

WABASH NATIONAL CORP /DE
Form 10-Q
April 24, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x

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

**SECURITIES EXCHANGE
ACT OF 1934**

FOR THE QUARTERLY
PERIOD ENDED MARCH 31,
2017

OR
TRANSITION REPORT UNDER
SECTION 13 OR 15 (d) OF

..

**THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 1-10883

WABASH NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware 52-1375208
(State of Incorporation) (IRS Employer
Identification Number)

1000 Sagamore Parkway South,
Lafayette, Indiana
(Address of Principal 47905
Executive Offices) (Zip Code)

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☒

The number of shares of common stock outstanding at April 20, 2017 was 60,145,443.

WABASH NATIONAL CORPORATION

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WABASH NATIONAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	March 31, 2017 (Unaudited)	December 31, 2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 211,215	\$ 163,467
Accounts receivable	117,281	153,634
Inventories	190,220	139,953
Prepaid expenses and other	17,981	24,351
Total current assets	\$ 536,697	\$ 481,405
 PROPERTY, PLANT AND EQUIPMENT	 132,658	 134,138
 DEFERRED INCOME TAXES	 20,343	 20,343
 GOODWILL	 148,333	 148,367
 INTANGIBLE ASSETS	 89,927	 94,405
 OTHER ASSETS	 21,325	 20,075
	\$ 949,283	\$ 898,733
 LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 49,584	\$ 2,468
Current portion of capital lease obligations	424	494
Accounts payable	109,912	71,338
Other accrued liabilities	95,182	92,314
Total current liabilities	\$ 255,102	\$ 166,614
 LONG-TERM DEBT	 186,407	 233,465
 CAPITAL LEASE OBLIGATIONS	 1,308	 1,409
 DEFERRED INCOME TAXES	 486	 499
 OTHER NONCURRENT LIABILITIES	 25,132	 24,355
 COMMITMENTS AND CONTINGENCIES		

STOCKHOLDERS' EQUITY

Common stock 200,000,000 shares authorized, \$0.01 par value, 60,302,236 and 60,129,631 shares outstanding, respectively	736	725
Additional paid-in capital	649,242	640,883
Retained Earnings	19,824	3,591
Accumulated other comprehensive income	(2,369)	(2,847)
Treasury stock at cost, 13,368,199 and 12,474,109 common shares, respectively	(186,585)	(169,961)
Total stockholders' equity	\$ 480,848	\$ 472,391
	\$ 949,283	\$ 898,733

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

WABASH NATIONAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2017	2016
NET SALES	\$362,716	\$447,676
COST OF SALES	303,360	368,150
Gross profit	\$59,356	\$79,526
GENERAL AND ADMINISTRATIVE EXPENSES	18,418	19,392
SELLING EXPENSES	6,173	6,961
AMORTIZATION OF INTANGIBLES	4,501	4,988
Income from operations	\$30,264	\$48,185
OTHER INCOME (EXPENSE):		
Interest expense	(2,990)	(4,095)
Other, net	1,333	(398)
Income before income taxes	\$28,607	\$43,692
INCOME TAX EXPENSE	8,434	16,168
Net income	\$20,173	\$27,524
DIVIDENDS DECLARED PER SHARE	\$0.06	\$-
BASIC NET INCOME PER SHARE	\$0.34	\$0.42
DILUTED NET INCOME PER SHARE	\$0.32	\$0.42

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

WABASH NATIONAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2017	2016
NET INCOME	\$ 20,173	\$ 27,524
Other comprehensive income (loss):		
Foreign currency translation adjustment	478	(97)
Total other comprehensive income (loss)	478	(97)
COMPREHENSIVE INCOME	\$ 20,651	\$ 27,427

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

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

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities		
Net income	\$ 20,173	\$ 27,524
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	4,202	4,176
Amortization of intangibles	4,501	4,988
Net gain on the sale of assets	(2,456)	-
Deferred income taxes	(13)	7,595
Excess tax benefits from stock-based compensation	-	(1,090)
Loss on debt extinguishment	640	487
Stock-based compensation	2,963	2,470
Non-cash interest expense	520	948
Changes in operating assets and liabilities		
Accounts receivable	36,353	(6,619)
Inventories	(51,692)	(41,227)
Prepaid expenses and other	5,214	(3,763)
Accounts payable and accrued liabilities	41,395	46,316
Other, net	428	1,099
Net cash provided by operating activities	\$ 62,228	\$ 42,904
Cash flows from investing activities		
Capital expenditures	(3,173)	(2,976)
Proceeds from the sale of property, plant, and equipment	3,761	-
Other, net	1,218	-
Net cash provided by (used in) investing activities	\$ 1,806	\$ (2,976)
Cash flows from financing activities		
Proceeds from exercise of stock options	5,408	192
Excess tax benefits from stock-based compensation	-	1,090
Dividends paid	(3,893)	-
Borrowings under revolving credit facilities	152	175
Payments under revolving credit facilities	(152)	(175)
Principal payments under capital lease obligations	(171)	(225)
Proceeds from issuance of term loan credit facility	189,470	-

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Principal payments under term loan credit facility	(189,944)	(482)
Principal payments under industrial revenue bond	(177)	(127)
Debt issuance costs paid	(354)	-
Stock repurchase	(16,625)	(8,757)
Convertible senior notes repurchase	-	(42,061)
Net cash used in financing activities	\$(16,286)	\$(50,370)
Net increase (decrease) in cash and cash equivalents	\$47,748	\$(10,442)
Cash and cash equivalents at beginning of period	163,467	178,853
Cash and cash equivalents at end of period	\$211,215	\$168,411

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

WABASH NATIONAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Wabash National Corporation (the “Company”) have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of the Company, its results of operations and cash flows. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

2. INVENTORIES

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

	March 31, 2017	December 31, 2016
Finished goods	\$ 97,486	\$ 57,297
Raw materials and components	60,269	53,388
Work in progress	20,929	18,422
Aftermarket parts	7,898	8,356
Used trailers	3,638	2,490
	\$ 190,220	\$ 139,953

3. DEBT

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

	March 31, 2017	December 31, 2016
Convertible senior notes	\$48,951	\$ 48,951
Term loan credit agreement	188,996	189,470
Other debt	499	676
	\$238,446	\$ 239,097
Less: unamortized discount and fees	(2,455)	(3,164)
Less: current portion	(49,584)	(2,468)
	\$186,407	\$ 233,465

Convertible Senior Notes

In April 2012, the Company issued Convertible Senior Notes due 2018 (the “Notes”) with an aggregate principal amount of \$150 million in a public offering. The Notes bear interest at a rate of 3.375% per annum from the date of issuance, payable semi-annually on May 1 and November 1. The Notes are senior unsecured obligations of the Company ranking equally with its existing and future senior unsecured debt. The Company used the net proceeds of \$145.1 million from the sale of the Notes to fund a portion of the purchase price of the acquisition of Walker Group Holdings (“Walker”) in May 2012.

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

As of March 31, 2017, the Company determined that the Notes would be convertible during the calendar quarter ending June 30, 2017 based on the criteria in (A) above and, as a result, the Notes were classified as current within the Condensed Consolidated Balance Sheet. If the Notes outstanding at March 31, 2017 had been converted as of March 31, 2017, the if-converted value would exceed the principal amount by approximately \$38 million. It is the Company’s intent to settle conversions in cash for both the principal portion and the excess of the conversion value over the principal portion.

The Company accounts separately for the liability and equity components of the Notes in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. The Company determined that senior, unsecured corporate bonds traded on the market represent a similar liability to the Notes without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied interest rate of the Notes to be 7.0%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the

liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs (as defined below). 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.

During 2016 the Company executed multiple agreements with existing holders of the Notes to repurchase \$82.0 million in principal of such Notes for \$98.9 million, excluding accrued interest. Additionally, in December 2015, the Company acquired \$19.0 million in principal for \$22.9 million, excluding accrued interest. The Company recognized a loss on debt extinguishment of \$0.5 million from the first quarter 2016 repurchase activity, which is included in *Other, net* on the Company's Condensed Consolidated Statements of Operations.

The Company applies the treasury stock method in calculating the dilutive impact of the Notes. For the quarter ended March 31, 2017, the Notes had a dilutive impact.

The following table summarizes information about the equity and liability components of the Notes (dollars in thousands).

	March 31, 2017	December 31, 2016
Principal amount of the Notes outstanding	\$48,951	\$ 48,951
Unamortized discount and fees of liability component	(1,789)	(2,183)
Net carrying amount of liability component	47,162	46,768
Less: current portion	(47,162)	-
Long-term debt	\$-	\$ 46,768
Carrying value of equity component, net of issuance costs	\$(3,971)	\$(3,971)
Remaining amortization period of discount on the liability component	1.1 years	1.3 years

Contractual coupon interest expense and accretion of discount and fees on the liability component for the Notes for the three month period ended March 31, 2017 and 2016 included in *Interest Expense* on the Company's Condensed Consolidated Statements of Operations were as follow (in thousands):

	Three Months Ended March 31,	
	2017	2016
Contractual coupon interest expense	\$ 413	\$ 908
Accretion of discount and fees on the liability component	\$ 394	\$ 808

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 th