WABASH NATIONAL CORP /DE
Form 10-Q
October 27, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED September 30, 2015**
**OR**

**¨ TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF**
**THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to____________

Commission File Number: 1-10883

**WABASH NATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 52-1375208 |
| (State of Incorporation) | (IRS Employer Identification Number) |
| 1000 Sagamore Parkway South, Lafayette, Indiana | 47905 |
| (Address of Principal Executive Offices) | (Zip Code) |

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

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

Yes x No ¨

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

Yes x No ¨

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The number of shares of common stock outstanding at October 22, 2015 was 66,496,654

**WABASH NATIONAL CORPORATION**

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**FORM 10-Q**

**WABASH NATIONAL CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

| | September 30, 2015 (Unaudited) | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 197,187 | $ 146,113 |
| Accounts receivable | 138,950 | 135,206 |
| Inventories | 227,510 | 177,144 |
| Deferred income taxes | 19,772 | 16,993 |
| Prepaid expenses and other | 18,265 | 10,203 |
| Total current assets | $ 601,684 | $ 485,659 |
| PROPERTY, PLANT AND EQUIPMENT | 136,533 | 142,892 |
| DEFERRED INCOME TAXES | 1,429 | - |
| GOODWILL | 149,676 | 149,603 |
| INTANGIBLE ASSETS | 121,081 | 137,100 |
| OTHER ASSETS | 13,968 | 13,397 |
| | $ 1,024,371 | $ 928,651 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | $ 2,440 | $ 496 |
| Current portion of capital lease obligations | 853 | 1,458 |
| Accounts payable | 131,513 | 96,213 |
| Other accrued liabilities | 111,855 | 88,690 |
| Total current liabilities | $ 246,661 | $ 186,857 |
| LONG-TERM DEBT | 327,639 | 324,777 |
| CAPITAL LEASE OBLIGATIONS | 2,065 | 5,796 |
| DEFERRED INCOME TAXES | 1,764 | 2,349 |
| OTHER NONCURRENT LIABILITIES | 19,551 | 18,040 |

| | | |
|---|---|---|
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock 200,000,000 shares authorized, $0.01 par value, 66,496,654 and 68,998,069 shares outstanding, respectively | 715 | 709 |
| Additional paid-in capital | 644,215 | 635,606 |
| Accumulated deficit | (145,195) | (216,198) |
| Accumulated other comprehensive income | (1,379) | (637) |
| Treasury stock at cost, 5,065,091 and 1,987,073 common shares, respectively | (71,665) | (28,648) |
| Total stockholders' equity | $ 426,691 | $ 390,832 |
| | $ 1,024,371 | $ 928,651 |

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

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**WABASH NATIONAL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| NET SALES | $531,350 | $491,697 | $1,483,778 | $1,335,838 |
| COST OF SALES | 445,328 | 430,069 | 1,268,153 | 1,165,925 |
| Gross profit | $86,022 | $61,628 | $215,625 | $169,913 |
| GENERAL AND ADMINISTRATIVE EXPENSES | 17,855 | 14,957 | 53,758 | 44,890 |
| SELLING EXPENSES | 6,462 | 6,271 | 20,216 | 20,361 |
| AMORTIZATION OF INTANGIBLES | 5,316 | 5,471 | 15,945 | 16,413 |
| Income from operations | $56,389 | $34,929 | $125,706 | $88,249 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense | (4,784) | (5,454) | (14,759) | (16,904) |
| Other, net | (187) | (610) | 2,500 | (1,626) |
| Income before income taxes | $51,418 | $28,865 | $113,447 | $69,719 |
| INCOME TAX EXPENSE | 19,538 | 10,558 | 42,445 | 27,877 |
| Net income | $31,880 | $18,307 | $71,002 | $41,842 |
| BASIC NET INCOME PER SHARE | $0.48 | $0.26 | $1.05 | $0.60 |
| DILUTED NET INCOME PER SHARE | $0.47 | $0.25 | $1.01 | $0.58 |

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

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**WABASH NATIONAL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Dollars in thousands)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| NET INCOME | $ 31,880 | $ 18,307 | $ 71,002 | $ 41,842 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | (496) | (295) | (743) | (45) |
| Total other comprehensive income (loss) | (496) | (295) | (743) | (45) |
| COMPREHENSIVE INCOME | $ 31,384 | $ 18,012 | $ 70,259 | $ 41,797 |

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

**WABASH NATIONAL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

(Unaudited)

| | Nine Months Ended September 30, 2015 | 2014 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $71,002 | $41,842 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 12,514 | 12,730 |
| Amortization of intangibles | 15,945 | 16,413 |
| Net gain on the sale of assets | (8,315) | (43) |
| Deferred income taxes | (4,772) | 14,571 |
| Loss on debt extinguishment | 5,620 | 1,042 |
| Stock-based compensation | 6,655 | 5,509 |
| Accretion of debt discount | 3,366 | 3,624 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (3,744) | (31,263) |
| Inventories | (50,366) | (79,534) |
| Prepaid expenses and other | (2,704) | 2,721 |
| Accounts payable and accrued liabilities | 58,465 | 25,094 |
| Other, net | 1,025 | 2,004 |
| Net cash provided by operating activities | $104,691 | $14,710 |
| Cash flows from investing activities | | |
| Capital expenditures | (12,554) | (9,017) |
| Proceeds from the sale of property, plant and equipment | 13,180 | 86 |
| Other, net | (5,358) | 4,142 |
| Net cash used in investing activities | $(4,732) | $(4,789) |
| Cash flows from financing activities | | |
| Proceeds from exercise of stock options | 1,959 | 1,789 |
| Borrowings under revolving credit facilities | 665 | 565 |
| Payments under revolving credit facilities | (613) | (565) |
| Principal payments under capital lease obligations | (3,964) | (1,492) |
| Proceeds from issuance of term loan credit facility | 192,845 | - |
| Principal payments under term loan credit facility | (193,809) | (42,078) |
| Principal payments under industrial revenue bond | (370) | (354) |
| Debt issuance costs paid | (2,581) | - |

| | | |
|---|---|---|
| Stock repurchase | (43,017 ) | (1,497 ) |
| Net cash used in financing activities | $(48,885 ) | $(43,632 ) |
| | | |
| Net increase (decrease) in cash and cash equivalents | $51,074 | $(33,711 ) |
| Cash and cash equivalents at beginning of period | 146,113 | 113,262 |
| Cash and cash equivalents at end of period | $197,187 | $79,551 |

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

**WABASH NATIONAL CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## 1. DESCRIPTION OF THE BUSINESS

The condensed consolidated financial statements of Wabash National Corporation (the “Company”) have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of the Company, its results of operations and cash flows. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s 2014 Annual Report on Form 10-K.

## 2. INVENTORIES

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Finished goods | $ 109,906 | $ 68,923 |
| Used trailers | 10,402 | 12,783 |
| Raw materials and components | 69,843 | 63,847 |
| Aftermarket parts | 9,131 | 8,446 |
| Work in progress | 28,228 | 23,145 |
| | $ 227,510 | $ 177,144 |

## 3. DEBT

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Convertible senior notes | $ 150,000 | $ 150,000 |
| Term loan credit agreement | 191,881 | 192,845 |
| Revolving credit agreement | 52 | - |
| Industrial revenue bond | 1,275 | 1,645 |
| | $ 343,208 | $ 344,490 |
| Less: unamortized discount | (13,129 ) | (19,217 ) |
| Less: current portion | (2,440 ) | (496 ) |
| | $ 327,639 | $ 324,777 |

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*Convertible Senior Notes*

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

The Notes are convertible by their holders into cash, shares of the Company’s common stock or any combination thereof at the Company’s election, at an initial conversion rate of 85.4372 shares of the Company’s common stock per $1,000 in principal amount of Notes, which is equal to an initial conversion price of approximately $11.70 per share, only under the following circumstances: (A) before November 1, 2017 (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2012 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price (as defined in the indenture for the Notes) per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; and (3) upon the occurrence of specified corporate events as described in the indenture for the Notes; and (B) at any time on or after November 1, 2017 until the close of business on the second business day immediately preceding the maturity date. As of September 30, 2015, the Notes were not convertible based on the above criteria. If the Notes were converted as of September 30, 2015, the if-converted value would not exceed the principal amount.

It is the Company’s intent to settle conversions through a net share settlement, which involves repayment of cash for the principal portion and delivery of shares of common stock for the excess of the conversion value over the principal portion. The Company used the net proceeds of $145.1 million from the sale of the Notes to fund a portion of the purchase price of the acquisition of Walker Group Holdings (“Walker”) in May 2012.

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

The Company applies the treasury stock method in calculating the dilutive impact of the Notes. For the three and nine month periods ended September 30, 2015, the Notes had a dilutive impact.

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Principal amount of the Notes outstanding | $ 150,000 | $ 150,000 |
| Unamortized discount of liability component | (12,235 ) | (15,399 ) |
| Net carrying amount of liability component | 137,765 | 134,601 |
| Less: current portion | - | - |
| Long-term debt | $ 137,765 | $ 134,601 |
| Carrying value of equity component, net of issuance costs | $ 20,993 | $ 20,993 |
| Remaining amortization period of discount on the liability component | 2.5 years | 3.3 years |

Contractual coupon interest expense and accretion of discount on the liability component for the Notes for the three and nine month periods ended September 30, 2015 and 2014 were as follow (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Contractual coupon interest expense | $ 1,266 | $ 1,266 | $ 3,797 | $ 3,797 |
| Accretion of discount on the liability component | $ 1,073 | $ 1,002 | $ 3,164 | $ 2,954 |

*Revolving Credit Agreement*

On June 4, 2015, the Company entered into a Joinder and First Amendment to Amended and Restated Credit Agreement, First Amendment to Amended and Restated Security Agreement and First Amendment to Amended and Restated Guaranty Agreement (the “Amendment”) by and among the Company, certain of its subsidiaries designated as Loan Parties (as defined in the Amendment), Wells Fargo Capital Finance, LLC, as arranger and administrative agent (the “Agent”), and the other Lenders party thereto. The Amendment amends, among other things, the Amended and Restated Credit Agreement (as amended, the “Credit Agreement”), dated as of May 8, 2012, among the Company, certain subsidiaries of the Company from time to time party thereto (together with the Company, the “Borrowers”), the several lenders from time to time party thereto, and the Agent which provides for, among other things, a five year, $150 million senior secured revolving credit facility (the “Credit Facility”).

The Amendment, among other things (i) increases the total commitments under the Credit Facility from $150 million to $175 million, and (ii) extends the maturity date of the Credit Facility from May 8, 2017 to June 4, 2020, but provides for an accelerated maturity in the event the Company’s outstanding Notes are not converted, redeemed, repurchased or refinanced in full on or before the date that is 121 days prior to the maturity date thereof and the Company is not then maintaining, and continues to maintain until the Notes are converted, redeemed, repurchased or refinanced in full, (x) Liquidity of at least $125 million and (y) availability under the Credit Facility of at least $25 million. Liquidity, as defined in the Credit Agreement, reflects the difference between (i) the sum of (A) unrestricted cash and cash equivalents and (B) availability under the Credit Facility and (ii) the amount necessary to fully redeem the Notes.

In addition, the Amendment (i) provides that borrowings under the Credit Facility will bear interest, at the Borrowers' election, at (x) LIBOR plus a margin ranging from 150 basis points to 200 basis points (in lieu of the previous range from 175 basis points to 225 basis points), or (y) a base rate plus a margin ranging from 50 basis points to 100 basis points (in lieu of the previous range from 75 basis points to 125 basis points), in each case, based upon the monthly average excess availability under the Credit Facility, (ii) provides that the monthly unused line fee shall be equal to 25 basis points (which amount was previously 37.5 basis points) times the average unused availability under the Credit Facility, (iii) provides that if availability under the Credit Facility is less than 12.5% (which threshold was previously 15%) of the total commitment under the Credit Facility or if there exists an event of default, amounts in any of the Borrowers' and the subsidiary guarantors' deposit accounts (other than certain excluded accounts) will be transferred daily into a blocked account held by the Agent and applied to reduce the outstanding amounts under the Credit Facility, (iv) provides that the Company will be required to maintain a minimum fixed charge coverage ratio of not less than 1.1 to 1.0 as of the end of any period of 12 fiscal months when excess availability under the Credit Facility is less than 10% (which threshold was previously 12.5%) of the total commitment under the Credit Facility and (v) amends certain negative covenants in the Credit Agreement.

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

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

As of September 30, 2015, the Company had less than $0.1 million in outstanding borrowings under the Credit Agreement and was in compliance with all covenants. The Company's liquidity position, defined as cash on hand and available borrowing capacity on the revolving credit facility, amounted to $366.0 million as of September 30, 2015.

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*Term Loan Credit Agreement*

In May 2012 the Company entered into a credit agreement among the Company, the several lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as administrative agent, joint lead arranger and joint bookrunner (the “Term Agent”), and Wells Fargo Securities, LLC, as joint lead arranger and joint bookrunner (the “Term Loan Credit Agreement”), which initially provided, among other things, for a senior secured term loan facility of $300 million. Also in May 2012, certain of the Company’s subsidiaries (the “Term Guarantors”) entered into a general continuing guarantee of the Company’s obligations under the Term Loan Credit Agreement in favor of the Term Agent (the “Term Guarantee”).

In April 2013, the Company entered into Amendment No.1 to Credit Agreement (the “Amendment”), which became effective on May 9, 2013 and amended the Term Loan Credit Agreement. As of the Amendment date, there was $297.0 million of term loans outstanding under the Term Loan Credit Agreement (the “Initial Loans”), of which the Company paid $20.0 million in connection with the Amendment. Under the Amendment, the lenders agreed to provide to the Company term loans in an aggregate principal amount of $277.0 million, which were exchanged for and used to refinance the Initial Loans (the “Tranche B-1 Loans”).

On March 19, 2015, the Company entered into Amendment No. 2 to Credit Agreement (“Amendment No. 2”). As of the Amendment No. 2 date, there was $192.8 million of the Tranche B-1 Loans outstanding. Under Amendment No. 2, the lenders agreed to provide to the Company term loans in an aggregate principal amount of $192.8 million (the “Tranche B-2 Loans”), which were used to refinance the outstanding Tranche B-1 Loans. The Tranche B-2 Loans mature on March 19, 2022, but provide for an accelerated maturity in the event the Company’s outstanding Notes are not converted, redeemed, repurchased or refinanced in full on or before the date that is 91 days prior to the maturity date thereof and the Company is not then maintaining, and continues to maintain until the Notes are converted, redeemed, repurchased or refinanced in full, liquidity of at least $125 million. Liquidity, as defined in the Term Loan Credit Agreement, reflects the difference between (i) the sum of (A) unrestricted cash and cash equivalents and (B) the amount available and permitted to be drawn under the Company’s existing Credit Agreement and (ii) the amount necessary to fully redeem the Notes. The Tranche B-2 Loans shall amortize in equal quarterly installments in aggregate amounts equal to 0.25% of the original principal amount of the Tranche B-2 Loans, with the balance payable at maturity, and will bear interest at a rate, at the Company’s election, equal to (i) LIBOR (subject to a floor of 1.00%) plus a margin of 3.25% or (ii) a base rate plus a margin of 2.25%.

Amendment No. 2 also provides for a 1% prepayment premium applicable in the event that the Company enters into a refinancing of, or amendment in respect of, the Tranche B-2 Loans on or prior to the first anniversary of the effective date of Amendment No. 2 that, in either case, results in the all-in yield (including, for purposes of such determination, the applicable interest rate, margin, original issue discount, upfront fees and interest rate floors, but excluding any customary arrangement, structuring, commitment or underwriting fees) of such refinancing or amendment being less than the all-in yield (determined on the same basis) on the Tranche B-2 Loans.

Additionally, Amendment No. 2 amends the Term Loan Credit Agreement by (i) removing the maximum senior secured leverage ratio test, (ii) modifying the accordion feature, as described in the Term Loan Credit Agreement, to provide for a senior secured incremental term loan facility in an aggregate amount not to exceed the greater of (A) $75 million (less the aggregate amount of (1) any increases in the maximum revolver amount under the Company's existing Credit Agreement and (2) certain permitted indebtedness incurred for the purpose of prepaying or repurchasing the Convertible Notes) and (B) an amount such that the senior secured leverage ratio would not be greater than 3.00 to 1.00, subject to certain conditions, including obtaining commitments from any one or more lenders, whether or not currently party to the Term Loan Credit Agreement, to provide such increased amounts. The senior secured leverage ratio is defined in the Term Loan Credit Agreement and reflects a ratio of consolidated net total secured indebtedness to consolidated EBITDA and (iii) amending certain negative covenants.

The Term Loan Credit Agreement, as amended, is guaranteed by the Term Guarantors and is secured by (i) first-priority liens on and security interests in the Term Priority Collateral, and (ii) second-priority security interests in the Revolver Priority Collateral. In addition, the Term Loan Credit Agreement, as amended, contains customary covenants limiting the Company's ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase stock, enter into transactions with affiliates, merge, dissolve, pay off subordinated indebtedness, make investments and dispose of assets.

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

During the second quarter of 2015 and in connection with the $13.1 million sale of the Company's former Retail branch real estate in Fontana, California and Portland, Oregon, the Company is required, under the Term Loan Agreement, to reinvest amounts up to $10.0 million for qualified assets within 12 months of the sale. Further, a mandatory principal payment is required for asset sales greater than $10.0 million, with the amount of the required payment equal to the excess above $10.0 million, or $3.1 million. However, the lenders party to the Term Loan Credit Agreement approved a waiver providing the Company the opportunity to use the excess proceeds to exercise a purchase option on a capital lease obligation for one of the Company's existing manufacturing facilities, and the Company exercised the option on July 10, 2015. In conjunction with the restrictions on use described above, as of September 30, 2015, the Company has included $5.4 million in *Prepaid expenses and other* on the Company's Condensed Consolidated Balance Sheet.

For the nine months ended September 30, 2015 and 2014, under the Term Loan Credit Agreement the Company paid interest of $7.1 million and $7.9 million, respectively, and principal of $1.0 million and $42.1 million, respectively. As of September 30, 2015, the Company had $191.9 million outstanding under the Term Loan Credit Agreement, of which $1.9 million was classified as current on the Company's Condensed Consolidated Balance Sheet as a result of Amendment No. 2 of the Term Loan Credit Agreement which requires a mandatory 1% per year principal payment.

For the nine months ended September 30, 2015 and 2014, the Company charged $0.2 million and $0.7 million, respectively, of amortization for original issuance discount fees as *Interest Expense* in the Condensed Consolidated Statements of Operations. For the nine months ended September 30, 2015 the Company charged $5.3 million of accelerated amortization and related fees in connection with Amendment No. 2 included in *Other, net* in the Condensed Consolidated Statements of Operations. Additionally, in connection with Amendment No. 2 of the Term Loan Credit Agreement, the Company paid a total of $0.9 million in original issuance discount fees which are being amortized over the life of the amended Term Loan Credit Agreement using the effective interest rate method.

*Other Debt Facilities*

In November 2012, the Company entered into a loan agreement with GE Government Finance, Inc. as lender and the County of Trigg, Kentucky as issuer for a $2.5 million Industrial Revenue Bond. The funds received were used to purchase the equipment needed for the expansion of the Company's Cadiz, Kentucky facility. The loan bears interest at a rate of 4.25% and matures in March 2018. As of September 30, 2015, the Company had $1.3 million outstanding, of which $0.5 million was classified as current on the Condensed Consolidated Balance Sheet.

## 4. FAIR VALUE MEASUREMENTS

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

- Level 1 — Valuation is based on quoted prices for identical assets or liabilities in active markets;
- Level 2 — Valuation is based on quoted prices for similar assets or liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for the full term of the financial instrument; and
- Level 3 — Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

*Recurring Fair Value Measurements*

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

The investments purchased by the Company (asset) include mutual funds, $ 0.8 million of which are classified as Level 1, and life-insurance contracts valued based on the performance of underlying mutual funds, $8.2 million of which are classified as Level 2.

*Nonrecurring Fair Value Measurements*

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

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

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

Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition.

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

*Estimated Fair Value of Debt*

The estimated fair value of long-term debt at September 30, 2015 consists primarily of the Notes and borrowings under its Term Loan Credit Agreement (see Note 3). The fair value of the Notes, the Term Loan Credit Agreement and the revolving credit facility are based upon third party pricing sources, which generally do not represent daily market activity, nor does it represent data obtained from an exchange, and are classified as Level 2. The interest rates on the Company's borrowings under the revolving credit facility are adjusted regularly to reflect current market rates and thus carrying value approximates fair value for these borrowings. All other debt and capital lease obligations approximate their fair value as determined by discounted cash flows and are classified as Level 3.

The Company's carrying and estimated fair value of debt at September 30, 2015 and December 31, 2014 were as follows:

| | September 30, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying | Fair Value | | | Carrying | Fair Value | | |
| | Value | Level 1 | Level 2 | Level 3 | Value | Level 1 | Level 2 | Level 3 |
| Instrument | | | | | | | | |
| Convertible senior notes | $137,765 | $- | $168,855 | $- | $134,601 | $- | $188,490 | $- |
| Term loan credit agreement | 191,039 | - | 191,401 | - | 189,027 | - | 192,845 | - |
| Industrial revenue bond | 1,275 | - | - | 1,275 | 1,645 | - | - | 1,645 |
| Capital lease obligations | 2,918 | - | - | 2,918 | 7,254 | - | - | 7,254 |
| | $332,997 | $- | $360,256 | $4,193 | $332,527 | $- | $381,335 | $8,899 |

## 5. STOCK-BASED COMPENSATION

The Company recognizes all share-based payments based upon their fair value. To value new stock option awards the Company uses a binomial option-pricing model, which incorporates various assumptions including expected volatility, expected term, dividend yield and risk-free interest rates. The expected volatility is based upon the Company's historical experience. The expected term represents the period of time that options granted are expected to be outstanding. The risk-free interest rate utilized for periods throughout the contractual life of the options are based upon U.S. Treasury security yields at the time of grant. The Company also grants restricted stock units subject to service, performance and/or market conditions. The Company's policy is to recognize expense for awards that have service conditions only subject to graded vesting using the straight-line attribution method. The fair value of service and performance based units is based on the market price of a share of underlying common stock at the date of grant. The fair value of the market based units is based on a lattice valuation model. The amount of compensation costs related to stock options, restricted stock units and performance units not yet recognized was $12.2 million at September 30, 2015, for which the expense will be recognized through 2018.

## 6. CONTINGENCIES

The Company is involved in a number of legal proceedings concerning matters arising in connection with the conduct of its business activities, and is periodically subject to governmental examinations (including by regulatory and tax authorities), and information gathering requests (collectively, "governmental examinations"). As of September 30, 2015, the Company was named as a defendant or was otherwise involved in numerous legal proceedings and governmental examinations in various jurisdictions, both in the United States and internationally.

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

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

*Brazil Joint Venture*

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

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

A bench (non-jury) trial was held on March 30, 2010 in Curitiba, Paraná, Brazil. On November 22, 2011, the Fourth Civil Court of Curitiba partially granted BK's claims, and ordered Wabash to pay BK lost profits, compensatory, economic and moral damages in excess of the amount of compensatory damages asserted by BK. The total ordered damages amount is approximately R$26.7 million (Brazilian Reais), which is approximately $6.5 million U.S. dollars using current exchange rates and exclusive of any potentially court-imposed interest, fees or inflation adjustments (which are currently estimated at a maximum of approximately $45 million, at current exchange rates, but may change with the passage of time and/or the discretion of the court at the time of final judgment in this matter). Due, in part, to the amount and type of damages awarded by the Fourth Civil Court of Curitiba, Wabash immediately filed for clarification of the judgment. The Fourth Civil Court has issued its clarification of judgment, leaving the underlying decision unchanged and referring the parties to the State of Paraná Court of Appeals for any further appeal of the decision. As such, the Company filed its notice of appeal with the Court of Appeals, as well as its initial appeal papers, on April 22, 2013. The Court of Appeals has the authority to re-hear all facts presented to the lower court, as well as to reconsider the legal questions presented in the case, and to render a new judgment in the case without regard to the lower court's findings. Pending outcome of this appeal process, the judgment is not enforceable by the plaintiff. Any ruling from the Court of Appeals is not expected before the first quarter of 2016, at the earliest, and, accordingly, the judgment rendered by the lower court cannot be enforced prior to that time, and may be overturned or reduced as a result of this process. The Company believes that the claims asserted by BK are without merit and it intends to continue to vigorously defend its position. The Company has not recorded a charge with respect to this loss contingency as of September 30, 2015. Furthermore, at this time, the Company does not have sufficient information to predict the ultimate outcome of the case and is unable to reasonably estimate the amount of any possible loss or range of loss that it may be required to pay at the conclusion of the case. The Company will reassess the need for the recognition of a loss contingency upon official assignment of the case in the Court of Appeals, upon a decision to settle this case with the plaintiffs or an internal decision as to an amount that the Company would be willing to settle or upon the outcome of the appeals process.

*Intellectual Property*

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

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

*Walker Acquisition*

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

*Environmental Disputes*

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

Bulk Tank International, S. de R.L. de C.V. ("Bulk") entered into agreements in 2011 with the Mexican federal environmental agency, PROFEPA, and the applicable state environmental agency, PROPAEG, pursuant to PROFEPA's and PROPAEG's respective environmental audit programs to resolve noncompliance with federal and state environmental laws at Bulk's Guanajuato facility. Bulk completed all required corrective actions and received a Certification of Clean Industry from PROPAEG, and is seeking the same certification from PROFEPA, which the Company expects it will receive by early 2016, following the conclusion of a final audit process that began in

December 2014. As a result, the Company does not expect that this matter will have a material adverse effect on its financial condition or results of operations.

In January 2012, the Company was noticed as a PRP by the U.S. Environmental Protection Agency ("EPA") and the Louisiana Department of Environmental Quality ("LDEQ") pertaining to the Marine Shale Processors Site located in Amelia, Louisiana ("MSP Site") pursuant to CERCLA and corresponding Louisiana statutes. PRPs include current and former owners and operators of facilities at which hazardous substances were allegedly disposed. The EPA's allegation that the Company is a PRP arises out of one alleged shipment of waste to the MSP Site in 1992 from the Company's branch facility in Dallas, Texas. As such, the MSP Site PRP Group notified the Company in January 2012 that, as a result of a March 18, 2009 Cooperative Agreement for Site Investigation and Remediation entered into between the MSP Site PRP Group and the LDEQ, the Company was being offered a "De Minimis Cash-Out Settlement" to contribute to the remediation costs, which would remain open until February 29, 2012. The Company chose not to enter into the settlement and has denied any liability. In addition, the Company has requested that the MSP Site PRP Group remove the Company from the list of PRPs for the MSP Site, based upon the following facts: the Company acquired this branch facility in 1997 – five years after the alleged shipment - as part of the assets the Company acquired out of the Fruehauf Trailer Corporation ("Fruehauf") bankruptcy (Case No. 96-1563, United States Bankruptcy Court, District of Delaware ("Bankruptcy Court")); as part of the Asset Purchase Agreement regarding the Company's purchase of assets from Fruehauf, the Company did not assume liability for "Off-Site Environmental Liabilities," which are defined to include any environmental claims arising out of the treatment, storage, disposal or other disposition of any Hazardous Substance at any location other than any of the acquired locations/assets; the Bankruptcy Court, in an Order dated May 26, 1999, also provided that, except for those certain specified liabilities assumed by the Company under the terms of the Asset Purchase Agreement, the Company and its subsidiaries shall not be subject to claims asserting successor liability; and the "no successor liability" language of the Asset Purchase Agreement and the Bankruptcy Court Order form the basis for the Company's request that it be removed from the list of PRPs for the MSP Site. The MSP Site PRP Group is currently considering the Company's request, but has provided no timeline to the Company for a response. However, the MSP Site PRP Group has agreed to indefinitely extend the time period by which the Company must respond to the De Minimis Cash-Out Settlement offer. The Company does not expect that this proceeding will have a material adverse effect on its financial condition or results of operations.

In September 2003, the Company was noticed as a PRP by the EPA pertaining to the Motorola 52nd Street, Phoenix, Arizona Superfund Site (the "Superfund Site") pursuant to CERCLA. The EPA's allegation that the Company was a PRP arises out of the Company's acquisition of a former branch facility located approximately five miles from the original Superfund Site. The Company acquired this facility in 1997, operated the facility until 2000, and sold the facility to a third party in 2002. In June 2010, the Company was contacted by the Roosevelt Irrigation District ("RID") informing it that the Arizona Department of Environmental Quality ("ADEQ") had approved a remediation plan in excess of $100 million for the RID portion of the Superfund Site, and demanded that the Company contribute to the cost of the plan or be named as a defendant in a CERCLA action to be filed in July 2010. The Company initiated settlement discussions with the RID and the ADEQ in July 2010 to provide a full release from the RID, and a covenant not-to-sue and contribution protection regarding the former branch property from the ADEQ, in exchange for payment from the Company. If the settlement is approved by all parties, it will prevent any third party from successfully bringing claims against the Company for environmental contamination relating to this former branch property. The Company has been awaiting approval from the ADEQ since the settlement was first proposed in July 2010. Based on communications with the RID and ADEQ in September 2015, the Company does not expect to receive a response regarding the approval of the settlement from the ADEQ for, at least, several additional months. Based upon the Company's limited period of ownership of the former branch property, and the fact that it no longer owns the former branch property, it does not anticipate that the ADEQ will reject the proposed settlement, but no assurance can be given at this time as to the ADEQ's response to the settlement proposal. The proposed settlement terms have been accrued and did not have a material adverse effect on the Company's financial condition or results of operations, and the Company believes that any ongoing proceedings will not have a material adverse effect on the Company's financial condition or results of operations.

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

## 7. NET INCOME PER SHARE

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Basic net income per share: | | | | |
| Net income applicable to common stockholders | $ 31,880 | $ 18,307 | $ 71,002 | $ 41,842 |
| Undistributed earnings allocated to participating securities | - | (103) | - | (340) |
| Net income applicable to common stockholders excluding amounts applicable to participating securities | $ 31,880 | $ 18,204 | $ 71,002 | $ 41,502 |
| Weighted average common shares outstanding | 66,524 | 68,976 | 67,608 | 68,862 |
| Basic net income per share | $ 0.48 | $ 0.26 | $ 1.05 | $ 0.60 |
| Diluted net income per share: | | | | |
| Net income applicable to common stockholders | $ 31,880 | $ 18,307 | $ 71,002 | $ 41,842 |
| Undistributed earnings allocated to participating securities | - | (103) | - | (340) |
| Net income applicable to common stockholders excluding amounts applicable to participating securities | $ 31,880 | $ 18,204 | $ 71,002 | $ 41,502 |
| Weighted average common shares outstanding | 66,524 | 68,976 | 67,608 | 68,862 |
| Dilutive shares from assumed conversion of convertible senior notes | 611 | 1,949 | 1,462 | 1,806 |
| Dilutive stock options and restricted stock | 907 | 994 | 1,019 | 855 |
| Diluted weighted average common shares outstanding | 68,042 | 71,919 | 70,089 | 71,523 |
| Diluted net income per share | $ 0.47 | $ 0.25 | $ 1.01 | $ 0.58 |

Average diluted shares outstanding for the three and nine month periods ended September 30, 2015 and 2014 exclude options to purchase common shares totaling 759 and 504, respectively, and 636 and 538, respectively, because the exercise prices were greater than the average market price of the common shares. In addition, the calculation of diluted net income per share for the three and nine month periods ended September 30, 2015 and 2014 includes the impact of the Company's Notes as the average stock price of the Company's common stock during these periods was above the initial conversion price of approximately $11.70 per share.

## 8. INCOME TAXES

The Company recognized income tax expense of $42.4 million in the first nine months of 2015 compared to $27.9 million for the same period in the prior year. The effective tax rate for the first nine months of 2015 was 37.4%, which differs from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes offset by the benefit of the U.S. Internal Revenue Code domestic manufacturing deduction. The effective tax rate for the first nine months of 2014 was 40.0%, which differs from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes and the revaluation of the Company’s net deferred tax assets due to a reduction in its state and local statutory income tax rates.

## 9. OTHER ACCRUED LIABILITIES

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Payroll and related taxes | $ 36,644 | $ 30,362 |
| Customer Deposits | 31,261 | 21,680 |
| Warranty | 16,987 | 15,462 |
| Self-Insurance | 9,371 | 7,543 |
| Accrued Taxes | 7,759 | 8,371 |
| All Other | 9,833 | 5,272 |
| | $ 111,855 | $ 88,690 |

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

| | September 30, 2015 | September 30, 2014 |
|---|---|---|
| Balance as of January 1 | $ 15,462 | $ 14,719 |
| Provision for warranties issued in current year | 5,578 | 4,975 |
| Recovery of pre-existing warranties | (289) | (112) |
| Payments | (3,764) | (4,097) |
| Balance as of September 30 | $ 16,987 | $ 15,485 |

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

## 10. STOCKHOLDERS' EQUITY

On March 30, 2015, the Company executed an amendment to its Stockholders' Rights Plan (the "Rights Plan") pursuant to which the final expiration date was advanced from December 28, 2015 to March 30, 2015. As a result of the amendment, effective as of the close of business on March 30, 2015, the Rights Plan expired and all rights, as defined in the Rights Plan, are no longer outstanding.

## 11. SEGMENTS

***a. Segment Reporting***

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

| Three Months Ended September 30, | Commercial Trailer Products | Diversified Products | Retail | Corporate and Eliminations | Consolidated |
|---|---|---|---|---|---|
| 2015 | | | | | |
| Net Sales | | | | | |
| External Customers | $ 372,690 | $ 116,953 | $ 41,707 | $ - | $ 531,350 |
| Intersegment Sales | 14,342 | 3,266 | 204 | (17,812) | - |
| Total Net Sales | $ 387,032 | $ 120,219 | $ 41,911 | $ (17,812) | $ 531,350 |
| Income (Loss) from operations | $ 45,610 | $ 16,789 | $ 1,322 | $ (7,332) | $ 56,389 |
| Reconciling items to income before income taxes | | | | | |
| Interest Expense | | | | | (4,784) |
| Other, net | | | | | (187) |
| Income before income taxes | | | | | $ 51,418 |
| 2014 | | | | | |