MERIT MEDICAL SYSTEMS INC
Form 10-K
March 12, 2008

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

**x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007,**

**or**

**o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

# MERIT MEDICAL SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

| **Utah** | **0-18592** | **87-0447695** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File No.) | (IRS Employer Identification No.) |

**1600 West Merit Parkway**

**South Jordan, Utah 84095**

(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code: **(801) 253-1600**

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, No Par Value**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant, on June 30, 2007, which is the last day of the registrant s most recently completed second fiscal quarter (based upon the closing sale price of the registrant s common stock on the NASDAQ National Market System on June 30, 2007), was approximately $307 million. Shares of common stock held by each officer and director of the registrant and by each person who may be deemed to be an affiliate have been excluded.

As of March 4, 2008, the registrant had 27,566,163 shares of the registrant s common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the following document are incorporated by reference in Part III of this Report: the registrant s definitive proxy statement relating to the Annual Meeting of Shareholders scheduled for May 21, 2008.

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**PART I**

*Unless otherwise indicated in this report, we, us, our, and similar terms refer to Merit Medical Systems, Inc. and our consolidated subsidiaries.*

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). All statements other than statements of historical fact are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as may, will, expects, plans, anticipates, intends, believes, estimates, potential, or continue, or thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including infringement of our proprietary technology or our inability to protect our proprietary technology, termination or interruption of relationships with our suppliers, potential delays in obtaining regulatory approvals, product recalls, product liability claims, our inability to successfully manage growth through acquisitions, our failure to comply with governing regulations, high concentrations of revenue from a few products and/or customers, market acceptance of our products, market price of our Common Stock and foreign currency fluctuations, dependency on key personnel, cost increases on limits on reimbursement and other factors referred to in our press releases and reports filed with the Securities and Exchange Commission (the SEC ). All subsequent forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our operating results are described under Item 1A. Risk Factors beginning on page 8.

**Item 1. Business.**

**GENERAL**

Merit Medical Systems, Inc. was formed in 1987 by several members of our current management to produce high-quality, single-use medical products. Our initial focus was on creating products to be used by doctors in diagnosing and treating cardiovascular disease. Our products are designed to enable physicians and other health care professionals to perform interventional and diagnostic procedures safely and effectively. Early in our development, we were able to introduce innovative new products and capture significant market share because of our expertise in product design, our proprietary technology, and our skills in injection and insert molding. Later, we developed an innovative line of angioplasty inflation products that included electronic sensing and display features. Angioplasty and stent placement are procedures used to clear out blockages and blood clots in arteries by inserting and inflating a small balloon in the clogged arteries. We market these devices along with a group of sensor-based products designed to be used by hospital personnel in various diagnostic and interventional catheterization procedures. Recently, we have expanded our product offerings to include angiographic catheters, guide wires, needles, safety products, therapeutic infusion catheters and accessories, drainage catheters and accessories, sheath introducers, pressure infusion bags, syringes, kits, and procedure trays. Additionally, we have sought to improve our line of core products.

We offer a broad line of innovative, disposable products designed to assist physicians in diagnosing disease and intervening in the areas of radiology and cardiology. During 2007, our sales of new and existing products increased both in the United States and in foreign markets. We intend to create new products based on our sensor-based technologies, plastics molding, catheter, guide wire, and electronic capabilities, and to develop products for diagnostic and interventional procedures in additional markets. Our sales of stand-alone products, in combination with custom kits, have increased as we have expanded our product lines. In 2007, our U.S. domestic sales force made approximately 41% of our sales directly to U.S. hospitals and approximately 14% of sales through other channels such as U.S. customs packagers and distributors. Original equipment manufacturers, or OEM , companies accounted for approximately 15% of our 2007 sales. Approximately 31% of our sales in 2007 were made in international markets (of which OEM international sales accounted for approximately 1%).

During the first quarter of 2007, we entered into a distribution agreement with Milamy Partners LLC, ( Milamy ) a Maine corporation, wherein we purchased the exclusive, worldwide right to distribute Milamy s KanguruWeb® Abdominal Retraction System in the vascular lab markets. In the first quarter of 2007, we entered into an asset purchase agreement with Datascope Corporation, a New Jersey corporation, to purchase its ProGuide catheter. In connection with this agreement we acquired assets, inventory, customer lists, patents and trademarks. In the third quarter of 2007, we entered into a distribution agreement with GMA Company, Ltd., a Japanese corporation, for the exclusive distribution rights to sell a micro-catheter. Also in the third quarter of 2007 we entered into a patent assignment and royalty agreement with Lightek Corporation, a Wyoming corporation, to manufacture and sell a radio-opaque marker band.

Merit Medical Systems, Inc. was organized in July 1987 as a Utah corporation. We also conduct our operations through a number of domestic and foreign subsidiaries. Our principal offices are located at 1600 West Merit Parkway, South Jordan, Utah, 84095, and our telephone number is (801) 253-1600. See Item 2. Properties.

**PRODUCTS**

We develop, manufacture and market products that offer a high level of quality, value, and safety to our customers, as well as the patients they serve. In response to feedback from health care professionals, we have built an extensive product offering in the market for interventional cardiology and interventional radiology procedures. In addition, we are making our mark in the areas of dialysis and interventional nephrology, pain management (discography), vein therapy, and other areas of the health care industry.

The competitive advantages of our products are enhanced by our twenty years of experience in the health care industry; our experienced direct sales force and distributors; our ability to combine and customize devices, kits, and trays at the request of our customers; and our dedication to offering stick to stitch solutions in the markets we serve worldwide.

**Interventional Cardiology and Radiology Products**

Interventional cardiology is a branch of the medical specialty of cardiology that deals specifically with the catheter-based diagnosis and treatment of heart diseases. A large number of procedures can be performed by catheterization, and more commonly, involve the insertion of a sheath into the femoral, radial, or brachial artery. Fluoroscopy (X-ray) and computed tomography (CT) are most often used to visualize the vessels and chambers of the heart during these diagnostic and interventional procedures. Percutaneous Transluminal Coronary Angioplasty (PTCA) is used to treat coronary atherosclerosis and the resulting narrowing of the arteries of the heart. Interventional Radiology is related to the minimally invasive treatment of disease in other (peripheral) vessels and organs of the body and Percutaneous Transluminal Angioplasty (PTA) is used to treat similar disease conditions outside the heart.

**Inflation Devices.** During PTCA and PTA procedures, balloons and/or stents are placed within the vasculature. The balloons must be carefully placed, inflated, and deflated within the vessel in order to achieve optimal results without injury to the patient. For almost two decades, we have offered an extensive, innovative line of inflation devices on the market. Products like our IntelliSystem® and Monarch® (state of the art digital inflation systems), as well as the Basix COMPAK inflation device, offer the clinician a wide range of features and prices along with the quality and ergonomic superiority we are known for. We estimate that we currently supply more than 50% of the worldwide inflation device market.

**Hemostasis Valves.** We have developed a complete line of technically sophisticated, clinically acclaimed hemostasis valves (also known as Touhy-Borst adaptors) and angioplasty accessories. These valves connect to catheters and allow passage of additional guide wires, balloon catheters, and other devices into the vasculature while reducing the amount of blood loss during the procedures. We believe we currently supply more than 40% of the worldwide market for these devices.

**Vascular Access Products.** We offer a broad line of devices used to gain and maintain vascular access while protecting the clinician from accidental cuts and needle-sticks during the procedure. These effective and useful devices and kits include the Futura® Safety Scalpel and an improved line of angiography needles (Merit Advance®), as well as the SecureLoc Angiographic Needle all introduced in 2006. In addition, we offer an extensive line of sheath introducers (Prelude®) and mini access kits (MAK and S-MAK ), which are designed to allow the clinician smooth, less traumatic, and convenient access to the patient s vasculature.

**Diagnostic Catheters, Guide Wires, and Torque Devices.** We offer diagnostic catheters and guide wires for use during both cardiology and radiology angiographic procedures. In 2007, we introduced our new IMPRESS® line of

diagnostic radiology catheters. These catheters offer interventional radiologists superior performance during a variety of angiography procedures. In addition, our diagnostic guide wires are used to traverse vascular anatomy to aid in placing catheters and other devices. Our pre-coated, high performance InQwire® guide wires are lubricious and are available in a wide range of configurations to meet the clinicians diagnostic needs. Introduced in 2005, the Merit H2O® hydrophilic guide wire provides enhanced maneuverability through tortuous anatomy. We also offer a line of torque devices (guide wire steering tools) that can be used on both standard and hydrophilic guide wires in both large and small diameters and are often included as a component in our angioplasty packs. In 2007, we released our new SeaDragon torque device which is designed for use with hydrophilic guide wires.

**Angiography and Angioplasty Accessories.** Since our introduction of the CCS line of disposable coronary control syringes in 1988, we have continued to develop innovative, problem-solving devices; accessories; kits; and procedure trays for use during minimally invasive diagnosis and treatment of coronary artery and peripheral disease. Additionally, we offer an extensive line of kits containing manifolds, syringes, tubing, and disposable pressure transducers (MeriTrans®) for measurement of pressures within the vessels and chambers of the heart. We also provide devices, kits, and procedure trays used to effectively and safely manage fluids, contrast media, and waste during angiography and interventional procedures. For example, in 2007, we introduced a new line of CT-Transfer Sets to address the growing CT angiography market.

**Safety and Waste Management Systems.** We offer a variety of safety-related products and kits. Our ShortStop® and ShortStop Advantage® temporary sharps holders address the potential safety issues associated with accidental needle sticks. Our extensive line of color-coded Medallion® specialty syringes and the PAL medication labeling system (which complies with the Joint Commission on Accreditation of Healthcare Organizations ( JCAHO ) latest patient safety initiatives) help prevent mix-ups in the administration of medication. We also offer waste management products to avoid accidental exposure to contaminated fluids. These include our OSHA-compliant waste disposal basins, including the BackStop®, BackStop Plus , MiniStop and MiniStop+, DugOut®, and TriplePlay . These products have been designed to complement other Merit devices and are included in many of our kits and procedure trays in order to make the clinical setting safer for both clinicians and the patients.

**Obesity-Related Products.** Patient obesity presents an ever-growing challenge to clinicians and patients during vascular access, angiography, and interventional procedures. In 2007, we acquired the KanguruWeb® abdominal retraction device from Milamy in an effort to address this issue. This device allows easier vessel access to clinicians while maintaining patient comfort and dignity during interventional cardiology and radiology procedures. In addition, we offer longer angiography and anesthesia needles, as well as mini access kits for improved vascular access of obese patients.

**Specialty Procedure Products**

In addition to the procedures and devices detailed above, interventional radiology (also referred to as the special procedures or specials lab) performs a multitude of additional minimally invasive diagnostic and interventional procedures. We offer a variety of devices and accessories used during these procedures.

**Drainage Catheters and Accessories.** We have a complete line of catheters for nephrostomy, abscess, and other drainage procedures. Our ReSolve® non-locking and locking drainage catheter line was expanded in 2006 and 2007. These catheters unique, convenient locking mechanisms are appreciated by clinicians and patients, who often comment on the enhanced comfort that the catheter provides them. We also offer a range of catheter fixation devices including the Revolution catheter fixation device which was designed to be cost effective, save time, and enhance patient comfort. In addition, Merit provides a wide selection of accessories that complement our drainage catheters, including tubing sets and drainage bags. In 2007, for example, we expanded our Drainage Depot product line to include the new Drainage Depot Bag with soft cloth backing which is more comfortable for patients than traditional bags.

**Paracentesis and Pericardiocentesis Catheters.** Paracentesis is a procedure to remove fluid that has accumulated in the abdominal cavity (peritoneal fluid). Merit s One-Step centesis catheter, as well as our Safety Paracentesis Procedure Tray, are designed to provide clinicians with a safe, convenient, and cost-effective alternative for paracentesis procedures. Pericardiocentesis is a procedure in which fluid is aspirated from the pericardium (the sac enveloping the heart). In 2007,we introduced a new, large (8.3F) outer diameter pericardiocentesis catheter. Our Pericardiocentesis Kit is designed as an organized, ready-to-use, convenient tray to assist the clinician in draining fluid quickly from the pericardial sac.

**Therapeutic Infusion Catheters.** We offer a complete line of therapeutic thrombolytic infusion systems featuring the Fountain® Infusion Systems and the Mistique® Infusion Catheters. These technically-advanced catheters are used to treat thrombus (blood clot) formation in the peripheral vessels of the body.

**Products for Dialysis and Interventional Nephrology.** In 2007, we acquired the ProGuide Chronic Dialysis Catheter product line from Datascope Corporation. The ProGuide is considered a workhorse catheter for long-term dialysis and provides a platform for additional Merit products in the dialysis and interventional nephrology market. For example, the Merit DialEase® sheath introducers provide vascular access to dialysis grafts and our extensive line of vascular access devices (Prelude® and MAK /S-MAK ), guide wires, diagnostic catheters, therapeutic infusion systems, and safety products are also used during these dialysis-related procedures.

**Discography Products.** Discography is a technique used to determine whether a disc is the source of pain in patients with back or neck pain. During discography, contrast medium is injected into the disc and the patient s response to the injection is noted. Because of their quality and accuracy, our digital inflation devices (IntelliSystem® and Monarch®) are used in many pain management clinics for injecting contrast into the disc.

**MARKETING AND SALES**

**Target Market/Industry.** Cardiovascular disease continues to be a leading health problem in the United States. The American Heart Association estimated that cardiovascular disease accounted for more than one-third (36.3 percent) of all deaths in the United States in 2004. We derive a majority of our sales revenues from products used in angiography and angioplasty procedures designed to treat cardiovascular disease. We believe that the greatest potential to diagnose and treat the disease comes from the use of transcatheter technologies, meaning products utilizing vascular catheterization procedures such as balloons, bare metal and drug eluding stents, and technologies aimed at defect repair. Catheterization refers to the process of inserting a catheter, usually into one or more of a patient s arteries. We intend to pursue additional sales growth by building on our existing market position in both catheter technology and accessory products.

The global market for transcatheter products stands at a major crossroads, even when considering the continued dynamic evolution in vascular stent placement. The core diagnostic and therapeutic applications for basic transcatheter technologies (balloons, stents and defect repair) are well established, with the future growth of procedures and products dependent upon demographic trends. Several companies, however, are researching and developing new technologies and applications designed to enhance patient outcomes and enable the treatment of new populations that have been traditionally limited to surgical intervention. Much of this additional research and development has led to new or enhanced procedures, devices and drugs designed to treat or prevent cardiovascular disease. These procedures, devices and drugs include laser angioplasty, atherectomy procedures and drug therapies. Because these new procedures and therapies do not involve the use of catheterization, they may either render some of our products obsolete or limit the markets for our products. However, with the advent of vascular stents and other procedures, such as discography and kyphoplasty, we have experienced continued growth in our proprietary inflation technology. We are monitoring trends in the industry and believe we are in a position to launch catheters and accessories to support growing clinical applications.

A large number of current research and development projects focus on improving the diagnosis of cardiovascular disease, improving the issue of restenosis, and developing other less invasive alternatives to open-heart surgery. In recent years, many researchers have focused their interests on technologies and products that support the increased use of transcatheter approaches to reduce the mortality rate of cardiovascular disease. These new technologies and procedures include drug-coated stents, radiated stents and balloons, anti-platelet therapy, gene therapy, percutaneous coronary thrombectomy, and transmyocardial revascularization. We plan to continue to develop and launch innovative products to support these clinical trends.

**Market Strategy.** Our marketing strategy is focused on identifying and introducing a continual flow of highly profitable differentiated products that meet customer needs. In order to stay abreast of customer needs, we seek suggestions from hospital personnel working with our products in cardiology and radiology applications. Suggestions for new products and product improvements may come from engineers, sales people, physicians and technicians who perform the clinical procedures.

When we determine that a product suggestion demonstrates sustainable competitive advantage, meets customer needs, fits strategically and technologically with our business, and has a good potential financial return, we generally assemble a project team comprised of individuals from our sales, marketing, engineering, manufacturing, legal, and quality assurance departments. This team works to identify the customer requirements, integrate the design, compile necessary documentation and testing, and prepare the product for market introduction. We believe that one of our marketing strengths is our capacity to rapidly conceive, design, develop, and introduce new products.

**U. S. Sales.** Sales of our products in the United States accounted for 68%, 72% and 73% of our total sales for the years ended December 31, 2007, 2006 and 2005, respectively. Our direct sales force currently consists of a Vice

President of Sales, eight regional sales managers and 62 direct sales representatives and clinical specialists located in major metropolitan areas throughout the United States. We consider training to be a critical factor in the success of our direct sales force. Our sales people are trained by our personnel at our facilities, by a senior sales person in their respective territories, at regular national and regional sales meetings, by consulting cardiologists and employees of the Company, and by observation of procedures in catheterization laboratories.

**International Sales.** Approximately 100 independent dealer organizations distribute our products worldwide, including territories in Europe, Africa, the Middle East, Asia, South and Central America, and Canada. We have appointed a Vice President for International Sales, residing in South Jordan, Utah, who oversees Asia, South and Central America and Canada. We also have a Vice President of European Sales who oversees Europe and the Middle East from our distribution office located in Maastricht, The Netherlands. Approximately 20 direct sales representatives and country managers presently sell our products in Germany, France, the United Kingdom, Belgium, The Netherlands, Denmark, Sweden, Ireland, and beginning in 2008, Australia. In 2007, our international sales grew approximately 21% over our total sales for the year ended December 31, 2006, and accounted for approximately 31% of total sales. With the recent and planned additions to our product lines, we believe that our international sales will continue to increase.

We generally require our international dealers to inventory products and sell directly to customers within defined sales territories. Each of our products must be approved for sale under the laws of the country in which it is sold. International dealers are responsible for compliance with all applicable laws and regulations in their respective countries.

**OEM Sales.** We currently have an OEM division that sells molded components, sub-assembled goods, and bulk non-sterile goods, which may be combined with other components and/or goods from other companies and then sold under a Merit or non-Merit label. We engage in both international and domestic OEM sales.

**CUSTOMERS**

We serve hospital and clinic-based cardiologists, radiologists, anesthesiologists, physiatrists (pain management physicians), neurologists, nephrologists, vascular surgeons, technicians, and nurses, all of whom influence the purchasing decisions for our products. Hospitals and acute care facilities in the United States purchase our products through our direct sales force, distributors, OEM partners, custom packagers and packers who assemble and combine products in custom kits and packs. Outside the United States, hospitals and acute care facilities purchase our products through our direct sales force, or in the absence of a sales force, through independent distributors or OEM partners.

In 2007, our U.S. domestic sales force made approximately 41% of our sales directly to U.S. hospitals, and they made approximately 14% of U.S. sales through other channels such as U.S. customs packagers and distributors. Approximately 31% of our sales were made by our direct European sales force, international distributors, and our OEM sales force to international markets. Sales to our single largest customer, an OEM partner, accounted for approximately 7% of total sales during the year ended December 31, 2007. We generally manufacture products for other medical device companies through our OEM division. During the year ended December 31, 2007, OEM sales represented approximately 15% of our total revenue, approximately 1% of which was purchased by international OEM companies.

**RESEARCH AND DEVELOPMENT**

Our future growth and success will depend largely on our ability to design and develop innovative new products and improve existing products. We have directed our development efforts towards innovative technologies to expand our current market and enter new markets. In order to address our customers needs, we involve our sales and marketing personnel, clinicians and physicians in the product development process. Through collaboration with physicians we are able to respond to customer needs in successfully bringing innovative products to the market.

Our Chief Executive Officer frequently devotes a portion of his time to research and development. Research and development expenses were approximately $8.7 million, $8.6 million, and $7.0 million in 2007, 2006, and 2005, respectively. We have research and development facilities in Utah, Texas, The Netherlands, and Ireland that allow us to diversify our development efforts worldwide to meet our customers needs.

**MANUFACTURING**

We manufacture many of our products utilizing our proprietary technology and our expertise in plastic injection and insert molding. We generally contract with third parties for the tooling of molds, but we design and own all of our molds. We utilize our experience in injection and insert molding technologies in the manufacture of most of the custom components used in our products.

We either assemble the electronic monitors and sensors used in our IntelliSystem® and Monarch® inflation devices from standard electronic components or we purchase them from suppliers. Merit Sensor Systems, Inc., a wholly-owned subsidiary of Merit Medical Systems, Inc., develops and markets silicon sensors. It is presently supplying all of the sensors we utilize in our digital inflation devices.

Our products are manufactured at several factories, including facilities located in South Jordan and Murray, Utah; Galway, Ireland; Venlo, The Netherlands; Angleton, Texas; and Chester, Virginia. Our manufacturing capabilities are being expanded into a contract manufacturing facility in Mexico. See Item 2. Properties.

We have distribution centers located in South Jordan, Utah, Angleton, Texas, and Maastricht, The Netherlands.

We believe that our variety of suppliers for raw materials and components necessary for the manufacture of our products, as well as our long-term relationships with such suppliers, promote stability in our manufacturing process. Historically, we have not been materially affected by interruptions with such suppliers. Furthermore, we seek to develop back-up suppliers for materials and components in the event of supply interruptions.

**COMPETITION**

We compete in the domestic and international cardiology and radiology markets, which encompass a large number of suppliers of varying sizes. We compete with more than 30 different companies. These firms include small firms, such as Possis Medical and Angio Dynamics; medium-sized companies like Cook, Arrow, and ICU Medical; and large, international, multi-supply medical companies, such as Johnson & Johnson, Boston Scientific, Medtronic, and C.R. Bard. Many of our competitors have substantially greater financial, technical, and marketing resources than we do.

The principal competitive factors in the markets in which our products are sold are quality, performance, service, breadth of line, and price. We believe that our products have achieved market acceptance due, in part, to the quality of materials and workmanship, innovative design, ease of operation and our prompt attention to customer inquiries. Our products are priced competitively, but generally not below prices for competing products. One of our primary competitive strengths is a comprehensive, broad line of ancillary products used in both cardiology and radiology.

Based on available industry data with respect to the number of procedures performed, we believe that we are one of two market leaders in the United States for control syringes, tubing, and manifold kits (together with NAMIC USA Corporation, a subsidiary of Boston Scientific, recently acquired by Avista Capital Partners in February of 2008), and we are the world market leader for inflation devices, hemostasis accessories, and

torque devices. We also believe that the recent and planned additions to our product lines will enable us to compete more effectively in both the U.S. and international markets. We believe that we are a leading provider of digital inflation technology in the world. There is no assurance, however, that we will be able to maintain our existing competitive advantages or compete successfully in the future.

We derive a substantial majority of our revenues from sales of products used in diagnostic angiography and interventional angioplasty and stent procedures. Medical professionals are starting to use newer procedures, devices, and drugs for the treatment and prevention of cardiovascular disease such as laser angioplasty, atherectomy procedures, and drug therapies, the effect of which may be to render some of our products obsolete or to limit the markets for our products. However, with the advent of vascular stents and other procedures, we have experienced continued growth in proprietary inflation technology.

**PATENTS, LICENSES, TRADEMARKS AND COPYRIGHTS**

We consider our proprietary technology to be important in the development and manufacture of our products. We seek to protect our technology through a combination of patents, trademarks, trade secrets, copyrights, confidentiality agreements and non-compete agreements. We generally seek patent protection of our technology in the United States and certain foreign countries where such protection appears to be advantageous.

As of December 31, 2007, we owned 81 U.S. patents and had licenses to 11 U.S. patents. Additionally, we either owned or had exclusive rights to 36 pending U.S. patent applications. Internationally, we owned 22 patents, and either owned or had exclusive rights to 18 pending patent applications, all of which are foreign counterparts of the U.S. cases.

We believe that our patents and pending patent applications are materially important to our business, but we do not believe that our business is dependent upon securing such patents. We also operate under licenses from other owners of certain patents, patent applications, technology, trade secrets, know-how, copyrights, or trademarks. We believe, however, that no single patent, patent application, technology, trade secret, know-how, copyright, trademark, or license is material in relation to our business as a whole.

Certain minor patents related to the locking mechanism in our inflation devices will expire in 2008 and other patents will expire thereafter. We expect that related patents will continue to be valuable, in part because of proprietary innovations made since the issuance of our first patent. In 1992, we were granted a license to use patented technology which we have incorporated into our inflation devices. In return, we are paying a 5.75% ongoing royalty to the licensee, not to exceed $450,000 annually. Royalties paid for such license in each of 2007, 2006 and 2005 were $450,000. The license agreement will terminate upon the expiration or invalidation of the last related patents, which will expire in August, 2008.

While we have obtained U.S. patents and filed additional U.S. and foreign patent applications, there can be no assurance that any patents we hold will provide us with any significant competitive advantages, that third parties will not challenge our patents, or that patents owned by others will not have an adverse effect on our ability to conduct business. We could incur substantial costs in preventing patent infringement, in curbing the unauthorized use of our proprietary technology by others, or in defending against similar claims of others. Since we rely on trade secrets and proprietary know-how to maintain our competitive position, there can be no assurance that others may not independently develop similar or superior technologies.

We operate in an increasingly competitive medical technology marketplace. There has also been substantial litigation regarding patent and other intellectual property rights in the medical device industry. There are risks that our activities may require us to defend against claims and actions alleging infringement of the intellectual rights of others. If a court rules against us in any patent litigation, any of several negative outcomes could occur: we could be subject to significant liabilities, we could be forced to seek licenses from third parties, or we could conceivably be prevented from marketing certain products. Any of these outcomes could have a material adverse effect on our business.

We have also registered or applied for registration of several trade names or trademarks. See Products above. We have received 128 U.S. and foreign trademark registrations, and other U.S. and foreign trademark applications are currently pending. We have registered copyrights relating to certain software used in our electronic inflation devices.

**REGULATION**

The U.S. Congress has passed the Federal Food, Drug, and Cosmetic Act (the Food, Drug and Cosmetic Act ). Under the Food, Drug and Cosmetic Act, and through its own rules, the U.S. Food and Drug Administration ( FDA ) regulates the development, testing, packaging, labeling, and marketing of medical devices and manufacturing procedures relating to these devices. In general, the FDA requires that manufacturers adhere to certain standards designed to ensure the safety and effectiveness of medical devices. We employ a Vice President of Regulatory Affairs and a Vice President of Quality Systems who are responsible for compliance with all applicable FDA regulations. Although we believe that we are currently in material compliance with these requirements, any failure on our part to comply with all applicable current and future regulations could adversely affect our business.

The FDA s Quality Systems Regulations define the requirements for our manufacturing processes, require the maintenance of certain records, and provide for unscheduled inspections of our facilities. We must also comply with certain requirements of state, local, and foreign governments in the manufacture and marketing of the Company s products.

New medical devices may also be subject to either the Section 510(k) Pre-Market Notification regulations or the Pre-Market Approval ( PMA ) regulations promulgated by the FDA and similar regulatory requirements left; padding-bottom: 2.5pt"> $85,947 Carrying value of equity component, net of issuance costs $6,835 $15,810 Remaining amortization period of discount on the liability component 1.8 years 2.3 years

Contractual coupon interest expense and accretion of discount and fees on the liability component for the Notes for the three and six month periods ended June 30, 2016 and 2015 were as follow (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Contractual coupon interest expense | $ 825 | $ 1,266 | $ 1,732 | $ 2,531 |
| Accretion of discount and fees on the liability component | $ 733 | $ 1,072 | $ 1,542 | $ 2,125 |

*Revolving Credit Agreement*

In June 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 and provides for, among other things, a five year, $175 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 2017 to June 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 (as defined below), customary permitted liens and certain other permitted liens) (A) equity interests of each direct subsidiary held by the Borrower and each Revolver 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 Revolver 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 June 30, 2016 the Company had no 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 Credit Facility, amounted to $356.9 million as of June 30, 2016.

*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 No. 1"), which became effective on May 9, 2013. As of the Amendment No. 1 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 Amendment No. 1. Under Amendment No. 1, 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").

In March 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 in March 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 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 Notes) and (B) an amount such that the senior secured leverage ratio would not be greater than 3.0 to 1.0, 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.

For the six months ended June 30, 2016 and 2015, under the Term Loan Credit Agreement the Company paid interest of $4.2 million and $4.3 million, respectively, and principal of $1.0 million and $0.5 million, respectively. As of June 30, 2016, the Company had $190.4 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.

For the six months ended June 30, 2016 and 2015, the Company incurred charges of approximately $0.1 million and $0.2 million, respectively, for amortization of fees and original issuance discount which is included in *Interest Expense* in the Condensed Consolidated Statements of Operations.

**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, $2.9 million of which are classified as Level 1, and life-insurance contracts valued based on the performance of underlying mutual funds, $8.4 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 June 30, 2016 consists primarily of the Notes and borrowings under the Term Loan Credit Agreement (see Note 3). The fair value of the Notes, the Term Loan Credit Agreement and the Credit Facility are based upon third party pricing sources, which generally do not represent daily market activity or represent data obtained from an exchange, and are classified as Level 2. The interest rates on the Company's borrowings under the 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 June 30, 2016 and December 31, 2015 were as follows:

| | June 30, 2016 | | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying Value | Fair Value Level 1 | Level 2 | Level 3 | Carrying Value | Fair Value Level 1 | Level 2 | Level 3 |
| Instrument | | | | | | | | |
| Convertible senior notes | $90,055 | $- | $119,257 | $- | $121,112 | $- | $155,694 | $- |
| Term loan credit agreement | 189,424 | - | 189,958 | - | 190,311 | - | 190,442 | - |
| Other debt | 861 | - | - | 861 | 1,106 | - | - | 1,106 |
| Capital lease obligations | 2,208 | - | - | 2,208 | 2,648 | - | - | 2,648 |
| | $282,548 | $- | $309,215 | $3,069 | $315,177 | $- | $346,136 | $3,754 |

**5. STOCK-BASED COMPENSATION**

The Company recognizes all share-based payments based upon their fair value. The Company values stock option awards using 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 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 $17.2 million at June 30, 2016 for which the expense will be recognized through 2019.

**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 June 30, 2016, 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 Condensed 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 was approximately R$26.7 million (Brazilian Reais), which is approximately $8.3 million U.S. dollars using current exchange rates and exclusive of any potentially court-imposed interest, fees or inflation adjustments. The Company currently estimates these adjustments to be approximately $58 million, at current exchange rates, but this amount will change with the passage of time and may be increased or decreased at 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 third 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. Furthermore, the ruling of the Court of Appeals may be further appealed to a higher court by either party. 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 June 30, 2016. Furthermore, at this time, the Company remains 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 continue to reassess the need for the recognition of a loss contingency as the case proceeds through 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, if required to be paid by the Company, 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 in 2016, following the conclusion of a final audit process that commenced 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. In May 2016, the Company, the ADEQ and the RID executed the originally proposed settlement agreements and, following a statutorily required 30-day public comment period, the settlement agreements were finalized and the Company paid $0.2 million, which had been accrued by the Company since 2010.

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Basic net income per share: | | | | |
| Net income applicable to common stockholders | $ 35,531 | $ 28,649 | $ 63,055 | $ 39,122 |
| Weighted average common shares outstanding | 64,834 | 67,591 | 64,936 | 68,158 |
| Basic net income per share | $ 0.55 | $ 0.42 | $ 0.97 | $ 0.57 |
| | | | | |
| Diluted net income per share: | | | | |
| Net income applicable to common stockholders | $ 35,531 | $ 28,649 | $ 63,055 | $ 39,122 |

| | | | | |
|---|---|---|---|---|
| Weighted average common shares outstanding | 64,834 | 67,591 | 64,936 | 68,158 |
| Dilutive shares from assumed conversion of convertible senior notes | 1,057 | 2,047 | 529 | 1,888 |
| Dilutive stock options and restricted stock | 1,224 | 1,056 | 1,205 | 1,076 |
| Diluted weighted average common shares outstanding | 67,115 | 70,694 | 66,670 | 71,122 |
| Diluted net income per share | $0.53 | $0.41 | $0.95 | $0.55 |

Average diluted shares outstanding for the three and six month periods ended June 30, 2016 and 2015 exclude options to purchase common shares totaling 495 and 622, respectively, and 591 and 574, 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 six month periods ended June 30, 2016 and 2015 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 $35.4 million in the first six months of 2016 compared to $22.9 million for the same period in the prior year. The effective tax rate for the first six months of 2016 and 2015 were 35.9% and 36.9%, respectively. These effective tax rates differ from the U.S. Federal statutory rate of 35% primarily due to the impact of state and local taxes, the benefit of the U.S. Internal Revenue Code domestic manufacturing deduction. In addition, the effective tax rate for the six month period ending June 30, 2016 includes the tax benefit from the repurchase of the Notes (see Note 3).

**9. OTHER ACCRUED LIABILITIES**

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Payroll and related taxes | $28,692 | $ 34,427 |
| Warranty | 20,235 | 19,709 |
| Customer Deposits | 17,079 | 14,877 |
| Self-Insurance | 8,154 | 7,677 |
| Accrued Taxes | 7,344 | 8,075 |
| All Other | 7,611 | 8,277 |
| | $89,115 | $ 93,042 |

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

| | June 30, 2016 | June 30, 2015 |
|---|---|---|

| | | |
|---|---|---|
| Balance as of January 1 | $19,709 | $15,462 |
| Provision for warranties issued in current year | 3,140 | 3,503 |
| Provision for (Recovery of) pre-existing warranties | 182 | (289 ) |
| Payments | (2,796 ) | (2,577 ) |
| Balance as of June 30, | $20,235 | $16,099 |

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 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.SEGMENTS**

***a. Segment Reporting***

During the second quarter of 2016, the Company realigned its reporting segments and, as a result, the businesses previously operating within the former retail segment are now reported under either Commercial Trailer Products or Diversified Products in effort to strengthen the alignment between the Company's manufacturing businesses and its retail sales and service operations, improve profitability and capitalize on growth opportunities. Additionally, the Company performed an analysis to determine the allocations of goodwill and test for impairment. Based on the testing performed, the Company determined that the portion of goodwill allocated to the retail branch operations was impaired as the fair value of the reporting unit did not exceed its carrying value resulting in an impairment charge for the Commercial Trailer Products reporting segment of $1.7 million.

As a result of the realignment of reporting segments, the Company now manages its business in two segments: Commercial Trailer Products and Diversified Products. The Commercial Trailer Products segment produces and sells new trailers to customers who purchase trailers directly from the Company, through independent dealers and Company owned branch locations. 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. Financial performance for each of the Company's reporting segments below has been restated to reflect the realignment.

The Company has not allocated certain corporate related administrative costs, interest and income taxes included in the corporate and eliminations segment to the Company's other reportable segments. The Company accounts for intersegment sales and transfers at cost plus a specified mark-up. Reportable segment information is as follows (in thousands):

| | Commercial Trailer Products | Diversified Products | Corporate and Eliminations | Consolidated |
|---|---|---|---|---|
| Three Months Ended June 30, 2016 | | | | |
| Net Sales | | | | |
| External Customers | $ 382,207 | $ 89,231 | $ - | $ 471,438 |
| Intersegment Sales | 5 | 3,639 | (3,644) | - |
| Total Net Sales | $ 382,212 | $ 92,870 | $ (3,644) | $ 471,438 |
| | | | | |
| Income (Loss) from operations | $ 57,135 | $ 10,258 | $ (8,521) | $ 58,872 |
| Assets | $ 353,270 | $ 394,233 | $ 239,090 | $ 986,593 |
| | | | | |
| 2015 | | | | |
| Net Sales | | | | |
| External Customers | $ 412,641 | $ 102,190 | $ - | $ 514,831 |
| Intersegment Sales | 23 | 3,116 | (3,139) | - |
| Total Net Sales | $ 412,664 | $ 105,306 | $ (3,139) | $ 514,831 |
| | | | | |
| Income (Loss) from operations | $ 39,249 | $ 9,769 | $ (6,964) | $ 42,054 |
| Assets | $ 381,821 | $ 424,518 | $ 188,463 | $ 994,802 |

| | Commercial Trailer Products | Diversified Products | Corporate and Eliminations | Consolidated |
|---|---|---|---|---|
| Six Months Ended June 30, 2016 | | | | |
| Net Sales | | | | |
| External Customers | $ 746,237 | $ 172,877 | $ - | $ 919,114 |
| Intersegment Sales | 15 | 6,282 | (6,297) | - |
| Total Net Sales | $ 746,252 | $ 179,159 | $ (6,297) | $ 919,114 |
| | | | | |
| Income (Loss) from operations | $ 107,392 | $ 17,247 | $ (17,583) | $ 107,056 |
| Assets | $ 353,270 | $ 394,233 | $ 239,090 | $ 986,593 |
| | | | | |
| 2015 | | | | |
| Net Sales | | | | |
| External Customers | $ 741,657 | $ 210,771 | $ - | $ 952,428 |
| Intersegment Sales | 196 | 5,675 | (5,871) | - |
| Total Net Sales | $ 741,853 | $ 216,446 | $ (5,871) | $ 952,428 |
| | | | | |
| Income (Loss) from operations | $ 62,159 | $ 21,124 | $ (13,966) | $ 69,317 |
| Assets | $ 381,821 | $ 424,518 | $ 188,463 | $ 994,802 |

***b. Product Information***

The Company offers products primarily in four general categories: (1) new trailers, (2) used trailers, (3) components, parts and service and (4) equipment and other. The following table sets forth the major product categories and their percentage of consolidated net sales (dollars in thousands):

| | Commercial Trailer Products | Diversified Products | Corporate and Eliminations | Consolidated | |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | % |
| Three Months Ended June 30, 2016 | | | | | |
| New Trailers | 359,763 | 34,229 | - | 393,992 | 83.6 |
| Used Trailers | 3,427 | 1,093 | - | 4,520 | 1.0 |
| Components, parts and service | 14,869 | 31,958 | (3,644) | 43,183 | 9.2 |
| Equipment and other | 4,153 | 25,590 | - | 29,743 | 6.2 |
| Total net sales | 382,212 | 92,870 | (3,644) | 471,438 | 100.0 |
| | | | | | |
| 2015 | | | | | |
| New Trailers | 384,442 | 51,236 | - | 435,678 | 84.6 |
| Used Trailers | 9,226 | 1,323 | - | 10,549 | 2.0 |
| Components, parts and service | 15,616 | 30,723 | (3,139) | 43,200 | 8.4 |
| Equipment and other | 3,380 | 22,024 | - | 25,404 | 5.0 |
| Total net sales | 412,664 | 105,306 | (3,139) | 514,831 | 100.0 |
| | | | | | |
| Six Months Ended June 30, 2016 | | | | | |
| New Trailers | 701,796 | 64,005 | - | 765,801 | 83.3 |
| Used Trailers | 7,279 | 1,994 | - | 9,273 | 1.0 |
| Components, parts and service | 29,070 | 59,345 | (6,297) | 82,118 | 8.9 |
| Equipment and other | 8,107 | 53,815 | - | 61,922 | 6.8 |
| Total net sales | 746,252 | 179,159 | (6,297) | 919,114 | 100.0 |
| | | | | | |
| 2015 | | | | | |
| New Trailers | 691,696 | 105,254 | - | 796,950 | 83.7 |
| Used Trailers | 13,640 | 2,492 | - | 16,132 | 1.7 |
| Components, parts and service | 29,619 | 60,917 | (5,823) | 84,713 | 8.9 |
| Equipment and other | 6,898 | 47,783 | (48) | 54,633 | 5.7 |
| Total net sales | 741,853 | 216,446 | (5,871) | 952,428 | 100.0 |

**11. NEW ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. Furthermore, in March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606).* The amendments in this update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The effective date of these standards will be the first quarter of fiscal year 2018 using one of two retrospective application methods. The Company is currently assessing the potential impact of the adoption on its financial statements and related disclosures and has not yet decided on a transition method.

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

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. This ASU, which applies to inventory that is measured using any method other than the last-in, first-out (LIFO) or retail inventory method, requires that entities measure inventory at the lower of cost or net realizable value. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and should be applied on a prospective basis. The Company is currently assessing the potential impact of adopting this guidance, but does not, at this time, anticipate a material impact to its consolidated results of operations, financial position, or cash flows.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.* This amendment changes how deferred taxes are recognized by eliminating the requirement of presenting deferred tax liabilities and assets as current and noncurrent on the balance sheet. Instead, the requirement will be to classify all deferred tax liabilities and assets as noncurrent. ASU 2015-17 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with earlier adoption permitted. ASU 2015-17 can be adopted either prospectively or retrospectively to all periods presented. The Company has adopted ASU 2015-17 prospectively beginning with the first quarter of 2016 and deferred income taxes are now presented as non-current items.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance will be effective for the Company as of January 1, 2019. A modified retrospective transition method is required. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* This update simplifies the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance will be effective for the Company as of January 1, 2017. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* This new guidance requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This guidance will be effective for the Company as of January 1, 2020. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report of Wabash National Corporation (the "Company," "Wabash" or "we") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements may include the words "may," "will," "estimate," "intend," "continue "believe," "expect," "plan" or "anticipate" and other similar words. Our "forward-looking statements" include, but are not limited to, statements regarding:

- our business plan;
- our expected revenues, income or loss;
- our ability to manage our indebtedness;
- our strategic plan and plans for future operations;
- financing needs, plans and liquidity, including for working capital and capital expenditures;
- our ability to achieve sustained profitability;
- reliance on certain customers and corporate relationships;
- availability and pricing of raw materials;
- availability of capital and financing;
- dependence on industry trends;
- the outcome of any pending litigation or notice of environmental dispute;

- export sales and new markets;

- engineering and manufacturing capabilities and capacity;

- acceptance of new technology and products;

- government regulation; and

- assumptions relating to the foregoing.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in this Quarterly Report. Important risks and factors that could cause our actual results to be materially different from our expectations include the factors that are disclosed in “Item 1A. Risk Factors” in our Form 10-K for the year ended December 31, 2015. Each forward-looking statement contained in this Quarterly Report reflects our management’s view only as of the date on which that forward-looking statement was made. We are not obligated to update forward-looking statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

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

| | Percentage of Net Sales | | | |
|---|---|---|---|---|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | 100.0% | 100.0% | 100.0 % | 100.0 % |
| Cost of sales | 80.7 | 85.9 | 81.4 | 86.4 |
| Gross profit | 19.3 | 14.1 | 18.6 | 13.6 |
| General and administrative expenses | 3.9 | 3.5 | 4.1 | 3.8 |
| Selling expenses | 1.5 | 1.4 | 1.5 | 1.4 |
| Amortization of intangibles | 1.1 | 1.0 | 1.1 | 1.1 |
| Impairment of goodwill | 0.3 | - | 0.2 | - |
| Income from operations | 12.5 | 8.2 | 11.7 | 7.3 |
| Interest expense | (0.8 ) | (0.9 ) | (0.9 ) | (1.0 ) |
| Other, net | (0.1 ) | 1.5 | (0.1 ) | 0.2 |
| Income before income taxes | 11.6 | 8.8 | 10.7 | 6.5 |
| Income tax expense | 4.1 | 3.2 | 3.8 | 2.4 |
| Net income | 7.5 % | 5.6 % | 6.9 % | 4.1 % |

For the three and six month period ended June 30, 2016, we recorded net sales of $471.4 million and $919.1 million, respectively, compared to $514.8 million and $952.4 million, respectively, in the prior year periods. Net sales for the three month period ended June 30, 2016 decreased $43.4 million, or 8.4%, compared to the prior year period, due primarily to a decrease in new trailer shipments of approximately 1,000 units, or 5.9%, as well as a decrease in used trailers shipments of approximately 300 units, or 46.2%. Gross profit margin increased to 19.3% in the second quarter of 2016 compared to 14.1% in the prior year period driven improved pricing and continued manufacturing efficiencies. We continue to be encouraged by the strong demand within the dry and refrigerated trailer segment throughout the first six months of 2016, and our expectation is that overall industry shipment and production levels will remain above replacement demand for the remainder of 2016 as many key structural and market drivers continue to support healthy demand for new trailers.

For the three month period ended June 30, 2016, selling, general and administrative expenses increased $0.5 million as compared to the same period in 2015 primarily due to increases in outside services and professional fees. As a percentage of net sales, selling, general and administrative expenses increased to 5.4% in the second quarter of 2016

as compared to 4.9% in the prior year period.

During the second quarter of 2016, we realigned our reporting segments and, as a result, the businesses previously operating within the former retail segment are now reported under either Commercial Trailer Products or Diversified Products in effort to strengthen the alignment between the our manufacturing businesses and the retail sales and service operations, improve profitability and capitalize on growth opportunities. As a result of the realignment of reporting segments, we now manage our business in two segments: Commercial Trailer Products and Diversified Products. The Commercial Trailer Products segment produces and sells new trailers to customers who purchase trailers directly from the Company, through independent dealers and Company owned branch locations. The Diversified Products segment focuses on our commitment to expand our customer base, diversify our product offerings and revenues and extend our market leadership by leveraging the proprietary DuraPlate® panel technology, drawing on our core manufacturing expertise and making available products that are complementary to truck and tank trailers and transportation equipment. The prior year financial performance for each of our reporting segments below has been restated to reflect the realignment.

Our management team continues to be focused on increasing overall shareholder value by optimizing our manufacturing operations to match the current demand environment, implementing cost savings initiatives and lean manufacturing techniques, strengthening our capital structure, developing innovative products that enable our customers to succeed, improving earnings and continuing diversification of the business into higher margin, less cyclical opportunities that leverage our intellectual and process capabilities.

**Three Months Ended June 30, 2016**

Net Sales

Net sales in the second quarter of 2016 decreased $43.4 million, or 8.4%, compared to the second quarter of 2015. By business segment, prior to the elimination of intercompany sales, sales and related units sold were as follows (dollars in thousands):

| (prior to elimination of intersegment sales) | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | $ | % |
| Sales by Segment | | | | |
| Commercial Trailer Products | $382,212 | $412,664 | $(30,452) | (7.4) |
| Diversified Products | 92,870 | 105,306 | (12,436) | (11.8) |
| Eliminations | (3,644) | (3,139) | | |
| Total | $471,438 | $514,831 | $(43,393) | (8.4) |
| | | | | |
| New Trailers | (units) | | | |

| | | | | |
|---|---|---|---|---|
| Commercial Trailer Products | 15,350 | 16,100 | (750) | (4.7) |
| Diversified Products | 550 | 800 | (250) | (31.3) |
| Total | 15,900 | 16,900 | (1,000) | (5.9) |
| | | | | |
| Used Trailers | (units) | | | |
| Commercial Trailer Products | 300 | 600 | (300) | (50.0) |
| Diversified Products | 50 | 50 | - | - |
| Total | 350 | 650 | (300) | (46.2) |

Commercial Trailer Products segment sales prior to the elimination of intersegment sales were $382.2 million for the second quarter of 2016, a decrease of $30.5 million, or 7.4%, compared to the second quarter of 2015. Trailers shipped during the second quarter of 2016 totaled 15,350 trailers compared to 16,100 trailers in the prior year period, a 4.7% decrease. The decrease in trailer shipments as well as an approximate 3.9% decrease in the average selling price of trailers due to product mix as compared to the prior year period primarily drove the decrease in sales. Used trailer sales decreased $5.8 million, or 62.8%, compared to the prior year period primarily due to 300 fewer used trailers shipped in the second quarter of 2016 compared to the prior year period.

Diversified Products segment sales prior to the elimination of intersegment sales were $92.9 million for the second quarter of 2016, down $12.4 million, or 11.8%, compared to the second quarter of 2015. New trailer sales decreased $17.0 million, or 33.2%, from the prior year period as new trailer shipments during the second quarter of 2016 totaled 550 units, a decrease from the 800 trailers shipped during the prior year period, due primarily to lower demand for tank trailers within the chemical and energy end markets. Sales of our components, parts and service product offerings increased $1.2 million, or 4.0%, as compared to the prior year period due to higher volume. Equipment sales increased $3.6 million, or 16.2%, compared to the prior year period as a result of higher demand for our engineered products.

Cost of Sales

Cost of sales for the second quarter of 2016 was $380.4 million, a decrease of $62.1 million, or 14.0%, compared to the second quarter of 2015. As a percentage of net sales, cost of sales was 80.7% in the second quarter of 2016 compared to 85.9% in the second quarter of 2015.

Commercial Trailer Products segment cost of sales, prior to the elimination of intersegment sales, as detailed in the following table, was $313.2 million for the second quarter of 2016, a decrease of $50.4 million, or 13.9%, compared to the second quarter of 2015. As a percentage of net sales, cost of sales was 81.9% for the current quarter compared to 88.1% in the prior year period.

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| Commercial Trailer Products Segment (prior to elimination of intersegment sales) | 2016 | | | 2015 | | |
| | (dollars in thousands) | | | | | |
| | | % of Net Sales | | | % of Net Sales | |
| Material Costs | $238,172 | 62.3 | % | $285,412 | 69.1 | % |
| Other Manufacturing Costs | 75,013 | 19.6 | % | 78,212 | 19.0 | % |
| | $313,185 | 81.9 | % | $363,624 | 88.1 | % |

Cost of sales is comprised of material costs, a variable expense, and other manufacturing costs, comprised of both fixed and variable expenses, including direct and indirect labor, outbound freight, and overhead expenses. Commercial Trailer Products material costs were 62.3% of net sales in the second quarter of 2016 compared to 69.1% for the same period in 2015. The 690 basis point decrease was primarily driven by favorable material costs including cost optimization through product design and sourcing as compared to the prior year period. Other manufacturing costs decreased $3.2 million in the current year period as compared to the prior year period, resulting from lower variable costs related to lower trailer volumes. As a percentage of sales, other manufacturing costs increased from 19.0% in the second quarter of 2015 to 19.6% in the 2016 period.

Diversified Products segment cost of sales was $69.9 million in the second quarter of 2016, a decrease of $11.7 million, or 14.3%, compared to the same period in 2015. As a percentage of net sales, prior to the elimination of intersegment sales, cost of sales was 75.3% in the second quarter of 2016 as compared to 77.5% in the 2015 period. This 220 basis point reduction was primarily due to operational efficiencies, favorable material costs and product mix.

Gross Profit

Gross profit was $91.1 million in the second quarter of 2016, an increase of $18.7 million from the prior year period. Gross profit as a percentage of sales was 19.3% for the current quarter and 14.1% for the same period in 2015. Gross profit by segment was as follows (dollars in thousands):

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | | | Change | |
| | 2016 | 2015 | $ | % |
| Gross Profit by Segment | | | | |
| Commercial Trailer Products | $69,027 | $49,040 | $19,987 | 40.8 |
| Diversified Products | 22,938 | 23,687 | (749) | (3.2) |
| Corporate | (901) | (322) | (579) | |
| Total | $91,064 | $72,405 | $18,659 | 25.8 |

Commercial Trailer Products segment gross profit was $69.0 million for the second quarter of 2016 compared to $49.0 million for the second quarter of 2015. Gross profit prior to the elimination of intersegment sales, as a percentage of net sales, was 18.1% in the second quarter of 2016 compared to 11.9% in the 2015 period. The increase in gross profit margin as compared to the prior year period was primarily driven by an improved pricing environment and operational efficiencies.

Diversified Products segment gross profit was $22.9 million for the second quarter of 2016 compared to $23.7 million in the same quarter of 2015. Gross profit prior to the elimination of intersegment sales, as a percentage of net sales, was 24.7% in the second quarter of 2016 compared to 22.5% in the 2015 period. The increase in gross profit as a percentage of net sales compared to the prior year period was due primarily to the shipment of a more favorable mix of products, material costs and operational efficiencies.

**General and Administrative Expenses**

General and administrative expenses for the second quarter of 2016 increased $0.6 million, or 3.6%, from the prior year period, primarily as a result of a $0.6 million increase in outside service and professional fee expenditures. As a percentage of sales, general and administrative expenses were 3.9% for the current quarter as compared to 3.5% for the second quarter of 2015.

**Selling Expenses**

Selling expenses were $7.0 million in the second quarter of 2016, a decrease of $0.1 million, or 1.9%, compared to the prior year period as decreases in salaries and employee related costs were partially offset by higher advertising and promotion expenses. As a percentage of net sales, selling expenses were 1.5% for the second quarter of 2016, up slightly from 1.4% for the second quarter of 2015.

**Amortization of Intangibles**

Amortization of intangibles was $5.0 million for the second quarter of 2016 compared to $5.3 million in the prior year period. Amortization of intangibles for both periods were primarily the result of expenses recognized for intangible assets recorded from the acquisition of Walker Group Holdings (“Walker”) in May 2012 and certain assets of Beall Corporation (“Beall”) in February 2013.

**Impairment of Goodwill**

We review goodwill for impairment, at the reporting unit level, annually and whenever events or circumstances indicate that the carrying value of goodwill may not be recoverable. During the second quarter of 2016, with the realignment of our reporting segments we performed an analysis to determine the allocations of goodwill and test for impairment. Based on the testing performed, we determined that the portion of goodwill allocated to our retail branch operations was impaired as the fair value of the reporting unit did not exceed its carrying value resulting in an impairment charge for the Commercial Trailer Products reporting segment of $1.7 million.

**Other Income (Expense)**

*Interest expense* for the second quarter of 2016 totaled $3.9 million compared to $4.8 million in the second quarter of 2015. Interest expense for both periods is primarily related to interest and non-cash accretion charges on our Notes (as defined below) and Term Loan Credit Agreement (as defined below). The decrease from the prior year period is primarily due to the repurchase of Notes completed in the fourth quarter of 2015 and the first quarter of 2016.

*Other, net* for the second quarter of 2016 represented an expense of $0.2 million as compared to income of $8.1 million for the prior year period. The prior year period primarily consists of an $8.3 million gain on the sale of real estate in Fontana, California and Portland, Oregon, within the former Retail segment, partially offset by losses incurred in connection with the amendment to our Credit Agreement.

Income Taxes

We recognized income tax expense of $19.2 million in the second quarter 2016 compared to $16.7 million for the same period in the prior year. The effective tax rate for the second quarter of 2016 was 35.1%, 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 and the benefit from the repurchase of our Notes.

**Six Months Ended June 30, 2016**

Net Sales

Net sales in the first six months of 2016 decreased $33.3 million, or 3.5%, compared to the first six months of 2015. By business segment, prior to the elimination of intercompany sales, sales and related units sold were as follows (dollars in thousands):

| (prior to elimination of intersegment sales) | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | $ | % |
| Sales by Segment | | | | |
| Commercial Trailer Products | $746,252 | $741,853 | $4,399 | 0.6 |
| Diversified Products | 179,159 | 216,446 | (37,287) | (17.2) |
| Eliminations | (6,297) | (5,871) | | |
| Total | $919,114 | $952,428 | $(33,314) | (3.5) |
| | | | | |
| New Trailers | (units) | | | |
| Commercial Trailer Products | 29,350 | 29,550 | (200) | (0.7) |
| Diversified Products | 1,050 | 1,700 | (650) | (38.2) |
| Total | 30,400 | 31,250 | (850) | (2.7) |
| | | | | |
| Used Trailers | (units) | | | |
| Commercial Trailer Products | 550 | 900 | (350) | (38.9) |
| Diversified Products | 50 | 100 | (50) | (50.0) |
| Total | 600 | 1,000 | (400) | (40.0) |

Commercial Trailer Products segment sales prior to the elimination of intersegment sales were $746.3 million for the first six months of 2016, an increase of $4.4 million, or 0.6%, compared to the first six months of 2015. Trailers shipped during the first six months of 2016 totaled 29,350 trailers compared to 29,550 trailers in the prior year period, a 0.7% decrease. The increase in sales was due primarily to an improved pricing environment and favorable product mix partially offset by the fewer trailer shipments. Used trailer sales decreased $6.4 million, or 46.6%, compared to the prior year period primarily due to 350 fewer used trailers shipped in the first six months of 2016 compared to the prior year period.

Diversified Products segment sales prior to the elimination of intersegment sales were $179.2 million for the first six months of 2016, down $37.3 million, or 17.2%, compared to the same period of 2015. New trailer sales decreased $41.2 million, or 39.2%, from the prior year period as new trailer shipments during the first half of 2016 totaled 1,050 units, a decrease of 650 trailers, or 38.2%, as compared to the prior year period, due primarily to a decrease in demand for tank trailers within the chemical and energy end markets. Sales of our components, parts and service product offerings decreased $1.6 million, or 2.6%, as compared to the prior year period due to lower volume. Equipment sales increased $6.0 million, or 12.6%, compared to the prior year period as a result of higher demand for our engineered products.

Cost of Sales

Cost of sales for the first six months of 2016 was $748.5 million, a decrease of $74.3 million, or 9.0%, compared to the same period of 2015. As a percentage of net sales, cost of sales was 81.4% in the first six months of 2016 compared to 86.4% in the first six months of 2015.

Commercial Trailer Products segment cost of sales, prior to the elimination of intersegment sales, as detailed in the following table, was $616.8 million for the first half of 2016, a decrease of $43.7 million, or 6.6%, compared to the same period of 2015. As a percentage of net sales, cost of sales was 82.7% for the first six months of 2016 compared to 89.0% in the prior year period.

| Commercial Trailer Products Segment (prior to elimination of intersegment sales) | Six Months Ended June 30, 2016 (dollars in thousands) | | 2015 | |
|---|---|---|---|---|
| | | % of Net Sales | | % of Net Sales |
| Material Costs | $463,044 | 62.1% | $513,534 | 69.2% |
| Other Manufacturing Costs | 153,785 | 20.6% | 147,007 | 19.8% |
| | $616,829 | 82.7% | $660,541 | 89.0% |

Cost of sales is comprised of material costs, a variable expense, and other manufacturing costs, comprised of both fixed and variable expenses, including direct and indirect labor, outbound freight, and overhead expenses. Commercial Trailer Products material costs were 62.1% of net sales in the first six months of 2016 compared to 69.2% for the same period in 2015. The 710 basis point decrease was primarily driven by improved pricing, favorable material costs including cost optimization through product design and sourcing as compared to the prior year period. Other manufacturing costs increased $6.8 million in the current year period as compared to the prior year period, primarily related to product mix and increased costs associated with introduction of new truck body product line. As a percentage of sales, other manufacturing costs increased from 19.8% in the first six months of 2015 to 20.6% in the 2016 period.

Diversified Products segment cost of sales was $136.0 million in the first six months of 2016, a decrease of $31.4 million, or 18.8%, compared to the same period in 2015. As a percentage of net sales, prior to the elimination of intersegment sales, cost of sales was 75.9% in the first six months of 2016 as compared to 77.3% in the 2015 period. This 140 basis point decrease as a percentage of net sales was due primarily to product mix, lower material costs and continued operational efficiencies.

Gross Profit

Gross profit was $170.6 million in the first six months of 2016, an increase of $41.0 million from the prior year period. Gross profit as a percentage of sales was 18.6% for the current quarter and 13.6% for the same period in 2015. Gross profit by segment was as follows (dollars in thousands):

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | $ | % |
| Gross Profit by Segment | | | | |
| Commercial Trailer Products | $129,423 | $81,312 | $48,111 | 59.2 |
| Diversified Products | 43,148 | 49,032 | (5,884) | (12.0) |

| | | | | |
|---|---|---|---|---|
| Corporate | (1,981) | (741) | (1,240) | |
| Total | $170,590 | $129,603 | $40,987 | 31.6 |

Commercial Trailer Products segment gross profit was $129.4 million for the first six months of 2016 compared to $81.3 million for the prior year period. Gross profit prior to the elimination of intersegment sales, as a percentage of net sales, was 17.3% in 2016 compared to 11.0% in the 2015 period. The increase in gross profit margin as compared to the prior year period was primarily driven by an improved pricing environment, favorable material costs and operational efficiencies.

Diversified Products segment gross profit was $43.1 million for the first half of 2016 compared to $49.0 million in the same period of 2015. Gross profit prior to the elimination of intersegment sales, as a percentage of net sales, was 24.1% in the 2016 period compared to 22.7% in the 2015 period. The increase in gross profit as a percentage of net sales compared to the prior year period was due primarily to the shipment of a more favorable mix of products, favorable material costs as well as operational efficiencies.

**General and Administrative Expenses**

General and administrative expenses for the first six months of 2016 increased $2.0 million, or 5.5%, from the prior year period as a result of a $1.0 million increase in information technology cost attributable to infrastructure upgrades, a $0.6 million increase in outside services and professional fees, and $0.4 million increase in various other operating expenses. As a percentage of sales, general and administrative expenses were 4.1% for the 2016 period as compared to 3.8% for the same period of 2015.

**Selling Expenses**

Selling expenses were $14.0 million in the first six months of 2016, an increase of $0.3 million, or 1.8%, compared to the prior year period, as a result of a $0.2 million increase in advertising and promotional efforts. As a percentage of net sales, selling expenses were 1.5% for the 2016 period, up slightly from 1.4% for the prior year period.

**Amortization of Intangibles**

Amortization of intangibles was $10.0 million for the first six months of 2016 compared to $10.6 million in the prior year period. Amortization of intangibles for both periods were primarily the result of expenses recognized for intangible assets recorded from the acquisition of Walker in May 2012 and certain assets of Beall in February 2013.

**Other Income (Expense)**

*Interest expense* for the first six months of 2016 totaled $8.0 million compared to $10.0 million in the prior year period. Interest expense for both periods is primarily related to interest and non-cash accretion charges on our Notes and Term Loan Credit Agreement. The decrease from the prior year period is primarily due to Notes repurchases completed in the fourth quarter of 2015 and the first quarter of 2016.

*Other, net* for the first six months of 2016 represented an expense of $0.6 million as compared to income of $2.7 million for the prior year period. The current year period primarily consists of loss on early extinguishment of debt of $0.5 million related to the Notes repurchase in February 2016. The prior year period primarily consists of an $8.3 million gain on the sale of real estate in Fontana, California and Portland, Oregon within our former Retail segment,

partially offset by $5.6 million of accelerated amortization and related fees in connection with the refinancing of our Term Loan Credit Agreement and amending our Credit Agreement.

**Income Taxes**

We recognized income tax expense of $35.4 million in the first half of 2016 compared to $22.9 million for the same period in the prior year. The effective tax rate for the six months of 2016 was 35.9%, 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 and the benefit from the repurchase of our Notes.

**Liquidity and Capital Resources**

**Capital Structure**

Our capital structure is comprised of a mix of debt and equity. As of June 30, 2016, our debt to equity ratio was approximately 0.6:1.0. Our long-term objective is to generate operating cash flows sufficient to support the growth within our businesses and increase shareholder value. This objective will be achieved through a balanced capital allocation strategy of maintaining strong liquidity, deleveraging our balance sheet, investing in the business, both organically and strategically, and returning capital to our shareholders. For the remainder of 2016, we expect to continue our commitment to fund our working capital requirements and capital expenditures while also returning capital to our shareholders and deleveraging our balance sheet through cash flows from operations as well as available borrowings under our existing Credit Agreement (as defined below).

**Debt Agreements and Related Amendments**

**Convertible Senior Notes**

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

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

2016, the Notes were not convertible based on the above criteria. If the Notes outstanding at June 30, 2016 were converted as of June 30, 2016, the if-converted value would exceed the principal amount by approximately $8 million.

It is our intent to settle conversions through a net share settlement, which involves repayment of cash for the principal portion and delivery of shares of common stock for the excess of the conversion value over the principal portion. We used the net proceeds of $145.1 million from the sale of the Notes to fund a portion of the purchase price of the acquisition of Walker in May 2012.

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

In December 2015, we executed agreements with existing holders of the Notes to repurchase $54.2 million in principal amount of such Notes, of which $19.0 million was acquired in that month for $22.9 million, excluding accrued interest. The remaining $35.2 million in principal amount of the Notes was acquired in February 2016 for $42.1 million, excluding accrued interest. We recognized a loss on debt extinguishment of $0.5 million from the February 2016 repurchase, which is included in *Other, net* on our Condensed Consolidated Statements of Operations.

**Revolving Credit Agreement**

In June 2015, we 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 us, certain of our 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 us, certain of our subsidiaries from time to time party thereto (together with us, the “Borrowers”), the several lenders from time to time party thereto, and the Agent and provides for, among other things, a five year, $175 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 2017 to June 2020, but provides for an accelerated maturity in the event our 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 we are not then maintaining, and continue 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 we will be required to maintain a minimum fixed charge coverage ratio of not less than 1.1 to 1.0 as of the end of any period of 12 fiscal months 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 (as defined below) customary permitted liens and certain other permitted liens) (A) equity interests of each direct subsidiary held by the Borrower and each Revolver 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 Revolver 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 June 30, 2016, we were in compliance with all covenants of the Credit Agreement.

**Term Loan Credit Agreement**

In May 2012 we entered into a credit agreement among us, the several lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as administrative agent, joint lead arranger and joint bookrunner (the "Term Agent"), and Wells Fargo Securities, LLC, as joint lead arranger and joint bookrunner (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 our subsidiaries (the "Term Guarantors") entered into a general continuing guarantee of our obligations under the Term Loan Credit Agreement in favor of the Term Agent (the "Term Guarantee").

In April 2013, we entered into Amendment No.1 to Credit Agreement (the "Amendment No. 1"), which became effective on May 9, 2013. As of the Amendment No. 1 date, there was $297.0 million of term loans outstanding under the Term Loan Credit Agreement (the "Initial Loans"), of which we paid $20.0 million in connection with Amendment

No. 1. Under Amendment No. 1, the lenders agreed to provide us term loans in an aggregate principal amount of $277.0 million, which were exchanged for and used to refinance the Initial Loans (the “Tranche B-1 Loans”).

In March 2015, we 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 us 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 in March 2022, but provide for an accelerated maturity in the event our 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 we are not then maintaining, and continue 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 our 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 our 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 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 existing Credit Agreement and (2) certain permitted indebtedness incurred for the purpose of prepaying or repurchasing the Notes) and (B) an amount such that the senior secured leverage ratio would not be greater than 3.0 to 1.0, 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 our ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase stock, enter into transactions with affiliates, merge, dissolve, pay off subordinated indebtedness, make investments and dispose of assets.

Subject to the terms of the Intercreditor Agreement, if the covenants under the Term Loan Credit Agreement, 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.

For the six months ended June 30, 2016 and 2015, under the Term Loan Credit Agreement we paid interest of $4.2 million and $4.3 million, respectively, and principal of $1.0 million and $0.5 million, respectively. As of June 30, 2016, we had $190.4 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.

For the six months ended June 30, 2016 and 2015, we incurred charges of approximately $0.1 million and $0.2 million, respectively, for amortization of fees and original issuance discount which is included in *Interest Expense* in the Condensed Consolidated Statements of Operations.

**Cash Flow**

Cash provided by operating activities for the first six months of 2016 totaled $76.3 million, compared to $42.5 million during the same period in 2015. Cash provided by operations during the current year period was the result of net income adjusted for various non-cash activities of $92.1 million, including depreciation, amortization, deferred income taxes, stock-based compensation, non-cash interest expense, loss on debt extinguishment and impairment of goodwill, partially offset by a $15.8 million increase in working capital. Increases in working capital for the current year period can be attributed primarily to increased levels of finished goods, as well as an increase in purchasing activities resulting from higher raw material requirements necessary to meet current production demand partially offset by an increase in accounts payable activity. Changes in key working capital accounts for the first six months of 2016 as compared to the same period in 2015 are summarized below (in millions):

| Source (Use) of cash: | 2016 | 2015 | Change |
|---|---|---|---|
| Accounts receivable | $20,873 | $(7,106) | $27,979 |
| Inventories | (46,034) | (66,756) | 20,722 |
| Accounts payable and accrued liabilities | 25,154 | 57,362 | (32,208) |
| Net use of cash | $(7) | $(16,500) | $16,493 |

Accounts receivable decreased by $20.9 million in the first six months of 2016 as compared to an increase of $7.1 million in the prior year period. Days sales outstanding, a measure of working capital efficiency that measures the average amount of time a receivable is outstanding, was 25 days in both the 2016 and 2015 periods. The increase in accounts receivable during the first six months of 2016 was primarily due to the increase in demand as well as the timing of shipments and customer collections during the quarter. Inventory increased by $46.0 million during the first six months of 2016 as compared to an increase of $66.8 million in the 2015 period. The increase in inventory for the 2016 period was primarily due to higher finished goods inventory resulting from production levels exceeding shipments for the first six months of 2016. Our inventory turns, a commonly used measure of working capital efficiency that measures how quickly on average inventory turns per year, was approximately eight times in the 2016 period compared to approximately seven times in the 2015 period. Accounts payable and accrued liabilities increased by $25.2 million in 2016 compared to an increase of $57.4 million for the same period in 2015. The increase during the first six months of 2016 was primarily due to increased production levels and increased purchasing activities required to meet current demand. Days payable outstanding, a measure of working capital efficiency that measures the average amount of time a payable is outstanding, was 26 days in 2016 as compared to 28 days in the same period in 2015.

Investing activities used $8.1 million during the first six months of 2016 compared to $2.2 million used during the same period in 2015. Investing activities for the first six months of 2016 were comprised primarily of capital expenditures totaling $8.1 million. Investing activities for the first six months of 2015 include proceeds from the sale of property, plant and equipment of $13.2 million, which comprised primarily of the sale of real estate in our former Retail segment, and was more than offset by capital expenditures of $5.4 million as well as $10.0 million of restricted cash available to be used for asset reinvestments under our Term Loan Credit Agreement.

Financing activities used $59.4 million during the first six months of 2016 as compared to $46.8 million used in the same period in 2015. Cash used in financing activities during the current year period primarily relates to the repurchase of Notes totaling $42.1 million and common stock repurchases through our share repurchase program of $15.9 million. Cash used in financing activities in the first six months of 2015 primarily relates to the repurchase of common stock through our share repurchase program totaling $40.0 million, restricted cash of $3.1 million to be used as mandatory debt reduction in accordance with our Term Loan Credit Agreement and debt issuance costs of $2.5 million incurred in relation to Amendment No. 2 to our Term Loan Credit Agreement and the amendment to our Credit Agreement.

As of June 30, 2016, our liquidity position, defined as cash on hand and available borrowing capacity, amounted to $356.9 million, representing an increase of $48.6 million and $9.0 million compared to June 30, 2015 and December 31, 2015, respectively. Total debt and capital lease obligations amounted to $282.5 million as of June 30, 2016. In February 2016, we repurchased $35.2 million in principal of the Notes for $42.1 million. As we continue to see strong demand in the overall trailer industry, and based on our operating performance metrics, we believe our liquidity is adequate to fund operations, working capital needs and capital expenditures for the remainder of 2016.

**Capital Expenditures**

Capital spending amounted to $8.1 million for the first six months of 2016 and is anticipated to range between $25 million to $30 million for 2016. Capital spending for 2016 has been and is expected to continue to be primarily utilized to support maintenance, growth and productivity improvement initiatives within our facilities.

**Off-Balance Sheet Transactions**

As of June 30, 2016, we had approximately $7.4 million in operating lease commitments. We did not enter into any material off-balance sheet debt or operating lease transactions during the quarter ended June 30, 2016.

**Contractual Obligations and Commercial Commitments**

A summary of payments of our contractual obligations and commercial commitments, both on and off balance sheet, as of June 30, 2016 for the remaining six months of 2016 and the calendar years thereafter are as follows (in thousands):

| | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| DEBT: | | | | | | | |
| Credit Facility (due 2020) | $- | $- | $- | $- | $- | $- | $- |
| Convertible Senior Notes (due 2018) | - | - | 95,835 | - | - | - | 95,835 |
| Term Loan Credit Facility (due 2022) | 963 | 1,928 | 1,928 | 1,928 | 1,928 | 181,759 | 190,434 |
| Other Debt | 261 | 539 | 93 | - | - | - | 893 |
| Capital Leases (including principal and interest) | 430 | 594 | 461 | 361 | 361 | 390 | 2,597 |
| TOTAL DEBT | 1,654 | 3,061 | 98,317 | 2,289 | 2,289 | 182,149 | 289,759 |
| | | | | | | | |
| OTHER: | | | | | | | |
| Operating Leases | 1,712 | 2,869 | 1,783 | 849 | 165 | 8 | 7,386 |
| TOTAL OTHER | 1,712 | 2,869 | 1,783 | 849 | 165 | 8 | 7,386 |
| | | | | | | | |
| OTHER COMMERCIAL COMMITMENTS: | | | | | | | |
| Letters of Credit | 5,652 | - | - | - | - | - | 5,652 |
| Raw Material Purchase Commitments | 40,361 | 5,740 | - | - | - | - | 46,101 |
| TOTAL OTHER COMMERCIAL COMMITMENTS | 46,013 | 5,740 | - | - | - | - | 51,753 |
| | | | | | | | |
| TOTAL OBLIGATIONS | 49,379 | 11,670 | 100,100 | 3,138 | 2,454 | 182,157 | 348,898 |

Scheduled payments for our Credit Facility exclude interest payments as rates are variable. Borrowings under the Credit Facility bear interest at a variable rate based on the London Interbank Offer Rate (LIBOR) or a base rate determined by the lender's prime rate plus an applicable margin, as defined in the agreement. Outstanding borrowings under the Credit Facility bear interest at a rate, at our election, equal to (i) LIBOR plus a margin ranging from 1.50% to 2.00% or (ii) a base rate plus a margin ranging from 0.50% to 1.00%, in each case depending upon the monthly average excess availability under the Credit Facility. We are required to pay a monthly unused line fee equal to 0.25% times the average daily unused availability along with other customary fees and expenses of our agent and lenders.

Scheduled payments for our Notes exclude interest payments which bear interest at the rate of 3.375% per annum from the date of issuance, payable semi-annually on May 1 and November 1.

Scheduled payments for our Term Loan Credit Agreement, as amended, exclude interest payments as rates are variable. Borrowings under the Term Loan Credit Agreement, as amended, bear interest at a variable rate, at our 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%. The Term Loan Credit Agreement matures in March 2022, but provides for an accelerated maturity in the event our 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 we are not then maintaining, and continue to maintain until the Notes are converted, redeemed, repurchased or refinanced in full, liquidity of at least $125 million.

Capital leases represent future minimum lease payments including interest. Operating leases represent the total future minimum lease payments.

We have standby letters of credit totaling $5.7 million issued in connection with workers compensation claims and surety bonds.

We have $46.1 million in purchase commitments through March 2017 for various raw material commodities, including aluminum, steel and nickel as well as other raw material components which are within normal production requirements.

**Backlog**

Orders that have been confirmed by customers in writing and can be produced during the next 18 months are included in our backlog. Orders that comprise our backlog may be subject to changes in quantities, delivery, specifications and

terms. Our backlog of orders was approximately $860 million at June 30, 2016 compared to $1,209 million at December 31, 2015 and $1,155 million at June 30, 2015. We expect to complete the majority of our existing backlog orders within the next 12 months.

**OUTLOOK**

The demand environment for trailers remained strong through the first six months of 2016, as evidenced by our strong backlog, a trailer demand forecast by industry forecasters above replacement demand levels for the next several years and our ability to increase prices and improve margins. Recent estimates from industry analysts, ACT Research Company (“ACT”) and FTR Associates (“FTR”), forecast demand for 2016 and beyond to remain healthy. ACT currently estimates demand to be approximately 293,000 trailers for 2016, representing a decrease of 4.7% as compared to 2015, and forecasting continued demand levels to be above replacement into the foreseeable future with estimated annual average demand for the five year period ending 2021 to be approximately 255,000 new trailers. FTR anticipates new trailer demand to be approximately 281,000 new trailers in 2016, representing a decrease of 7.5% as compared to 2015 as well as projecting a decrease in 2017 with demand totaling 251,000 trailers. In spite of strong forecasted demand, there remain downside risks relating to issues with both the domestic and global economies, including the housing and construction-related markets in the U.S.

Other potential risks we face for the remainder of 2016 will primarily relate to our ability to effectively manage our manufacturing operations as well as the cost and supply of raw materials, commodities and components. Significant increases in the cost of certain commodities, raw materials or components could have an adverse effect on our results of operations. As has been our practice, we will endeavor to pass raw material and component price increases to our customers in addition to continuing our cost management and hedging activities in an effort to minimize the risk changes in material costs could have on our operating results. In addition, we rely on a limited number of suppliers for certain key components and raw materials in the manufacturing of our products, including tires, landing gear, axles, suspensions aluminum extrusions and specialty steel coil. At the current and expected demand levels, there may be shortages of supplies of raw materials or components which would have an adverse impact on our ability to meet demand for our products.

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

Based on the published industry demand forecasts, customer feedback regarding their current requirements, our existing backlog of orders and our continued efforts to be selective in our order acceptance to ensure we obtain appropriate value for our products, we estimate that for the full year 2016 total new trailers sold will be between 60,000 and 62,000, which reflects trailer volumes 4% to 7% lower than 2015 demand levels, primarily the result of weaker demand for platform and liquid tank trailers as well as a road construction project impacting the production of our dry van trailers in 2016. While our expectations for 2016 trailer volumes are similar to the demand levels forecasted by industry analysts, our focus on continuing to grow margins within our Commercial Trailer Products segment and the continued productivity and cost optimization initiatives through all of our businesses, we expect to see continued improvements as compared to the prior year.

We are not relying solely on strong new trailer volumes and price recovery to improve operations and enhance our profitability. We believe our corporate strategy to continue our transformation into a diversified industrial manufacturer will provide us the opportunity to address new markets, enhance our financial profile and reduce the cyclicality within our business. While demand for some of these products is dependent on the development of new products, customer acceptance of our product solutions and the general expansion of our customer base and distribution channels, we remain committed to enhancing and diversifying our business model through the organic and strategic initiatives. Through our two operating segments we offer a wide array of products and customer-specific solutions that we believe provide a good foundation for achieving these goals. In addition, we have been and will continue to focus on developing innovative new products that both add value to our customers' operations and allow us to continue to differentiate our products from the competition.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have included a summary of our Critical Accounting Policies and Estimates in our annual report on Form 10-K for the year ended December 31, 2015. There have been no material changes to the summary provided in that report.

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

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

Commodity Prices

We are exposed to fluctuation in commodity prices through the purchase of various raw materials that are processed from commodities such as aluminum, steel, lumber, nickel, copper and polyethylene. Given the historical volatility of certain commodity prices, this exposure can significantly impact product costs. We manage some of our commodity price changes by entering into fixed price contracts with our suppliers. As of June 30, 2016, we had $46.1 million in raw material purchase commitments through March 2017 for materials that will be used in the production process, as compared to $72.4 million as of December 31, 2015. We typically do not set prices for our products more than 45-90 days in advance of our commodity purchases and can, subject to competitive market conditions, take into account the cost of the commodity in setting our prices for each order. To the extent that we are unable to offset the increased commodity costs in our product prices, our results would be materially and adversely affected.

Interest Rates

As of June 30, 2016, we had no floating rate debt outstanding under our Credit Facility. During the three month period ended June 30, 2016, we maintained an average floating rate borrowing level of less than $0.1 million under our revolving line of credit. In addition, as of June 30, 2016, we had outstanding borrowings under our Term Loan Credit Agreement, as amended, totaling $190.4 million that bear interest at a floating rate, subject to a minimum interest rate. Based on the average borrowings under our Credit Facility and the outstanding indebtedness under our Term Loan Credit Agreement, a hypothetical 100 basis-point change in the floating interest rate would result in a corresponding change in interest expense over a one-year period of $0.9 million. This sensitivity analysis does not account for the change in the competitive environment indirectly related to the change in interest rates and the potential managerial

action taken in response to these changes.

Foreign Exchange Rates

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

**ITEM 4. CONTROLS AND PROCEDURES**

Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) were effective as of June 30, 2016.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the second quarter of fiscal year 2016 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See Item 3 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2015. See also Note 6, "Contingencies," to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

**ITEM 1A. RISK FACTORS**

You should carefully consider the risks described in our Annual Report on Form 10-K, for the year ended December 31, 2015, including those under the heading "Risk Factors" appearing in Item 1A of Part I of the Form 10-K and other information contained in this Quarterly Report before investing in our securities. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

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**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Purchases of Our Equity Securities**

For the quarter ended June 30, 2016 we repurchased a total of 367 shares to cover minimum employee tax withholding obligations upon the vesting of restricted stock awards. Additionally, during this period there were 749,669 share repurchases made pursuant to our repurchase program.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | **Maximum Amount That May Yet Be Purchased Under the Plans or Programs ($ in millions)** |
|---|---|---|---|---|
| April 2016 | 367 | $ 13.17 | 0 | $ 93.7 |
| May 2016 | 0 | $ 0.00 | 0 | $ 93.7 |
| June 2016 | 749,302 | $ 12.85 | 749,302 | $ 84.1 |
| Total | 749,669 | $ 12.85 | 749,302 | $ 84.1 |

**ITEM 6. EXHIBITS**

(a) Exhibits:

31.01 Certification of Principal Executive Officer
31.02 Certification of Principal Financial Officer
32.01 Written Statement of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
101 Interactive Data File Pursuant to Rule 405 of Regulation S-T

**SIGNATURE**

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

WABASH NATIONAL CORPORATION

Date: July 26, 2016 By: /s/ Jeffery L. Taylor
Jeffery L. Taylor
Senior Vice President and Chief Financial Officer (Principal Financial Officer)