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

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 March 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 1-10883

WABASH NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Yes 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 ¨	Accelerated filer x
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 April 23, 2014 was 68,916,867.

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WABASH NATIONAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 65,736	$ 113,262
Accounts receivable	118,864	120,358
Inventories	262,915	184,173
Deferred income taxes	16,902	21,576
Prepaid expenses and other	11,197	9,632
Total current assets	$ 475,614	$ 449,001
PROPERTY, PLANT AND EQUIPMENT	140,254	142,082
DEFERRED INCOME TAXES	1,044	1,401
GOODWILL	149,950	149,967
INTANGIBLE ASSETS	153,746	159,181
OTHER ASSETS	11,425	10,613
	$ 932,033	$ 912,245
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 3,250	$ 3,245
Current portion of capital lease obligations	1,529	1,609
Accounts payable	129,316	112,151
Other accrued liabilities	91,008	99,358
Total current liabilities	$ 225,103	$ 216,363
LONG-TERM DEBT	359,270	358,890
CAPITAL LEASE OBLIGATIONS	6,584	6,851
DEFERRED INCOME TAXES	2,191	1,234
OTHER NONCURRENT LIABILITIES	7,504	6,528
COMMITMENTS AND CONTINGENCIES		

STOCKHOLDERS' EQUITY		
Common stock 200,000,000 shares authorized, $0.01 par value, 68,908,030 and 68,523,419 shares outstanding, respectively	708	705
Additional paid-in capital	629,009	625,971
Accumulated deficit	(269,832)	(277,128)
Accumulated other comprehensive income	144	(18)
Treasury stock at cost, 1,987,073 and 1,873,870 common shares, respectively	(28,648)	(27,151)
Total stockholders' equity	$ 331,381	$ 322,379
	$ 932,033	$ 912,245

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

WABASH NATIONAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2014	2013
NET SALES	$358,120	$324,229
COST OF SALES	311,448	282,043
Gross profit	$46,672	$42,186
GENERAL AND ADMINISTRATIVE EXPENSES	14,472	13,675
SELLING EXPENSES	7,264	7,667
AMORTIZATION OF INTANGIBLES	5,471	5,370
ACQUISITION EXPENSES	-	618
Income from operations	$19,465	$14,856
OTHER INCOME (EXPENSE):		
Interest expense	(5,717)	(7,535)
Other, net	32	2,238
Income before income taxes	$13,780	$9,559
INCOME TAX EXPENSE	6,484	3,824
Net income	$7,296	$5,735
BASIC NET INCOME PER SHARE	$0.11	$0.08
DILUTED NET INCOME PER SHARE	$0.10	$0.08

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 March 31,	
	2014	2013
NET INCOME	$7,296	$5,735
Other comprehensive income (loss):		
Foreign currency translation adjustment	161	(255)
Total other comprehensive income (loss)	161	(255)
COMPREHENSIVE INCOME	$7,457	$5,480

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)

	Three Months Ended March 31, 2014	2013
Cash flows from operating activities		
Net income	$7,296	$5,735
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation	4,042	4,406
Amortization of intangibles	5,471	5,370
Deferred income taxes	5,988	3,790
Stock-based compensation	1,640	1,884
Accretion of debt discount	1,195	1,126
Changes in operating assets and liabilities		
Accounts receivable	1,494	(4,593)
Inventories	(78,742)	(46,580)
Prepaid expenses and other	(1,565)	(83)
Accounts payable and accrued liabilities	8,815	19,563
Other, net	311	1,716
Net cash used in operating activities	$(44,055)	$(7,666)
Cash flows from investing activities		
Capital expenditures	(2,078)	(2,564)
Acquisition	-	(13,860)
Other	-	2,418
Net cash used in investing activities	$(2,078)	$(14,006)
Cash flows from financing activities		
Proceeds from exercise of stock options	1,517	161
Borrowings under revolving credit facilities	175	223
Payments under revolving credit facilities	(175)	(223)
Principal payments under capital lease obligations	(603)	(441)
Principal payments under term loan credit facility	(693)	(750)
Principal payments under industrial revenue bond	(117)	(38)
Debt issuance costs paid	-	(41)
Stock repurchase	(1,497)	(35)
Net cash used in financing activities	$(1,393)	$(1,144)
Net decrease in cash and cash equivalents	$(47,526)	$(22,816)

Cash and cash equivalents at beginning of period	113,262	81,449
Cash and cash equivalents at end of period	$65,736	$58,633

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

WABASH NATIONAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF THE BUSINESS

The condensed consolidated financial statements of Wabash National Corporation (the "Company") have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of the Company, its results of operations and cash flows. Certain reclassifications have been made to prior periods to conform to the current year presentation. These reclassifications had no effect on net income for the periods previously reported. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's 2013 Annual Report on Form 10-K.

2. ACQUISITIONS

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

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

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

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

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

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

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

3. INVENTORIES

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

	March 31, 2014	December 31, 2013
Raw materials and components	$ 70,377	$ 54,699
Work in progress	24,391	20,749
Finished goods	139,670	82,673
Aftermarket parts	9,904	10,389
Used trailers	18,573	15,663
	$ 262,915	$ 184,173

4. DEBT

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

	March 31, 2014	December 31, 2013
Convertible senior notes	$ 150,000	$ 150,000

Term loan credit agreement	234,230	234,923
Industrial revenue bond	2,002	2,119
	$ 386,232	$ 387,042
Less: unamortized discount	(23,712)	(24,907)
Less: current portion	(3,250)	(3,245)
	$ 359,270	$ 358,890

Convertible Senior Notes

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

The Notes are convertible by their holders into cash, shares of the Company's common stock or any combination thereof at the Company's election, at an initial conversion rate of 85.4372 shares of the Company's common stock per $1,000 in principal amount of Notes, which is equal to an initial conversion price of approximately $11.70 per share, only under the following circumstances: (A) before November 1, 2017 (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2012 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture for the Notes) per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; and (3) upon the occurrence of specified corporate events as described in the indenture for the Notes; and (B) at any time on or after November 1, 2017 until the close of business on the second business day immediately preceding the maturity date. As of March 31, 2014, the Notes were not convertible based on the above criteria. If the Notes were converted as of March 31, 2014, the if-converted value would exceed the principal amount by approximately $26 million.

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

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

The Company applies the treasury stock method in calculating the dilutive impact of the Notes. For the period ended March 31, 2014, the Notes had a dilutive impact.

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

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	March 31, 2014	December 31, 2013
Principal amount of the Notes outstanding	$ 150,000	$ 150,000
Unamortized discount of liability component	(18,404)	