantial returns from these hedging and trading activities while the value of the securities declines. We or our affiliates may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to the Underlyings. To the extent that we or our affiliates serve as issuer, agent or underwriter for such securities or financial or derivative instruments, our or our affiliates' interests with respect to such products may be adverse to those of the holders of the securities. Introducing competing products into the marketplace in this manner could adversely affect the prices of one or more Underlyings and the value of the securities. Any of the foregoing activities described in this paragraph may reflect trading strategies that differ from, or are in direct opposition to, investors' trading and investment strategies related to the securities. Furthermore, because DBSI or one of its affiliates is expected to conduct trading and hedging activities for us in connection with the securities, DBSI or such affiliate may profit in connection with such trading and hedging activities and such profit, if any, will be in addition to any compensation that DBSI receives for the sale of the securities to you. You should be aware that the potential to earn a profit in connection with hedging activities may create a further incentive for DBSI to sell the securities to you in addition to any compensation they would receive for the sale of the securities.

WE OR OUR AFFILIATES MAY PUBLISH RESEARCH, EXPRESS OPINIONS OR PROVIDE RECOMMENDATIONS THAT ARE INCONSISTENT WITH INVESTING IN OR HOLDING THE SECURITIES. ANY SUCH RESEARCH, OPINIONS OR RECOMMENDATIONS COULD ADVERSELY AFFECT THE PRICES OF THE UNDERLYINGS AND THE VALUE OF THE SECURITIES — We or our affiliates may publish research from time to time on financial markets and other matters that could adversely affect the prices of the Underlyings and the value of the securities, or express opinions or provide recommendations that are inconsistent with purchasing or holding the securities. Any research, opinions or recommendations expressed by us or our affiliates may not be consistent with each other and may be modified from time to time without notice. You should make your own independent investigation of the merits of investing in the securities and the Underlyings.

- **POTENTIAL CONFLICTS OF INTEREST** — We and our affiliates play a variety of roles in connection with the issuance of the securities, including acting as calculation agent, hedging our obligations under the securities and determining the Issuer's estimated value of the securities on the Trade Date and the price, if any, at which we or our affiliates would be willing to purchase the securities from you in secondary market transactions. In performing these roles, our economic interests and those of our affiliates are potentially adverse to your interests as an investor in the securities. The calculation agent will determine, among other things, all values, prices and levels required to be determined for the purposes of the securities on any relevant date or time. The calculation agent also has some discretion about certain adjustments to the Stock Adjustment Factors and will be responsible for determining whether a market disruption event has occurred as well as, in some circumstances, the prices or levels related to the Underlyings that affect whether Contingent Coupons are paid. Any determination by the calculation agent could adversely affect the return on the securities.

- **THERE IS SUBSTANTIAL UNCERTAINTY REGARDING THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE SECURITIES** — There is no direct legal authority regarding the proper U.S. federal income tax treatment of the securities, and we do not plan to request a ruling from the IRS. Consequently, significant aspects of the tax treatment of the securities are uncertain, and the IRS or a court might not agree with the treatment of the securities as prepaid financial contracts that are not debt, with associated contingent coupons, as described above under "Tax Consequences." If the IRS were successful in asserting an alternative treatment for the securities, the tax consequences of ownership and disposition of the securities could be materially affected. In addition, as described above under "Tax Consequences," in 2007 the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. Any Treasury regulations or other guidance promulgated after consideration of these issues could materially affect the tax consequences of an investment in the securities, possibly with retroactive effect. You should review carefully the section of the accompanying product supplement entitled "U.S. Federal Income Tax Consequences," and consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities (including possible alternative treatments and the issues presented by the 2007 notice), as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

The Underlyings

All disclosures contained in this pricing supplement regarding the Underlyings are derived from publicly available information. Neither Deutsche Bank AG nor any of its affiliates has participated in the preparation of, or verified, such information about the Underlyings contained in this pricing supplement. You should make your own investigation into the Underlyings.

Included below is a brief description of the issuer of each Underlying. Each Underlying is registered under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). Companies with securities registered under the Exchange Act are required to file certain financial and other information specified by the SEC periodically. Information filed by the issuer of each Underlying with the SEC can be reviewed electronically through a web site maintained by the SEC. The address of the SEC's web site is.http://www.sec.gov. Information filed with the SEC by the issuers of the Underlyings under the Exchange Act can be located by reference to its SEC file number provided below.

In addition, information filed with the SEC can be inspected and copied at the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of this material can also be obtained from the Public Reference Section, at prescribed rates.

We obtained the historical closing prices of the Underlyings below from Bloomberg L.P. and we have not participated in the preparation of, or verified, such information. **The historical closing prices of the Underlyings should not be taken as an indication of future performance and no assurance can be given as to the Closing Prices of the Underlyings on any of the Observation Dates** (**including the Final Valuation Date**). **We cannot give you assurance that the performance of the Underlyings will result in the return of any of your investment**.

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Kimberly-Clark Corporation

According to publicly available information, Kimberly-Clark Corporation is engaged in the manufacturing and marketing of products made from natural or synthetic fibers. Information filed by Kimberly-Clark Corporation with the SEC under the Exchange Act can be located by reference to its SEC file number: 001–00225, or its CIK code: 0000055785. The common stock of Kimberly-Clark Corporation is traded on the New York Stock Exchange under the ticker symbol “KMB.”

Historical Information

The following graph sets forth the historical performance of the common stock of Kimberly-Clark Corporation based on its daily closing prices from November 8, 2012 through November 8, 2017. The closing price of the common stock of Kimberly-Clark Corporation on November 8, 2016 was $113.23. The graph below also indicates by a broken line the Coupon Barrier and Trigger Price for Kimberly-Clark Corporation equal to 70.00% of its closing price on November 8, 2017.

Kellogg Company

According to publicly available information, Kellogg Company is engaged in the manufacture and marketing of ready-to-eat cereal and convenience foods. Information filed by Kellogg Company with the SEC under the Exchange Act can be located by reference to its SEC file number: 001–04171, or its CIK code: 0000055067. The common stock of Kellogg Company is traded on the New York Stock Exchange under the ticker symbol “K.”

Historical Information

The following graph sets forth the historical performance of the common stock of Kellogg Company based on its daily closing prices from November 8, 2012 through November 8, 2017. The closing price of the common stock of Kellogg Company on November 8, 2016 was $62.82. The graph below also indicates by a broken line the Coupon Barrier and Trigger Price for Kellogg Company equal to 70.00% of its closing price on November 8, 2017.

Newell Brands Inc.

According to publicly available information, Newell Brands Inc. is a marketer of consumer and commercial products. Information filed by Newell Brands Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 001–09608, or its CIK code: 0000814453. The common stock of Newell Brands Inc. is traded on the New York Stock Exchange under the ticker symbol “NWL.”

Historical Information

The following graph sets forth the historical performance of the common stock of Newell Brands Inc. based on its daily closing prices from November 8, 2012 through November 8, 2017. The closing price of the common stock of Newell Brands Inc. on November 8, 2016 was $31.41. The graph below also indicates by a broken line the Coupon Barrier and Trigger Price for Newell Brands Inc. equal to 70.00% of its closing price on November 8, 2017.

Correlation of the Underlyings

The following graph sets forth the historical performances of the common stocks of Kimberly-Clark Corporation, the Kellogg Company and Newell Brands Inc. from November 8, 2012 through November 8, 2017, based on the daily closing prices of the Underlyings. For comparison purposes, each Underlying has been normalized to have a closing price of 100.00 on November 8, 2012 by (1) *dividing* the closing price of that Underlying on each day by the closing price of that Underlying on November 8, 2012 and (2) *multiplying* by 100.00.

We obtained the closing prices used to determine the normalized closing prices set forth below from Bloomberg, without verification. Historical performance of the Underlyings should not be taken as an indication of future performance. Future performance of the Underlyings may differ significantly from historical performance and no assurance can be given as to the Closing Prices of the Underlyings during the term of the securities, including on any scheduled trading day during the Coupon Periods. We cannot give you assurance that the performances of the Underlyings will result in the return of any of your investment.

The closer the relationship of the daily returns of a pair of Underlyings over a given period, the more positively correlated those Underlyings are. The graph above illustrates the historical performance of each Underlying relative to the other Underlyings over the time period shown and provides an indication of how close the relative performance of the daily returns of one Underlying has historically been to another. For additional information, please see "Key Risks — Because The Securities Are Linked To The Least Performing Of The Three Underlyings, You Are Exposed To A Greater Risk Of Receiving No Contingent Coupons Or Losing A Significant Portion Or All Of Your Investment Than If The Securities Were Linked To Just One Underlying" in this pricing supplement. The lower (or more negative) the correlation between two Underlyings, the less likely it is that those Underlyings will move in the same direction and, therefore, the greater the potential that the Final Price of at least one of the Underlyings may be less than its Trigger Price. This is because the less positively correlated a pair of Underlyings are, the greater the likelihood that the price of at least one of the Underlyings will decrease. This results in a greater potential for a loss of a significant portion or all of your investment at maturity. However, even if two Underlyings have a higher positive correlation, the Final Price of one or both of those Underlyings may be less than its Trigger Price as the prices of both of those Underlyings may decrease together.

In addition, for each additional Underlying to which the securities are linked, there is a greater potential for one pair of Underlyings to have low or negative correlation. Therefore, the greater the number of Underlyings, the greater the potential for a loss of a significant portion or all of your investment at maturity. Deutsche Bank AG determined the Contingent Coupon, Trigger Prices and Coupon Barriers for the securities based, in part, on the correlation among the Underlyings, calculated using internal models at the time the terms of the securities were set. As discussed above,

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increased risk resulting from lower correlation or from a greater number of underlyings is reflected in a higher Contingent Coupon than would be payable on securities linked to fewer underlyings that have a higher degree of correlation.

Supplemental Plan of Distribution (**Conflicts of Interest**)

DBSI, acting as agent for Deutsche Bank AG, will not receive a selling concession in connection with the sale of the securities.

DBSI, the agent for this offering, is our affiliate. Because DBSI is both our affiliate and a member of the Financial Industry Regulatory Authority, Inc. ("**FINRA**"), the underwriting arrangement for this offering must comply with the requirements of FINRA Rule 5121 regarding a FINRA member firm's distribution of the securities of an affiliate and related conflicts of interest. In accordance with FINRA Rule 5121, DBSI may not make sales in offerings of the securities to any of its discretionary accounts without the prior written approval of the customer. See "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

Settlement

We expect to deliver the securities against payment for the securities on the Settlement Date indicated above, which is expected to be a day that is greater than two business days following the Trade Date. Under Rule 15c6–1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to a trade expressly agree otherwise. Accordingly, if the Settlement Date is more than two business days after the Trade Date, purchasers who wish to transact in the securities more than two business days prior to the Settlement Date will be required to specify alternative settlement arrangements to prevent a failed settlement.

Validity of the Securities

In the opinion of Davis Polk & Wardwell LLP, as special United States products counsel to the Issuer, when the securities offered by this pricing supplement have been executed and issued by the Issuer and authenticated by the authenticating agent, acting on behalf of the trustee pursuant to the Indenture, and delivered against payment as contemplated herein, such securities will be valid and binding obligations of the Issuer, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith) and possible judicial or regulatory actions giving effect to governmental actions or foreign laws affecting creditors' rights, *provided* that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date hereof and is limited to the laws of the State of New York. Insofar as this opinion involves matters governed by German law, Davis Polk & Wardwell LLP has relied, without independent investigation, on the opinion of Group Legal Services of Deutsche Bank AG, dated as of January 1, 2016, filed as an exhibit to the opinion of Davis Polk & Wardwell LLP, and this opinion is subject to the same assumptions, qualifications and limitations with respect to such matters as are contained in such opinion of Group Legal Services of Deutsche Bank AG. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the Indenture and the authentication of the securities by the authenticating agent and the validity, binding nature and enforceability of the Indenture with respect to the trustee, all as stated in the opinion of Davis Polk & Wardwell LLP dated as of January 1, 2016, which has been filed by the Issuer on Form 6–K dated January 4, 2016.