UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2012

OR

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

Commission File Number 001-33462

INSULET CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**04-3523891**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
9 Oak Park Drive	
Bedford, Massachusetts	**01730**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (781) 457-5000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of August 2, 2012, the registrant had 47,990,312 shares of common stock outstanding.

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EXPLANATORY NOTE

We are filing this Amendment to our Quarterly Report on Form 10-Q/A (the Amended Report), which was originally filed on Form 10-Q on August 8, 2012 (the Original Report or Quarterly Report on Form 10-Q), to reflect a restatement of our consolidated financial statements.

As discussed in Note 14 to our consolidated financial statements, subsequent to the issuance of the Original Report, we and our audit committee concluded that we should restate our consolidated balance sheets at December 31, 2011 and June 30, 2012, our consolidated statement of operations for the three and six months ended June 30, 2011 and our consolidated statement of cash flows for the six months ended June 30, 2011 to correct the following errors:

In June 2011, we acquired all of the outstanding shares of privately-held Neighborhood Diabetes and accounted for the acquisition as a business combination. In connection with the acquisition, we recognized net deferred tax liabilities of $11.3 million. We also reduced our preexisting valuation allowance and goodwill, accordingly, through purchase accounting. Upon subsequent review, we determined that the $11.3 million reduction of our preexisting valuation allowance should have been reported as an income tax benefit and not as an adjustment to goodwill. We have corrected our statement of operations with respect to the income tax benefit generated as a result of the change in the valuation allowance.

In June 2011, we modified our outstanding convertible debt. Upon subsequent review, we determined that at the date of the modification we should have recognized approximately $5.5 million in additional deferred tax liability related to our debt. The recognition of this additional deferred tax liability would have resulted in a corresponding reduction of our preexisting valuation allowance and therefore had no effect on our statement of operations. We have corrected certain balance sheet amounts with respect to the presentation of our deferred tax assets and liabilities.

For reasons discussed above, we are filing this Amended Report in order to amend the following items in Part I of our Original Report to the extent necessary to reflect the adjustments discussed above and make corresponding revisions to our financial data cited elsewhere in this Amended Report:

Item 1. Consolidated Financial Statements (unaudited)

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Item 4. Controls and Procedures

None of the remaining Items of our Original Report are amended hereby and are repeated herein solely for the reader s convenience.

In order to preserve the nature and character of the disclosures set forth in the Original Report, except as expressly noted above, this Amended Report speaks as of the date of the filing of the Original Report, August 8, 2012, and we have not updated the disclosures in this Amended Report to speak as of a later date. All information contained in this Amended Report is subject to updating and supplementing as provided in our reports filed with the SEC subsequent to the date of the Original Report.

INSULET CORPORATION

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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

INSULET CORPORATION

CONSOLIDATED BALANCE SHEETS

	As of June 30, 2012 (Restated)	As of December 31, 2011 (Restated)
	(Unaudited)	
	(In thousands, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 70,144	$ 93,955
Accounts receivable, net	25,591	23,190
Inventories	16,426	11,838
Prepaid expenses and other current assets	4,304	3,652
Total current assets	116,465	132,635
Property and equipment, net	21,422	19,422
Intangible assets, net	25,753	29,002
Goodwill	37,536	37,536
Other assets	2,503	2,727
Total assets	$ 203,679	$ 221,322
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 13,687	$ 11,418
Accrued expenses	13,535	13,064
Deferred revenue	1,148	2,582
Current portion of long-term debt	13,849	
Other current liabilities	921	931
Total current liabilities	43,140	27,995
Long-term debt	99,382	108,540
Other long-term liabilities	2,068	2,052
Total liabilities	144,590	138,587
Stockholders Equity		
Preferred stock, $.001 par value:		
Authorized: 5,000,000 shares at June 30, 2012 and December 31, 2011. Issued and outstanding: zero shares at June 30, 2012 and December 31, 2011		
Common stock, $.001 par value:		
Authorized: 100,000,000 shares at June 30, 2012 and December 31, 2011. Issued and outstanding: 47,915,851 and 47,504,131 shares at June 30, 2012 and December 31, 2011, respectively	48	48
Additional paid-in capital	517,981	512,371
Accumulated deficit	(458,940)	(429,684)
Total stockholders equity	59,089	82,735

Total liabilities and stockholders equity	$ 203,679	$ 221,322

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

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INSULET CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011 (Restated)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011 (Restated)
	(Unaudited) (In thousands, except share and per share data)			
Revenue	$ 51,035	$ 32,211	$ 98,789	$ 60,469
Cost of revenue	28,704	17,673	56,162	32,398
Gross profit	22,331	14,538	42,627	28,071
Operating expenses:				
Research and development	6,521	6,832	11,953	11,421
General and administrative	12,665	12,996	25,685	20,206
Sales and marketing	13,664	9,625	26,403	18,631
Total operating expenses	32,850	29,453	64,041	50,258
Operating loss	(10,519)	(14,915)	(21,414)	(22,187)
Interest income	24	39	52	76
Interest expense	(3,912)	(4,547)	(7,779)	(7,158)
Other expense, net	(3,888)	(4,508)	(7,727)	(7,082)
Loss before income taxes	(14,407)	(19,423)	(29,141)	(29,269)
Income tax benefit (expense)	(69)	11,339	(115)	11,339
Net loss	$ (14,476)	$ (8,084)	$ (29,256)	$ (17,930)
Net loss per share basic and diluted	$ (0.30)	$ (0.17)	$ (0.61)	$ (0.39)
Weighted-average number of shares used in calculating net loss per share	47,824,190	46,377,843	47,715,819	45,995,069

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

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INSULET CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011 (Restated)
	(Unaudited) (In thousands)	
Cash flows from operating activities		
Net loss	$ (29,256)	$ (17,930)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	5,498	2,847
Non-cash interest expense	4,988	5,084
Deferred tax provision		(11,339)
Stock-based compensation expense	5,155	3,816
Provision for bad debts	1,486	806
Changes in operating assets and liabilities:		
Accounts receivable	(3,887)	1,061
Inventories	(4,588)	(2,191)
Deferred revenue	(1,434)	(522)
Prepaid expenses and other assets	(725)	(1,655)
Accounts payable, accrued expenses, and other liabilities	2,730	2,170
Other long-term liabilities	16	905
Net cash used in operating activities	(20,017)	(16,948)
Cash flows from investing activities		
Purchases of property and equipment	(4,249)	(5,560)
Acquisition of Neighborhood Diabetes		(37,855)
Net cash used in investing activities	(4,249)	(43,415)
Cash flows from financing activities		
Proceeds from issuance of long-term debt		138,937
Payments to retire long-term debt		(88,195)
Proceeds from issuance of common stock	1,642	3,760
Payment of withholding taxes in connection with vesting of restricted stock units	(1,187)	(667)
Net cash provided by financing activities	455	53,835
Net decrease in cash and cash equivalents	(23,811)	(6,528)
Cash and cash equivalents, beginning of period	93,955	113,274
Cash and cash equivalents, end of period	$ 70,144	$ 106,746

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

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INSULET CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of the Business

Insulet Corporation (the Company) is primarily engaged in the sale of diabetes management supplies, including its proprietary OmniPod Insulin Management System (the OmniPod System) as well as blood glucose testing supplies, traditional insulin pumps, pump supplies, and other pharmaceuticals. The Company was incorporated in Delaware in 2000 and its corporate headquarters is located in Bedford, Massachusetts. In June 2011, the Company acquired Neighborhood Holdings, Inc. and its wholly-owned subsidiaries (collectively Neighborhood Diabetes) in order to expand its full suite diabetes management product offerings and obtain access to a larger number of insulin dependent patients. The Company has additional facilities in New York, Florida and Singapore.

Since inception, the Company has principally devoted its efforts to designing, developing, manufacturing and marketing the OmniPod System, which consists of the disposable OmniPod insulin infusion device and the handheld, wireless Personal Diabetes Manager (PDM). The Company commercially launched the OmniPod System in August 2005 after receiving FDA 510(k) approval in January 2005. The first commercial product was shipped in October 2005.

The Company sells its OmniPod System and other diabetes management supplies in the United States through direct sales to customers or through the Company s distribution partners. The OmniPod System is currently available in multiple countries in Europe through the Company s exclusive distribution partner, Ypsomed Distribution AG (Ypsomed) and in Canada through the Company s exclusive distribution partner, GlaxoSmithKline Inc. (GSK).

2. Summary of Significant Accounting Policies

Restatement of Previously Issued Financial Statements

As discussed below and further described in Note 14, the Company restated its financial results for the three and six months ended June 30, 2012 and 2011 to correct errors in the accounting for income taxes.

In June 2011, the Company acquired all of the outstanding shares of privately-held Neighborhood Diabetes and accounted for the acquisition as a business combination. In connection with the acquisition, the Company recognized net deferred tax liabilities of $11.3 million. The Company also reduced its preexisting valuation allowance and goodwill, accordingly, through purchase accounting. Upon subsequent review, the Company determined that the $11.3 million reduction of its preexisting valuation allowance should have been reported as an income tax benefit and not as an adjustment to goodwill. The Company has corrected its statement of operations with respect to the income tax benefit generated as a result of the change in the valuation allowance.

In June 2011, the Company modified its outstanding convertible debt. Upon subsequent review, the Company determined that at the date of the modification it should have recognized approximately $5.5 million in additional deferred tax liability related to its debt. The recognition of this additional deferred tax liability would have resulted in a corresponding reduction of the Company s preexisting valuation allowance and therefore had no effect on its statement of operations. The Company has corrected certain balance sheet amounts with respect to the presentation of its deferred tax assets and liabilities.

The restatement resulted in an increase in current deferred tax assets (which are presented as a component of prepaid expenses and other current assets) of $0.9 million at June 30, 2012, an increase in goodwill of $10.9 million at June 30, 2012, and an increase to non-current deferred tax liabilities (which are presented as a component of other long-term liabilities) of $0.4 million at June 30, 2012. The restatement also resulted in an increase in tax benefit of $11.3 million in the three and six months ended June 30, 2011.

Basis of Presentation

The unaudited consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three and six month period ended June 30, 2012, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012, or for any other subsequent interim period.

The unaudited consolidated financial statements in this Quarterly Report on Form 10-Q should be read in conjunction with the Company s consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting periods. The most significant estimates used in these financial statements include the valuation of accounts receivable, inventories, deferred revenue and equity instruments, the lives of property and equipment and intangible assets, as well as warranty and doubtful accounts reserve calculations. Actual results may differ from those estimates.

Principles of Consolidation

The unaudited consolidated financial statements in this Quarterly Report on Form 10-Q include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due from third-party payors, patients, third-party distributors, and government agencies. The allowance for doubtful accounts is recorded at the time collection risk is identified. The Company estimates its allowance based on historical experience, assessment of specific risk, discussions with individual customers and various assumptions and estimates that are believed to be reasonable under the circumstances.

Inventories

Inventories are held at the lower of cost or market, determined under the first-in, first-out method. Inventory has been recorded at cost as of June 30, 2012 and December 31, 2011. Work in process is calculated based upon a build up in the stage of completion using estimated labor inputs for each stage in production. The Company periodically reviews inventories for potential impairment based on quantities on hand and expectations of future use.

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Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful life of the respective assets. Leasehold improvements are amortized over their useful life or the life of the lease, whichever is shorter. Assets capitalized under capital leases are amortized in accordance with the respective class of owned assets and the amortization is included with depreciation expense. Maintenance and repair costs are expensed as incurred.

Intangibles and Other Long-Lived Assets

The Company s finite-lived intangible assets are stated at cost less accumulated amortization. The Company assesses its intangible and other long-lived assets for impairment whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable. The Company recognizes an impairment loss for intangibles and other long-lived assets if the carrying amount of the asset is not recoverable based on its undiscounted future cash flows. Any such impairment loss is measured as the difference between the carrying amount and the fair value of the asset. The estimation of useful lives and expected cash flows requires the Company to make significant judgments regarding future periods that are subject to some factors outside its control. Changes in these estimates can result in significant revisions to the carrying value of these assets and may result in material charges to the results of operations. The estimated life of the acquired tradename asset is 15 years. The estimated life of the acquired customer relationship asset is 10 years. Intangible assets with determinable estimated lives are amortized over these lives. At June 30, 2012, intangible assets related to the acquisition of Neighborhood Diabetes consisted of $23.2 million of customer relationships and $2.6 million of tradenames.

Goodwill

Goodwill represents the excess of the cost of the acquired Neighborhood Diabetes businesses over the fair value of identifiable net assets acquired. The Company performs an assessment of its goodwill for impairment on at least an annual basis or whenever events or changes in circumstances indicate there might be impairment.

Goodwill is evaluated at the reporting unit level. To test for impairment, the Company compares the carrying value of the reporting unit to its fair value. If the reporting unit s carrying value exceeds its fair value, the Company records an impairment loss to the extent that the carrying value of goodwill exceeds its implied fair value.

Warranty

The Company provides a four year warranty on its PDMs and may replace any OmniPods that do not function in accordance with product specifications. The Company estimates its warranty reserves at the time the product is shipped based on historical experience and the estimated cost to service the claims. Cost to service the claims reflects the current product cost, which has been decreasing over time. As these estimates are based on historical experience, and the Company continues to introduce new versions of existing products, the Company also considers the anticipated performance of the product over its warranty period in estimating warranty reserves.

Revenue Recognition

The Company generates nearly all of its revenue from sales of its OmniPod System and other diabetes related products including blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals to customers and third-party distributors who resell the products to patients with diabetes.

Revenue recognition requires that persuasive evidence of a sales arrangement exists, delivery of goods occurs through transfer of title and risk and rewards of ownership, the selling price is fixed or determinable and collectability is reasonably assured. With respect to these criteria:

- The evidence of an arrangement generally consists of a physician order form, a patient information form and, if applicable, third-party insurance approval for sales directly to patients or a purchase order for sales to a third-party distributor.

- Transfer of title and risk and rewards of ownership are passed to the patient or third-party distributor upon shipment of the products.

The selling prices for all sales are fixed and agreed with the patient or third-party distributor and, if applicable, the patient s third-party insurance provider(s), prior to shipment and are based on established list prices or, in the case of certain third-party insurers, contractually agreed upon prices. Provisions for discounts and rebates to customers are established as a reduction to revenue in the same period the related sales are recorded.

The Company offers a 45 day right of return for its OmniPod Insulin Management System Starter Kits sales, and defers revenue to reflect estimated sales returns in the same period that the related product sales are recorded. Returns are estimated through a comparison of the Company s historical return data to their related sales. Historical rates of return are adjusted for known or expected changes in the marketplace when appropriate. When doubt exists about reasonable assuredness of collectability from specific customers, the Company defers revenue from sales of products to those customers until payment is received.

In March 2008, the Company received a cash payment from Abbott Diabetes Care, Inc. (Abbott) for an agreement fee in connection with execution of the first amendment to the development and license agreement between the Company and Abbott. The Company recognizes revenue on the agreement fee from Abbott over the initial five year term of the agreement. In addition, Abbott agreed to pay an amount to the Company for services performed in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to customers in certain territories. The Company recognizes revenue related to this portion of the Abbott agreement at the time it meets the criteria for revenue recognition, typically at the time the revenue is recognized on the sale of the PDM to the patient.

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In June 2011, the Company entered into a development agreement with a U.S. based pharmaceutical company (the Development Agreement). Under the Development Agreement, the Company is required to perform design, development, regulatory and other services to support the pharmaceutical company as it works to obtain regulatory approval to use the Company s drug delivery technology as a delivery method for its pharmaceutical. Over the estimated two year term of the Development Agreement, the Company has and will continue to invoice amounts based upon meeting certain deliverable milestones. Revenue from the Development Agreement is recognized using a proportional performance methodology based on efforts incurred and total payments under the agreement.

The Company had deferred revenue of $1.1 million and $2.7 million as of June 30, 2012 and December 31, 2011, respectively. The deferred revenue recorded was comprised of product-related revenue and unrecognized amounts related to the Development Agreement, as well as the non-amortized agreement fee related to the Abbott agreement.

Concentration of Credit Risk

Financial instruments that subject the Company to credit risk primarily consist of cash and cash equivalents. The Company maintains the majority of its cash with two accredited financial institutions.

Although revenue is recognized from shipments directly to patients or third-party distributors, the majority of shipments are billed to third-party insurance payors and government agencies. There were no third-party payors or government agencies that accounted for more than 10% of gross accounts receivable as of June 30, 2012 or December 31, 2011.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment. The Company s current product offering consists of diabetes supplies, including the OmniPod System as well as other diabetes related products and supplies such as blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals. The Company s current product offering is marketed to a single customer type, people with diabetes. As the Company sells a single product type management views and operates as a single entity.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect in the years in which the differences are expected to reverse. A valuation allowance is required to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

The Company follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, *Income Taxes* (ASC 740-10) on the accounting for uncertainty in income taxes recognized in its financial statements. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740-10 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure and transition.

The Company has accumulated significant losses since its inception in 2000. Since the net operating losses may potentially be utilized in future years to reduce taxable income (subject to any applicable limitations), all of the Company s tax years may be subject to examination.

The Company recognizes estimated interest and penalties for uncertain tax positions in income tax expense. As of June 30, 2012, interest and penalties were immaterial to the consolidated financial statements.

For the three months ended June 30, 2012, income tax expense was comprised of $43,000 for the current portion and $26,000 for the deferred portion. For the six months ended June 30, 2012, income tax expense was comprised of $63,000 for the current portion and $52,000 for the deferred portion. The current portion primarily relates to state, local, and foreign taxes. The deferred portion primarily relates to U. S. Federal and State tax amounts.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of FASB ASC 718-10, *Compensation Stock Compensation* (ASC 718-10), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of options granted. The Company determines the intrinsic value of restricted stock units based on the closing prices of its common stock on the date of grant. The Company recognizes the compensation expense of share-based awards on a straight-line basis over the vesting period of the award.

The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by the stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The expected life of the awards is estimated based on the midpoint between the vesting date and the end of the contractual term. The risk-free interest rate assumption is

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based on observed interest rates appropriate for the terms of the awards. The dividend yield assumption is based on company history and expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense recognized in the financial statements is based on awards that are ultimately expected to vest. The Company evaluates the assumptions used to value the awards on a quarterly basis and, if factors change and different assumptions are utilized, stock-based compensation expense may differ significantly from what has been recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense.

See Footnote 12 for a summary of the stock option activity under the Company s stock-based employee compensation plan.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU No. 2011-04). ASU No. 2011-04 clarifies existing concepts regarding existing fair value principles. The amendments are effective in fiscal years beginning after December 15, 2011. The Company adopted the guidance in the first quarter of 2012. The adoption of these amendments did not have a material impact on the Company s financial statements.

In September 2011, the FASB issued ASU No. 2011-08 *Testing Goodwill for Impairment* (ASU No. 2011-08). ASU No. 2011-08 provides guidance on simplifying the impairment testing for goodwill. A company may first assess the qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test on the reporting unit. The guidance is effective in fiscal years beginning after December 15, 2011, and the Company adopted the guidance in the first quarter of 2012. The adoption of this guidance did not have a material impact on the Company s financial statements.

3. Acquisition of Neighborhood Diabetes

In June 2011, the Company acquired all of the outstanding shares of privately-held Neighborhood Diabetes, a durable medical equipment distributor specializing in direct to consumer sales of diabetes supplies, including pharmaceuticals and support services. Neighborhood Diabetes serves more than 60,000 customers with Type 1 and Type 2 diabetes primarily in the northeast and southeast regions of the United States with blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals, as well as other products for the management and treatment of diabetes. Neighborhood Diabetes is based in Massachusetts, with additional offices in New York and Florida. At the time of the acquisition, Neighborhood Diabetes employed approximately 200 people across its three locations. The acquisition of Neighborhood Diabetes provides the Company with full suite diabetes management product offerings, accelerates the Company s sales force expansion, strengthens the Company s back office support capabilities, expands the Company s access to insulin dependent patients, and provides pharmacy adjudication capabilities to drive incremental sales higher. The aggregate purchase price of approximately $62.4 million consisted of approximately $37.9 million in cash paid at closing, 1,197,631 shares of the Company s common stock valued at approximately $24.4 million, or $20.40 per share based on the closing price of the Company s common stock on the acquisition date, and contingent consideration with a fair value of approximately $0.1 million. Of the $37.9 million of cash paid at closing, $6.6 million is being held in an escrow account to reimburse the Company and its affiliates, if necessary, for certain claims for which they are entitled to be indemnified pursuant to the terms of the agreement and plan of merger with Neighborhood Diabetes.

The Company has accounted for the acquisition of Neighborhood Diabetes as a business combination. Under business combination accounting, the assets and liabilities of Neighborhood Diabetes were recorded as of the acquisition date at their respective fair values, and consolidated with the Company. The excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. The operating results of Neighborhood Diabetes have been included in the consolidated financial statements since June 2011, the period in which the acquisition was completed. The purchase price allocation, including an independent appraisal for intangible assets, has been prepared based on the information that was available to management at the time the consolidated financial statements were prepared. The allocation of the purchase price was finalized during the year ended December 31, 2011.

The purchase price (restated) has been allocated as follows (in thousands):

Calculation of allocable purchase price:	
Cash	$ 37,855
Common stock	24,432

Contingent consideration obligations	61
Total allocable purchase price	$ 62,348
Allocation of purchase price:	
Accounts receivable	5,897
Inventories	2,336
Prepaid expenses and other current assets	242

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Property and equipment	391
Customer relationships	30,100
Tradenames	2,800
Goodwill	37,536
Other assets	253
Accounts payable	4,109
Accrued expenses	1,700
Deferred tax liabilities	11,339
Other long-term liabilities	59
	$ 62,348

The Company incurred transaction costs of approximately $3.2 million, which consisted primarily of banking, legal, accounting and other administrative fees. These costs were recorded as general and administrative expense in the three and six months ended June 30, 2011.

4. Debt

At June 30, 2012 and December 31, 2011, the Company had outstanding convertible debt and related deferred financing costs on its balance sheet as follows (in thousands):

	As of	
	June 30, 2012	December 31, 2011
Principal amount of the 5.375% Convertible Senior Notes	$ 15,000	$ 15,000
Principal amount of the 3.75% Convertible Senior Notes	143,750	143,750
Unamortized discount	(45,519)	(50,210)
Total debt	113,231	108,540
Current portion of long-term debt	13,849	
Long-term debt	$ 99,382	$ 108,540
Deferred financing costs	$ 2,300	$ 2,597

Interest expense related to the 5.375% Notes (as defined below) and the 3.75% Notes (as defined below) was included in interest expense on the consolidated statements of operations as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Contractual coupon interest	$ 1,549	$ 1,142	$ 3,098	$ 2,284
Accretion of debt discount	2,387	1,425	4,691	2,849
Other interest payments		1,992		1,992
Amortization of debt issuance costs	149	121	297	243
	$ 4,085	$ 4,680	$ 8,086	$ 7,368

5.375% Convertible Senior Notes

In June 2008, the Company sold $85.0 million in principal amount of 5.375% Convertible Senior Notes due June 15, 2013 (the 5.375% Notes) in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The interest rate on the notes is 5.375% per annum on the principal amount from June 16, 2008, payable semi-annually in arrears in cash on December 15 and June 15 of each year. The 5.375% Notes are convertible into the Company s common stock at an initial conversion rate of 46.8467 shares of common stock per $1,000 principal amount of the 5.375% Notes, which is equivalent to a conversion price of approximately $21.35 per share, representing a conversion premium of 34% to the last reported sale price of the Company s common stock on the NASDAQ Global Market on June 10, 2008, subject to adjustment under certain circumstances, at any time beginning on March 15, 2013 or under certain other circumstances and prior to the close of business on the business day immediately preceding the final maturity date of the notes. The 5.375% Notes will be convertible for cash up to their principal amount and shares of the Company s common stock for the remainder of the conversion value in excess of the principal amount.

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If a fundamental change, as defined in the Indenture for the 5.375% Notes, occurs at any time prior to maturity, holders of the 5.375% Notes may require the Company to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, including any additional interest to, but excluding, the date of repurchase. If a holder elects to convert its 5.375% Notes upon the occurrence of a make-whole fundamental change, as defined in the Indenture for the 5.375% Notes, the holder may be entitled to receive an additional number of shares of common stock on the conversion date. These additional shares are intended to compensate the holders for the loss of the time value of the conversion option and are set forth in the Indenture to the 5.375% Notes. In no event will the number of shares issuable upon conversion of a note exceed 62.7746 per $1,000 principal amount (subject to adjustment as described in the Indenture for the 5.375% Notes).

The Company recorded a debt discount of $26.9 million to equity to reflect the value of its nonconvertible debt borrowing rate of 14.5% per annum. This debt discount is being amortized as interest expense over the five year term of the 5.375% Notes. The Company incurred deferred financing costs related to this offering of approximately $3.5 million, of which $1.1 million has been reclassified as an offset to the value of the amount allocated to equity. The remainder is recorded as other assets in the consolidated balance sheet and is being amortized as a component of interest expense over the five year term of the 5.375% Notes.

In June 2011, in connection with the issuance of $143.8 million in principal amount of 3.75% Convertible Notes due June 15, 2016 (the 3.75% Notes), the Company repurchased $70 million in principal amount of the 5.375% Notes for $85.1 million, a 21.5% premium on the principal amount. The investors that held the $70 million in principal amount of repurchased 5.375% Notes purchased $59.5 million in principal amount of the 3.75% Notes and retained approximately $13.5 million in principal amount of the remaining 5.375% Notes. The investors combined $73.0 million in principal amount of convertible debt ($13.5 million of 5.375% Notes and $59.5 million of 3.75% Notes) was considered to be a modification of a portion of the 5.375% Notes. See 3.75% Convertible Senior Notes below for additional detail on the modification accounting.

The Company recorded an immaterial amount of non-cash interest expense related to the amortization of the debt discount and the deferred financing costs of the remaining $1.5 million unmodified portion of the 5.375% Notes in the three and six months ended June 30, 2012. The Company recorded non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the $85 million in principal amount of the 5.375% Notes of $1.6 million and $3.1 million in the three and six months ended June 30, 2011, respectively.

Cash interest expense related to the 5.375% Notes was $0.2 million and $0.4 million for the three and six months ended June 30, 2012, respectively. Cash interest expense related to the 5.375% Notes was $1.2 million and $2.3 million for the three and six months ended June 30, 2011, respectively.

As of June 30, 2012, the Company included approximately $1.4 million on its balance sheet in the current portion of long-term debt related to the unmodified portion of the 5.375% Notes. The 5.375% Notes have a remaining term of one year.

3.75% Convertible Senior Notes

In June 2011, the Company sold $143.8 million in principal amount of the 3.75% Notes. The interest rate on the notes is 3.75% per annum, payable semi-annually in arrears in cash on December 15 and June 15 of each year. The 3.75% Notes are convertible into the Company s common stock at an initial conversion rate of 38.1749 shares of common stock per $1,000 principal amount of the 3.75% Notes, which is equivalent to a conversion price of approximately $26.20 per share, subject to adjustment under certain circumstances. The 3.75% Notes are convertible prior to March 15, 2016 only upon the occurrence of certain circumstances. On and after March 15, 2016 and prior to the close of business on the second scheduled trading day immediately preceding the final maturity date of the 3.75% Notes, the notes may be converted without regard to the occurrence of any such circumstances. The 3.75% Notes and any unpaid interest will be convertible at the Company s option for cash, shares of the Company s common stock or a combination of cash and shares of the Company s common stock for the principal amount. The Company intends to settle the principal in cash.

The Company may not redeem the 3.75% Notes prior to June 20, 2014. From June 20, 2014 to June 20, 2015 the Company may redeem the 3.75% Notes, at its option, in whole or in part, only if the last reported sale price per share of the Company s common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during a period of 30 consecutive trading days. On and after June 20, 2015, the Company may redeem the 3.75% Notes, at its option (without regard to such sale price condition), in whole or in part. If a fundamental change, as defined in the Indenture for the 3.75% Notes, occurs at any time prior to maturity, holders of the 3.75% Notes may require the Company to repurchase their notes in whole or in part, for cash equal to 100% of the principal amount of the 3.75% Notes to be repurchased, plus accrued and unpaid interest. If a holder elects to convert its 3.75% Notes upon the occurrence of a make-whole fundamental change, as defined in the Indenture for the 3.75% Notes, the holder may be entitled to receive an additional number of shares of common stock on the conversion date. These additional shares are intended to compensate the holders for the loss of the time value of the conversion option and are set forth in the Indenture to the 3.75% Notes. In no event will the number of shares issuable upon conversion of a note exceed 50.5816 per $1,000 principal amount (subject to adjustment as described in the Indenture for the 3.75% Notes). The 3.75% Notes are unsecured and are equal in right of payment to the 5.375% Notes.

The Company identified certain features related to a portion of the 3.75% Notes, including the holders ability to require the Company to repurchase their notes and the higher interest payments required in an event of default, which are considered embedded derivatives and should be bifurcated and accounted for at fair value. The Company assesses the value of each of these embedded derivatives at each balance sheet date. At June 30, 2012, the Company separately accounted for and determined that these derivatives have de minimus value.

In connection with the issuance of the 3.75% Notes, the Company repurchased $70 million in principal amount of the 5.375% Notes for $85.1 million, a 21.5% premium on the principal amount. The investors that held the $70 million in principal amount of repurchased 5.375% Notes purchased $59.5 million in principal amount of the 3.75% Notes and retained approximately $13.5 million in principal amount of the remaining 5.375% Notes. This transaction was treated as a modification of a portion of the 5.375% Notes. The Company accounted for this modification of existing debt separately from the issuance of the remainder of the 3.75% Notes.

Prior to the transaction, the $70 million in principal amount of repurchased 5.375% Notes had a debt discount of $10.5 million. This amount remained in debt discount related to the $73 million in principal amount of modified debt. The Company recorded additional debt discount of $15.1 million related to the premium payment in connection with the repurchase and $0.2 million related to the increase in the value of the conversion feature. The portion of the debt discount related to the value of the conversion feature was recorded as additional paid-in capital. The total debt discount of $25.8 million related to the modified debt is being amortized as interest expense at the effective rate of 16.5% over the five year term of the modified debt. The Company paid transaction fees of approximately $2.0 million related to the modification, which were recorded as interest expense at the time of the modification. The Company included $12.4 million in current liabilities and $37.5 million in long-term debt related to the modified debt at June 30, 2012. Non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the $73 million in principal amount of the modified debt was $1.3 million and $2.6 million in the three and six months ended June 30, 2012. The Company recorded an immaterial amount of non-cash interest expense related to the modified debt in the three and six months ended June 30, 2011.

Of the $143.8 million in principal amount of 3.75% Notes issued in June 2011, $84.3 million in principal amount was considered to be an issuance of new debt. The Company recorded a debt discount of $26.6 million related to the $84.3 million in principal amount of 3.75% Notes. The debt discount was recorded as additional paid-in capital to reflect the value of its nonconvertible debt borrowing rate of 12.4% per annum. This debt discount is being amortized as interest expense over the five year term of the 3.75% Notes. The Company incurred deferred financing costs related to this offering of approximately $2.8 million, of which $0.9 million has been reclassified as an offset to the value of the amount allocated to equity. The remainder is recorded as other assets in the consolidated balance sheet and is being amortized as a component of interest expense over the five year term of the 3.75% Notes. The Company included $61.9 million on its balance sheet in long-term debt related to these notes at June 30, 2012. Non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the new portion of the 3.75% Notes was $1.2 million and $2.4 million in the three and six months ended June 30, 2012. The Company recorded an immaterial amount of non-cash interest expense related to the new portion of the 3.75% Notes in the three and six months ended June 30, 2011.

Cash interest expense related to the $143.8 million in principal amount of 3.75% Notes was $1.4 million and $2.7 million in the three and six months ended June 30, 2012. The Company recorded an immaterial amount of cash interest expense related to 3.75% Notes in the three and six months ended June 30, 2011.

As of June 30, 2012, the 3.75% Notes have a remaining term of four years.

5. Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period, excluding unvested restricted common shares. Diluted net loss per share is computed using the weighted average number of common shares outstanding and, when dilutive, potential common share equivalents from options, restricted stock units and warrants (using the treasury-stock method), and potential common shares from convertible securities (using the if-converted method). Because the Company reported a net loss for the three and six months ended June 30, 2012 and 2011, all potential common shares have been excluded from the computation of the diluted net loss per share for all periods presented, as the effect would have been anti-dilutive. Such potentially dilutive common share equivalents consist of the following:

	Three and Six Months Ended June 30,	
	2012	**2011**
5.375% Convertible Senior Notes	702,701	702,701
3.75% Convertible Senior Notes	5,487,642	5,487,642
Unvested restricted stock units	860,319	635,215
Outstanding options	2,855,080	2,938,921
Outstanding warrants	62,752	62,752

Total dilutive common shares	9,968,494	9,827,231

6. Accounts Receivable

The components of accounts receivable are as follows:

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	As of June 30, 2012	As of December 31, 2011
	(In thousands)	
Trade receivables	$ 32,559	$ 30,211
Allowance for doubtful accounts	(6,968)	(7,021)
	$ 25,591	$ 23,190

7. Inventories

Inventories consist of the following:

	As of June 30, 2012	As of December 31, 2011
	(In thousands)	
Raw materials	$ 3,743	$ 3,528
Work-in-process	2,030	359
Finished goods	10,653	7,951
	$ 16,426	$ 11,838

8. Other Intangible Assets

Other intangible assets consist of the following:

	As of June 30, 2012	As of December 31, 2011
	(In thousands)	
Customer relationships	$ 30,100	$ 30,100
Tradename	2,800	2,800
Total intangible assets	$ 32,900	$ 32,900
Less: accumulated amortization	(7,147)	(3,898)
Total	$ 25,753	$ 29,002

The Company recorded $32.9 million of other intangible assets in the year ended December 31, 2011 as a result of the acquisition of Neighborhood Diabetes (see Footnote 3 for further description). The Company determined that the estimated useful life of the customer relationships asset is 10 years and is amortizing the asset over that period using an estimated cash flow pattern. The Company determined that the useful life of the Neighborhood Diabetes tradename is 15 years and is amortizing the asset over that period on a straight-line basis. The amortization of other intangible assets was approximately $1.5 million and $3.2 million for the three and six months ended June 30, 2012. The amortization of other intangible assets was approximately $0.5 million for the three and six months ended June 30, 2011. Amortization expense for the year ending December 31, 2012 is expected to be approximately $6.0 million. As of June 30, 2012, the weighted average amortization period of the Company s intangible assets is approximately ten years.

9. Goodwill

The Company follows the provisions of FASB ASC Topic 350-20, *Intangibles Goodwill and Other* (ASC 350-20). ASC 350-20 requires companies to use the purchase method of accounting for all business combinations initiated after June 30, 2001, and established specific criteria for the recognition of intangible assets separately from goodwill. Goodwill and indefinite-lived assets are tested for impairment at least annually. In accordance with ASC 350-20, the Company tests goodwill for impairment on an annual basis or whenever events and circumstances indicate there might be an impairment. The Company s goodwill arose in connection with the acquisition of Neighborhood Diabetes in June 2011. No goodwill impairment loss was recorded in the six months ended June 30, 2012.

10. Product Warranty Costs

The Company provides a four year warranty on its PDMs and may replace any OmniPods that do not function in accordance with product specifications. Warranty expense is estimated and recorded in the period that shipment occurs. The expense is based on the Company s historical experience and the estimated cost to service the claims. A reconciliation of the changes in the Company s product warranty liability is as follows:

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	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In thousands)		(In thousands)	
Balance at the beginning of the period	$ 2,033	$ 1,836	$ 1,960	$ 1,873
Warranty expense	348	655	1,222	1,379
Warranty claims settled	(559)	(696)	(1,360)	(1,457)
Balance at the end of the period	$ 1,822	$ 1,795	$ 1,822	$ 1,795

	As of June 30, 2012	As of December 31, 2011
	(In thousands)	
Composition of balance:		
Short-term	$ 762	$ 940
Long-term	1,060	1,020
	$ 1,822	$ 1,960

11. Commitments and Contingencies

Operating Leases

The Company leases its facilities in Massachusetts, New York, Florida and Singapore. The Company s leases are accounted for as operating leases. The leases generally provide for a base rent plus real estate taxes and certain operating expenses related to the leases. The Company has extended the leases of its facilities in Bedford and Billerica, Massachusetts. Following the extensions, these leases expire in September 2014. The leases for Bedford contain a five year renewal option and escalating payments over the life of the lease. The leases in Florida, Woburn, Singapore and New York expire in September 2012, June 2013, July 2013 and April 2015, respectively.

During the six months ended June 30, 2012, the Company terminated a lease for one of its corporate office spaces in Bedford, Massachusetts. There was no material impact to the financial statements for the six months ended June 30, 2012 due to the lease termination. During the same period, the Company entered into a new lease agreement for an additional 26,500 square feet in Bedford, Massachusetts. The lease expires in September 2014 and includes escalating payments over its term.

Certain of the Company s operating lease agreements contain scheduled rent increases, which are being amortized over the terms of the agreements using the straight-line method and are included in other liabilities in the accompanying consolidated balance sheet. The aggregate future minimum lease payments of these leases as of June 30, 2012, are as follows (in thousands):

Year Ending December 31,	Minimum Lease Payments
2012 (remaining)	845
2013	1,486
2014	988
2015	45
Total	$ 3,364

Legal Proceedings

In August 2010, Becton, Dickinson and Company (BD), filed a lawsuit in the United States District Court in the State of New Jersey against the Company alleging that the OmniPod System infringes three of its patents. BD seeks a declaration that the Company has infringed its patents, equitable relief, including an injunction that would enjoin the Company from infringing these patents and an unspecified award for monetary damages. The Company believes that the OmniPod System does not infringe these patents. The Company expects that this litigation will not have a material adverse impact on its financial position or results of operations. The Company believes it has meritorious defenses to this lawsuit; however, litigation is inherently uncertain and there can be no assurance as to the ultimate outcome or effect of this action.

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Indemnifications

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company s exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

In accordance with its bylaws, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company s request in such capacity. There have been no claims to date, and the Company has a director and officer insurance policy that enables it to recover a portion of any amounts paid for future claims.

12. Equity

In June 2011, in connection with the acquisition of Neighborhood Diabetes, the Company issued 1,197,631 shares of its common stock at a price of $20.40 per share, as partial consideration for the acquisition.

The Company grants share-based awards to employees under its Amended and Restated 2007 Stock Option and Incentive Plan (the 2007 Plan) in the form of options to purchase the Company s common stock, the ability to purchase stock at a discounted price under the employee stock purchase plan and restricted stock units. In May 2012, shares available for grant under the 2007 Plan were increased by 3,775,000 shares. Stock-based compensation expense related to share-based awards recognized in the three and six months ended June 30, 2012 was $2.5 million and $5.1 million, respectively, and was calculated based on awards ultimately expected to vest. Stock-based compensation expense related to share-based awards recognized in the three and six months ended June 30, 2011 was $1.8 million and $3.8 million, respectively. At June 30, 2012, the Company had $25.3 million of total unrecognized compensation expense related to stock options and restricted stock units.

Stock Options

The following summarizes the activity under the Company s stock option plans:

	Number of Options (#)	Weighted Average Exercise Price ($)	Aggregate Intrinsic Value ($) (in thousands)
Balance, December 31, 2011	2,814,591	$ 11.02	
Granted	383,100	18.94	
Exercised	(273,437)	5.40	$ 3,756(1)
Canceled	(69,174)	14.15	
Balance, June 30, 2012	2,855,080	$ 12.54	$ 25,334
Vested, June 30, 2012	1,679,593	$ 10.27	$ 18,751(2)
Vested and expected to vest, June 30, 2012 (3)	2,424,770		$ 22,644(2)

(1) The aggregate intrinsic value was calculated based on the positive difference between the fair market value of the Company s common stock as of the date of exercise and the exercise price of the underlying options.
(2) The aggregate intrinsic value was calculated based on the positive difference between the fair market value of the Company s common stock as of June 30, 2012 and the exercise price of the underlying options.
(3) Represents the number of vested options as of June 30, 2012, plus the number of unvested options expected to vest as of June 30, 2012, based on the unvested options outstanding as of June 30, 2012, adjusted for the estimated forfeiture rate of 16%.

At June 30, 2012 there were 2,855,080 options outstanding with a weighted average exercise price of $12.54 per share and a weighted average remaining contractual life of 7.0 years. At June 30, 2012 there were 1,679,593 options exercisable with a weighted average exercise price of

$10.27 per share and a weighted average remaining contractual life of 5.8 years.

Employee stock-based compensation expense related to stock options recognized in the three and six months ended June 30, 2012 was $1.3 million and $2.5 million, respectively, and was based on awards ultimately expected to vest. Employee stock-based compensation related to stock options recognized in the three and six months ended June 30, 2011 was $1.0 million and $2.1 million, respectively. At June 30, 2012, the Company had $10.9 million of total unrecognized compensation expense related to stock options that will be recognized over a weighted average period of 1.3 years.

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Employee Stock Purchase Plan

As of June 30, 2012 and 2011 the Company had 8,882 shares and zero shares contingently issued under the employee stock purchase plan (ESPP). In the three and six months ended June 30, 2012 and 2011, the Company recorded no significant stock-based compensation charges related to the ESPP.

Restricted Stock Units

In the six months ended June 30, 2012, the Company awarded 467,000 restricted stock units to certain employees. The restricted stock units were granted under the 2007 Plan and vest annually over three to four years from the grant date. The restricted stock units granted have a weighted average fair value of $18.96 per share based on the closing price of the Company s common stock on the date of grant. The restricted stock units granted during the six months ended June 30, 2012 were valued at approximately $8.9 million on their grant date, and the Company is recognizing the compensation expense over the vesting period. Approximately $1.3 million and $2.7 million of stock-based compensation expense related to the vesting of restricted stock units was recognized in the three and six months ended June 30, 2012, respectively. Approximately $0.8 million and $1.7 million of stock-based compensation expense related to the vesting of restricted stock units was recognized in the three and six months ended June 30, 2011, respectively. Approximately $14.4 million of the fair value of the restricted stock units remained unrecognized as of June 30, 2012. Under the terms of the award, the Company will issue shares of common stock on each of the vesting dates. During the six months ended June 30, 2012, 191,145 restricted stock units vested. The following table summarizes the status of the Company s restricted stock units:

	Number of Shares (#)	Weighted Average Fair Value ($)
Balance, December 31, 2011	603,882	$ 17.12
Granted	467,000	18.96
Vested	(191,145)	16.69
Forfeited	(19,418)	17.49
Balance, June 30, 2012	860,319	$ 18.20

13. Income Taxes

Income tax benefit (expense) consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011 (Restated)	2012	2011 (Restated)
Current	$ (43)	$	$ (63)	$
Deferred	(26)	11,339	(52)	11,339
Total	$ (69)	$ 11,339	$ (115)	$ 11,339

In the three and six months ended June 30, 2012, the current portion of income tax expense primarily relates to state, local and foreign taxes and the deferred portion primarily relates to U.S. federal and state tax amounts. In the three and six months ended June 30, 2011, income tax benefit primarily relates to the change in the valuation allowance for preexisting deferred tax assets as a result of the Neighborhood Diabetes acquisition.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At June 30, 2012 and December 31, 2011, the Company included $0.9 million of current deferred tax assets in prepaid expenses and other current assets. At June 30, 2012 and December 31, 2011, the Company included $1.0 million and $0.9 million, respectively, of non-current deferred tax liabilities in other long-term liabilities on its balance sheet.

In the future, the Company will generate additional deferred tax assets and liabilities related to its amortization of acquired intangible assets for tax purposes because these long-lived intangible assets are not amortized for financial reporting purposes. The tax amortization in future years will give rise to a temporary difference and a tax liability, which will only reverse at the time of ultimate sale or further impairment of the underlying intangible assets. Due to the uncertain timing of this reversal, the temporary difference cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore, the tax liability cannot be used to offset the deferred tax asset related to the net operating loss carryforward for tax purposes that will be generated by the same amortization.

14. Restatement of Previously Issued Financial Statements

Subsequent to the issuance of the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, the Company and its audit committee concluded that it should restate its consolidated balance sheets at June 30, 2012, its consolidated statements of operations for the three and six months ended June 30, 2011 and its consolidated statements of cash flows for the six months ended June 30, 2011 to correct the following errors:

In June 2011, the Company acquired all of the outstanding shares of privately-held Neighborhood Diabetes and accounted for the acquisition as a business combination. In connection with the acquisition, the Company recognized net deferred tax liabilities of $11.3 million. The Company also reduced its preexisting valuation allowance and goodwill, accordingly, through purchase accounting. Upon subsequent review, the Company determined that the $11.3 million reduction of its preexisting valuation allowance should have been reported as an income tax benefit and not as an adjustment to goodwill. The Company has corrected its statement of operations with respect to the income tax benefit generated as a result of the change in the valuation allowance.

In June 2011, the Company modified its outstanding convertible debt. Upon subsequent review, the Company determined that at the date of the modification it should have recognized approximately $5.5 million in additional deferred tax liability related to its debt. The recognition of this additional deferred tax liability would have resulted in a corresponding reduction of its preexisting valuation allowance and therefore had no effect on its statement of operations. The Company has corrected certain balance sheet amounts with respect to the presentation of its deferred tax assets and liabilities.

The following tables summarize the effect of the restatement by major financial statement line item for the three and six months ended June 30, 2011 and 2012 (in thousands). The restatement resulted in an increase in current deferred tax assets (which are presented as a component of prepaid expenses and other current assets) of $0.9 million at June 30, 2012, an increase in goodwill of $10.9 million at June 30, 2012, and an increase to non-current deferred tax liabilities (which are presented as a component of other long-term liabilities) of $0.4 million at June 30, 2012. The restatement resulted in an increase in tax benefit of $11.3 million in the three and six months ended June 30, 2011. The restatement had no effect on any amounts reported in the periods prior to the quarter ended June 30, 2011.

Consolidated Balance Sheet

	June 30, 2012	
	As Previously Reported	As Restated
	(unaudited)	
Prepaid expenses and other current assets	$ 3,454	$ 4,304
Total current assets	115,615	116,465
Goodwill	26,647	37,536
Total assets	191,940	203,679
Other long-term liabilities	1,668	2,068
Total liabilities	144,190	144,590
Accumulated deficit	(470,279)	(458,940)
Total stockholders equity	47,750	59,089
Total liabilities and stockholders equity	191,940	203,679

Consolidated Statement of Operations

	Three Months Ended		Six Months Ended	
	June 30, 2011		June 30, 2011	
	As	As Restated	As	As Restated

	Previously Reported		Previously Reported	
	(unaudited)		(unaudited)	
Income tax benefit (expense)	$	$ 11,339	$	$ 11,339
Net loss	(19,423)	(8,084)	(29,269)	(17,930)
Net loss per share basic and diluted	(0.42)	(0.17)	(0.64)	(0.39)

Consolidated Statement of Cash Flows

	Six Months Ended June 30, 2011	
	As Previously Reported	As Restated
	(unaudited)	
Net loss	$ (29,269)	$ (17,930)
Deferred tax provision		(11,339)
Prepaid expenses and other assets	(434)	(1,655)
Other long-term liabilities	(316)	905

The restatement had no effect on the previously reported amounts of operating, investing, and financing cash flows in the Company s consolidated statement of cash flows for the six months ended June 30, 2011.

Financial information included in the accompanying financial statements and the notes thereto reflect the effects of the corrections described above.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the accompanying notes to those financial statements included in this Quarterly Report on Form 10-Q . This Quarterly Report on Form 10-Q contains forward-looking statements which are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 and of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to: risks associated with our dependence on the OmniPod System; our ability to reduce production costs and increase customer orders and manufacturing volumes; adverse changes in general economic conditions; impact of healthcare reform legislation; our inability to raise additional funds in the future on acceptable terms or at all; potential supply problems or price fluctuations with sole source or other third-party suppliers on which we are dependent; failure by us to retain supplier pricing discounts and achieve satisfactory gross margins; failure by us to retain key supplier and payor partners; international business risks; our inability to obtain adequate coverage or reimbursement from third-party payors for the OmniPod System and potential adverse changes in reimbursement rates or policies relating to the OmniPod; failure to retain key partner payors and their members; failure to retain and manage successfully our Medicare and Medicaid business; potential adverse effects resulting from competition with competitors; technological innovations adversely affecting our business; potential termination of our license to incorporate a blood glucose meter into the OmniPod System; our ability to protect our intellectual property and other proprietary rights; conflicts with the intellectual property of third parties, including claims that our current or future products infringe the proprietary rights of others; adverse regulatory or legal actions relating to the OmniPod System; failure to obtain timely regulatory approval for the sale of the next generation OmniPod System; failure of our contract manufacturers or component suppliers to comply with FDA s quality system regulations, the potential violation of federal or state laws prohibiting kickbacks or protecting patient health information, or any challenges to or investigations into our practices under these laws; product liability lawsuits that may be brought against us; reduced retention rates; unfavorable results of clinical studies relating to the OmniPod System or the products of our competitors; potential future publication of articles or announcement of positions by physician associations or other organizations that are unfavorable to our products; the concentration of substantially all of our manufacturing capacity at a single location in China and substantially all of our inventory at a single location in Massachusetts; our ability to attract and retain key personnel; our ability to manage our growth; fluctuations in quarterly results of operations; risks associated with potential future acquisitions; the costs associated with the acquisition of Neighborhood Diabetes; our ability to generate sufficient cash to service all of our indebtedness; the expansion of our distribution network; our ability to successfully maintain effective internal controls; the volatility of our common stock; risks related to future sales of our common stock or the conversion of the 5.375% or 3.75% Notes; potential limitations on our ability to use our net operating loss carryforwards; anti-takeover provisions in our organizational documents; and other risks and uncertainties described in our Annual Report on Form 10-K , which was filed with the Securities and Exchange Commission on February 28, 2012 in the section entitled Risk Factors, and in our other filings from time to time with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements.

Restatement of Previously Issued Financial Statements

Financial data when presented throughout the MD&A includes the effect of the restatement, as described in Notes 2, 3, 13 and 14 to our consolidated financial statements. The following tables summarize the effect of the restatement by major financial statement line item for the three and six months ended June 30, 2012 and 2011 (in thousands). The restatement resulted in an increase in current deferred tax assets (which are presented as a component of prepaid expenses and other current assets) of $0.9 million at June 30, 2012, an increase in goodwill of $10.9 million at June 30, 2012, and an increase to non-current deferred tax liabilities (which are presented as a component of other long-term liabilities) of $0.4 million at June 30, 2012. The restatement resulted in an increase in tax benefit of $11.3 million in the three and six months ended June 30, 2011. The restatement had no effect on any amounts reported in periods prior to the quarter ended June 30, 2011.

Consolidated Balance Sheet

	June 30, 2012	
	As Previously Reported	As Restated
	(unaudited)	
Prepaid expenses and other current assets	$ 3,454	$ 4,304
Total current assets	115,615	116,465

Goodwill	26,647	37,536
Total assets	191,940	203,679
Other long-term liabilities	1,668	2,068
Total liabilities	144,190	144,590
Accumulated deficit	(470,279)	(458,940)
Total stockholders equity	47,750	59,089
Total liabilities and stockholders equity	191,940	203,679

Consolidated Statement of Operations

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	(unaudited)		(unaudited)	
Income tax benefit (expense)	$	$ 11,339	$	$ 11,339
Net loss	(19,423)	(8,084)	(29,269)	(17,930)
Net loss per share basic and diluted	(0.42)	(0.17)	(0.64)	(0.39)

Consolidated Statement of Cash Flows

	Six Months Ended June 30, 2011	
	As Previously Reported	As Restated
	(unaudited)	
Net loss	$ (29,269)	$ (17,930)
Deferred tax provision		(11,339)
Prepaid expenses and other assets	(434)	(1,655)
Other long-term liabilities	(316)	905

The restatement had no effect on the previously reported amounts of operating, investing, and financing cash flows in our consolidated financial statement of cash flows for the six months ended June 30, 2011.

Overview

We are primarily engaged in the sale of diabetes supplies, including our proprietary OmniPod Insulin Management System (the OmniPod System) as well as blood glucose testing supplies, traditional insulin pumps, pump supplies, and other pharmaceuticals. Our proprietary OmniPod System consists of our disposable OmniPod insulin infusion device and our handheld, wireless Personal Diabetes Manager (PDM). The U.S. Food and Drug Administration (FDA), approved the OmniPod System in January 2005. In October 2005, we shipped our first commercial OmniPod System. In June 2011, we acquired Neighborhood Holdings, Inc. and their wholly-owned subsidiaries (collectively, Neighborhood Diabetes) in order to expand our full suite diabetes management product offerings and obtain access to a larger number of insulin dependent patients.

We sell the OmniPod System and other diabetes management supplies in the United States through direct sales to customers or through our distribution partners. The OmniPod System is currently available in multiple countries in Europe through our exclusive distribution partner, Ypsomed Distribution AG (Ypsomed) and in Canada through our exclusive distribution partner, GlaxoSmithKline Inc. (GSK).

Our total revenue was $51.0 million and $98.8 million for the three and six months ended June 30, 2012, respectively. Our total revenue was $32.2 million and $60.4 million for the three and six months ended June 30, 2011, respectively.

We sell our proprietary OmniPod System as well as blood glucose testing supplies, traditional insulin pumps, pump supplies, pharmaceuticals and other products for the management and treatment of diabetes to people with diabetes. Through our infrastructure in the reimbursement, billing and collection areas, we are able to provide for adjudication of claims as either durable medical equipment or through pharmacy benefits. Claims are adjudicated under private insurers, Medicaid or Medicare. We are aligning third-party payor contracts to be able to better leverage our cross-selling initiatives. As we expand our sales and marketing focus, increase our manufacturing capacity, expand to additional international markets and broaden our high-touch patient model, we will need to maintain and expand available reimbursement for our product offerings.

Our sales and marketing effort is focused on generating demand and acceptance of the OmniPod System among key diabetes practitioners, academic centers, clinics, people with insulin-dependent diabetes, third-party payors, government agencies, and third-party distributors. Our marketing strategy is to build awareness for the benefits of the OmniPod System as well as our high-touch patient model through a wide range of education programs, social networking, patient demonstration programs, support materials, media advertisements and events at the national, regional and local levels. We are using third-party distributors to improve our access to managed care and government reimbursement programs, expand our commercial presence and provide access to additional potential patients.

We currently produce the OmniPod System on a partially automated manufacturing line at a facility in China operated by a subsidiary of Flextronics International Ltd. (Flextronics). We purchase complete OmniPods pursuant to our agreement with Flextronics. Under the agreement, Flextronics has agreed to supply us, as a non-exclusive supplier, with OmniPods at agreed upon prices per unit pursuant to a rolling 12 month forecast that we provide. The agreement may be terminated at any time by either party upon prior written notice given no less than a specified number of days prior to the date of termination. The specified number of days is intended to provide the parties with sufficient time to make alternative arrangements in the event of termination. By purchasing OmniPods manufactured by Flextronics in China, we have been able to substantially increase production volumes for the OmniPod and reduce our per unit production cost.

To achieve profitability, we continue to seek to increase manufacturing volume and reduce the per-unit production cost for the OmniPod. By increasing production volumes of the OmniPod, we have been able to reduce our per-unit raw material costs and improve absorption of manufacturing overhead costs. This, as well as the introduction of our next generation OmniPod, is important as we strive to achieve profitability. We believe our current manufacturing capacity is sufficient to meet our expected 2012 demand for OmniPods.

We purchase certain other diabetes management supplies from manufacturers at contracted rates and supply these products to our customers. Based on market penetration, payor plans and other factors, certain manufacturers provide rebates based on product sold. We record these rebates as a reduction to cost of goods sold as they are earned.

Since our inception in 2000, we have incurred losses every quarter. In the three and six months ended June 30, 2012, we incurred net losses of $14.5 million and $29.3 million, respectively. As of June 30, 2012, we had an accumulated deficit of $458.9 million. We have financed our operations through private placements of debt and equity securities, public offerings of our common stock, issuances of convertible debt and borrowings under certain other debt agreements. As of June 30, 2012, we had $158.8 million of convertible debt outstanding. Of the $158.8 million of convertible debt outstanding, $15.0 million matures in June 2013 and approximately $143.8 million matures in June 2016.

Our long-term financial objective is to achieve and sustain profitable growth. Our efforts in the coming months of 2012 will be focused primarily on the approval and production capacity of our next generation OmniPod System. Once the next generation product has obtained regulatory approval in the United States, we will focus on our United States launch. We are also focused on increasing sales to existing patients by offering additional products through our cross-selling initiatives. Achieving these objectives is expected to require additional investments in certain personnel and initiatives to allow for us to increase our penetration in the United States and international markets. We believe that we will continue to incur net losses in the near term in order to achieve these objectives. However, we believe that the accomplishment of our near-term objectives will have a positive impact on our financial condition in the future.

We believe that our cash and cash equivalents, together with the cash expected to be generated from product sales, will be sufficient to meet our projected operating and debt service requirements for the next 12 months.

Acquisition of Neighborhood Diabetes

In June 2011, we acquired all of the outstanding shares of Neighborhood Diabetes, a durable medical equipment distributor specializing in direct to consumer sales of diabetes supplies, including pharmaceuticals, and support services. Neighborhood Diabetes serves more than 60,000 customers with Type 1 and Type 2 diabetes, primarily in the northeast and southeast regions of the United States with blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals, as well as other products for the management and treatment of diabetes. Neighborhood Diabetes is based in Massachusetts, with additional offices in New York and Florida. At the time of the acquisition, Neighborhood Diabetes employed approximately 200 people across the three locations. The acquisition of Neighborhood Diabetes provides us with full suite diabetes management product offerings, accelerates our sales force expansion, strengthens our back office support capabilities, expands our access to insulin dependent patients, and provides pharmacy adjudication capabilities to drive incremental sales higher. The aggregate purchase price of approximately $62.4 million consisted of approximately $37.9 million in cash paid at closing, 1,197,631 shares of our common stock valued at approximately $24.4 million, or $20.40 per share based on the closing price of our common stock on the acquisition date, and contingent consideration with a fair value of approximately $0.1 million. Of the $37.9 million of cash paid at closing, $6.6 million is being held in an escrow account to reimburse us and our affiliates, if necessary, for certain claims for which we and our affiliates are entitled to be indemnified pursuant to the terms of the agreement and plan of merger with Neighborhood Diabetes.

We have accounted for the acquisition of Neighborhood Diabetes as a business combination. Under business combination accounting, the assets and liabilities of Neighborhood Diabetes were recorded as of the acquisition date, at their respective fair values, and consolidated with our results. The excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. The operating results of Neighborhood Diabetes have been included in the consolidated financial statements since June 2011, the period in which the acquisition was completed. The purchase price allocation, including an independent appraisal for intangible assets, has been prepared based on the information that was available to management at the time the consolidated financial statements were prepared. The allocation of the purchase price (restated) was finalized during the year ended December 31, 2011. The purchase price (restated) has been allocated as follows (in thousands):

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Calculation of allocable purchase price:				
Cash	$ 37,855			
Common stock	24,432			
Contingent consideration obligations	61			
Total allocable purchase price	$ 62,348			
Allocation of purchase price:				
Accounts receivable	5,897			
Inventories	2,336			
Prepaid expenses and other current assets	242			
Property and equipment	391			
Customer relationships	30,100			
Tradenames	2,800			
Goodwill	121,208	-	121,208	
Eliminations	(5,111)	(3,064)	(2,047)	
Total	$612,690	$435,903	$176,787	40.6
New Trailers Shipments	(units)			
Commercial Trailer Products	15,650	13,600	2,050	15.1
Diversified Products	650	550	100	18.2
Total	16,300	14,150	2,150	15.2
Used Trailers Shipments	(units)			
Commercial Trailer Products	250	50	200	400.0
Diversified Products	50	50	-	-
Total	300	100	200	200.0

Commercial Trailer Products segment sales prior to the elimination of intersegment sales were $402.5 million for the second quarter of 2018, an increase of $54.4 million, or 15.6%, compared to the second quarter of 2017. New trailers shipped during the second quarter of 2018 totaled 15,650 trailers compared to 13,600 trailers in the prior year period, a 15.1% increase. The increase in new trailer shipments compared to the prior year period, resulted in $55.7 million increase in new trailer sales. Parts and service revenue for the second quarter of 2018 totaled $9.0 million, a decrease of $4.1 million, or 31.0%, as compared to the second quarter of 2017 primarily due to fewer retail branch locations in the current year. Used trailer sales increased $1.3 million compared to the prior year period primarily due to a 200 unit increase in used trailer shipments in the second quarter of 2018 compared to the prior year period.

Diversified Products segment sales prior to the elimination of intersegment sales were $94.1 million for the second quarter of 2018, an increase of $3.3 million, or 3.6%, compared to the second quarter of 2017. New trailer sales increased $4.3 million, or 11.5%, from the prior year period driven by improved volume and product mix as new trailer shipments for the second quarter of 2018 totaled 650 units compared to 550 units in the prior year period. Equipment sales decreased $1.0 million, or 4.4%, compared to the prior year period as a result of lower demand for our non-trailer related products. Sales of our parts and service product offerings totaled $31.9 million for the second quarter of 2018, a decrease of $0.3 million or 0.8% as compared to the prior year period.

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Final Mile Products segment sales, prior to the elimination of intersegment sales, were $121.2 million in the second quarter of 2018 for this newly created segment.

Cost of Sales

Cost of sales was $527.4 million in the second quarter of 2018, an increase of $159.2 million, or 43.2%, compared to the prior year period. 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 segment cost of sales was $355.0 million in the second quarter of 2018, an increase of $57.7 million, or 19.4%, compared to the prior year period. The increase was primarily driven by a $45.6 million increase in material costs due to higher production volumes and material cost inflation as compared to the prior year period. Other manufacturing costs increased $12.1 million as compared to the prior year period due to higher new trailer production volumes.

Diversified Products segment cost of sales was $77.4 million in the second quarter of 2018, an increase of $3.7 million, or 5.0%, compared to the prior period. The increase was primarily driven by a $3.2 million increase in material costs and a $0.5 million increase in other manufacturing costs related to increased volume and product mix.

Final Mile Product segment cost of sales was $100.3 million in second quarter of 2018 for this newly created segment.

Gross Profit

Gross profit was $85.3 million in the second quarter of 2018, an increase of $17.6 million from the prior year period. Gross profit as a percentage of net sales was 13.9% for the current quarter and 15.5% for the same period in 2017. Gross profit by segment was as follows (dollars in thousands):

Three Months Ended June 30,		Change	
2018	2017	$	%

Gross Profit by Segment				
Commercial Trailer Products	$47,513	$50,882	$(3,369)	(6.6)
Diversified Products	16,692	17,149	(457)	(2.7)
Final Mile Products	20,923	-	20,923	
Corporate and Eliminations	187	(353)	540	
Total	$85,315	$67,678	$17,637	26.1

Commercial Trailer Products segment gross profit was $47.5 million for the second quarter of 2018 compared to $50.9 million for the second quarter of 2017. Gross profit prior to the elimination of intersegment sales, as a percentage of net sales, was 11.8% in the second quarter of 2018 compared to 14.6% in the 2017 period. The decreases in gross profit and gross profit margin as compared to the prior year period were primarily driven by labor inefficiencies attributable to attracting and retaining a skilled workforce, higher material costs, and supplier constraints for key materials leading to disruptions in production.

Diversified Products segment gross profit was $16.7 million for the second quarter of 2018 compared to $17.1 million in the same quarter of 2017. Gross profit prior to the elimination of intersegment sales, as a percentage of net sales, was 17.7% in the second quarter of 2018 compared to 18.9% in the 2017 period. The decrease in gross profit as a percentage of net sales compared to the prior year period was primarily driven by higher material costs and short-term labor inefficiencies including higher overtime levels in order to meet strong demand requirements.

Final Mile Products segment gross profit was $20.9 million for the second quarter of 2018 for this newly created segment. Gross profit, as a percentage of net sales, was 17.3% in the second quarter of 2018.

General and Administrative Expenses

General and administrative expenses for the second quarter of 2018 increased $6.8 million, or 35.5%, from the prior year period. The increase was largely due to the inclusion of Supreme, which added expenses of $5.7 million. In addition, salaries and employee related costs, including employee incentive programs, increased $0.5 million and outside professional fees for human resource and tax administration increased $0.5 million in the current quarter. As a percentage of net sales, general and administrative expenses were 4.2% for the second quarter of 2018, down slightly from 4.4% for the second quarter of 2017.

Selling Expenses

Selling expenses were $8.6 million in the second quarter of 2018, an increase of $2.7 million, or 45.1%, compared to the prior year period. The increase was largely due to the inclusion of Supreme, which added expenses of $3.4 million, as well as a $0.2 million increase in advertising and promotion efforts. This was offset by a $0.9 million decrease in salaries and employee related costs, including employee incentive programs. As a percentage of net sales, selling expenses were 1.4% for both the second quarter of 2018 and the second quarter of 2017.

Amortization of Intangibles

Amortization of intangibles was $4.9 million for the second quarter of 2018 compared to $4.1 million in the prior year period. Amortization of intangibles for the current period were the result of expenses recognized for intangible assets recorded from the acquisitions of Walker Group Holdings (“Walker”) in May 2012, certain assets of Beall Corporation (“Beall”) in February 2013, and Supreme in September 2017.

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Other Income (Expense)

Interest expense for the second quarter of 2018 totaled $7.1 million compared to $2.9 million in the second quarter of 2017. Interest expense relates to interest and non-cash accretion charges on our Convertible Notes, Term Loan Credit Agreement, and Senior Notes (each as defined below). The increase from the previous year period is primarily due to the issuance of our Senior Notes in September 2017 related to the financing of a portion of the Supreme acquisition, partially offset by the repurchase of the Convertible Notes completed over the previous twelve months.

Other, net for the second quarter of 2018 represented income of $4.0 million as compared to income of $0.3 million for the prior year period. Income for the current period represents the gain on the sale of former retail branch locations.

Income Taxes

We recognized income tax expense of $11.0 million in the second quarter 2018 compared to $13.2 million for the same period in the prior year. The effective tax rates for the second quarter of 2018 and 2017 were 25.7% and 36.4%, respectively. These effective tax rates differ from the U.S. Federal statutory rate of 21% and 35% for 2018 and 2017, respectively, primarily due to the impact of state and local taxes.

Six Months Ended June 30, 2018

Net Sales

Net sales in the first six months of 2018 increased $305.4 million, or 38.2%, compared to the first six months of 2017. By business segment, prior to the elimination of intercompany sales, sales and related units sold were as follows (dollars in thousands):

	Six Months Ended June 30,			
(prior to elimination of intersegment sales)			**Change**	
	2018	**2017**	**$**	**%**
Sales by Segment				

Commercial Trailer Products	$729,930	$622,929	$107,001	17.2
Diversified Products	189,288	180,737	8,551	4.7
Final Mile Products	196,668	-	196,668	
Eliminations	(11,877)	(5,047)	(6,830)	
Total	$1,104,009	$798,619	$305,390	38.2
New Trailers Shipments	(units)			
Commercial Trailer Products	28,300	24,000	4,300	17.9
Diversified Products	1,200	1,050	150	14.3
Total	29,500	25,050	4,450	17.8
Used Trailers Shipments	(units)			
Commercial Trailer Products	750	150	600	400.0
Diversified Products	50	50	-	-
Total	800	200	600	300.0

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Commercial Trailer Products segment sales prior to the elimination of intersegment sales were $729.9 million for the first six months of 2018, an increase of $107.0 million, or 17.2%, compared to the first six months of 2017. Trailers shipped during the first six months of 2018 totaled 28,300 trailers compared to 24,000 trailers in the prior year period, a 17.9% increase. The increase in new trailer shipments compared to the prior year period resulted in $108.9 million increase in sales. Parts and service revenue for the six month period of 2018 totaled $17.7 million, a decrease of $8.2 million or 31.6% from the prior year period due to fewer retail branch locations in the current year. Used trailer sales increased $4.8 million compared to the prior year period primarily due to a 600 unit increase in used trailer shipments in the first six months of 2018 compared to the prior year period.

Diversified Products segment sales prior to the elimination of intersegment sales were $189.3 million for the first six months of 2018, an increase of $8.6 million, or 4.7%, compared to the same period of 2017. Trailers shipped during the first six months of 2018 totaled 1,200 trailers compared to 1,050 trailers in the prior year period, a 14.3% increase. The increase in new trailer shipments compared to the prior year period resulted in $7.5 million increase in sales. Parts and service sales remained flat as compared to the prior year period. Equipment sales increased $0.7 million, or 1.6%, compared to the prior year period as a result of higher demand for our non-trailer products and truck-mounted equipment.

Final Mile Products segment sales, prior to the elimination of intersegment sales, were $196.7 million for the first six months of 2018 for this newly created segment.

Cost of Sales

Cost of sales was $954.6 million in the first six months of 2018, an increase of $283.0 million, or 42.1%, compared to the prior year period. 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 segment cost of sales was $645.9 million in the first six months of 2018, an increase of $116.0 million, or 21.9%, compared to the prior year period. The increase was primarily driven by a $90.7 million increase in material costs due to higher production volumes and material cost inflation as compared to the prior year period. Other manufacturing costs increased $25.2 million as compared to the prior year period due to higher new trailer production volumes.

Diversified Products segment cost of sales was $155.3 million in the first six months of 2018, an increase of $9.3 million, or 6.4%, compared to the prior period. The increase was primarily driven by a $5.7 million increase in material costs due to increased material costs and a $3.6 million increase in other manufacturing costs related to increased volume and product mix.

Final Mile Product segment cost of sales was $164.2 million in first six months of 2018 for this newly created segment.

Gross Profit

Gross profit was $149.4 million in the first six months of 2018, an increase of $22.4 million from the prior year period. Gross profit as a percentage of net sales was 13.5% for the first six months and 15.9% for the same period in 2017. Gross profit by segment was as follows (dollars in thousands):

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	Six Months Ended June 30,			
			Change	
	2018	**2017**	**$**	**%**
Gross Profit by Segment				
Commercial Trailer Products	$84,036	$93,008	$(8,972)	(9.6)
Diversified Products	33,990	34,742	(752)	(2.2)
Final Mile Products	32,455	-	32,455	
Corporate and Eliminations	(1,048)	(715)	(333)	
Total	$149,433	$127,035	$22,398	17.6

Commercial Trailer Products segment gross profit was $84.0 million for the first six months of 2018 compared to $93.0 million for the prior year period. Gross profit prior to the elimination of intersegment sales, as a percentage of net sales, was 11.5% in 2018 compared to 14.9% in the prior period. The decreases in gross profit and gross profit margin as compared to the prior year period were primarily driven by increases in material costs, start-up expenses associated with the ramp-up of new products as well as increased labor costs resulting from higher wage rates and increased overtime requirements to meet demand.

Diversified Products segment gross profit was $34.0 million for the first half of 2018 compared to $34.7 million in the same period of 2017. Gross profit prior to the elimination of intersegment sales, as a percentage of net sales, was 18.0% in the 2018 period compared to 19.2% in the prior period. The decrease in gross profit as a percentage of net sales compared to the prior year period was primarily driven by an unfavorable product mix, higher material costs and lower volume for our non-trailer related equipment and other engineered products.

Final Mile Products segment gross profit was $32.5 million for the first six months of 2018 for this newly created segment. Gross profit, as a percentage of net sales, was 16.5% in the first six months of 2018.

General and Administrative Expenses

General and administrative expenses for the first six months of 2018 increased $13.4 million, or 35.9%, from the prior year period. The increase was largely due to the inclusion of Supreme, which added expenses of $11.9 million. In addition, salaries and employee related costs, including employee incentive programs, increased $0.4 million and outside professional fees for legal, tax administration, and human resources expenses increased $1.2 million in the current quarter. As a percentage of net sales, general and administrative expenses were 4.6% for the 2018 period as compared to 4.7% for the same period of 2017.

Selling Expenses

Selling expenses were $16.9 million in the first six months of 2018, an increase of $4.8 million, or 40.0%, compared to the prior year period. The increase was largely due to the inclusion of Supreme, which added expenses of $6.5 million, as well as a $0.3 million increase in advertising and promotion efforts. These increases were partially offset by a $1.9 million decrease in salaries and employee related costs, including employee incentive programs. As a percentage of net sales, selling expenses were 1.5% for both the 2018 and 2017 periods.

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Amortization of Intangibles

Amortization of intangibles was $9.9 million for the first six months of 2018 compared to $8.6 million in the prior year period. Amortization of intangibles for the current year period were the result of expenses recognized for intangible assets recorded from the acquisitions of Walker in May 2012, certain assets of Beall in February 2013, and Supreme in September 2017.

Other Income (Expense)

Interest expense for the first six months of 2018 totaled $14.6 million compared to $5.9 million in the prior year period. Interest expense for the current year period is primarily related to interest and non-cash accretion charges on our Convertible Notes, Term Loan Credit Agreement, and Senior Notes. The increase from the previous year period is due to the issuance of our Senior Notes in September 2017 related to the financing of a portion of the Supreme acquisition, partially offset by the repurchase of the Convertible Notes completed over the previous twelve months.

Other, net for the first six months of 2018 represented income of $12.0 million as compared to income of $1.7 million for the prior year period. The current year period includes gains on the sale of former retail branch locations.

Income Taxes

The Company recognized income tax expense of $15.9 million in the first six months of 2018 compared to $21.6 million for the same period in the prior year. The effective tax rates for the first six months of 2018 and 2017 were 23.0% and 33.4%, respectively. These effective tax rates differ from the U.S. Federal statutory rate of 21% and 35% for 2018 and 2017, respectively, primarily due to the impact of state and local taxes and the recognition of excess tax benefits on share-based compensation.

Liquidity and Capital Resources

Capital Structure

Our capital structure is comprised of a mix of debt and equity. As of June 30, 2018, our debt to equity ratio was approximately 1.0:1.0. 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. In the first six months of 2018, and in keeping to this balanced approach, we completed the purchase of the remaining $44.6 million of our outstanding Convertible Notes (see "*Debt Agreements and Related Amendments*" section below for details), repurchased $16.0 million of common stock, and paid dividends of $9.3 million. For the remainder of 2018, 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.

Debt Agreements and Related Amendments

Convertible Notes

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

During 2018, the Company used $80.2 million in cash, excluding interest, to settle $44.6 million in principal of the Convertible Notes of which none were converted to common shares. The excess of the cash settlement amount over the principal value of the Convertible Notes was accounted for as a reacquisition of equity, resulting in a $35.5 million reduction to additional paid-in capital during the six months ended June 30, 2018. For the six months ended June 30, 2018, the Company recognized a loss on debt extinguishment of $0.2 million related to settlements and the retirement of the Convertible Notes, which is included in *Other, net* on the Company’s Condensed Consolidated Statements of Operations.

Senior Notes

On September 26, 2017, we issued Senior Notes due 2025 (the “Senior Notes”) in an offering pursuant to Rule 144A or Regulation S under the Securities Act of 1933, as amended, with an aggregate principal amount of $325 million. The Senior Notes bear interest at the rate of 5.50% per annum from the date of issuance, and will pay interest semi-annually in cash on April 1 and October 1 of each year, beginning on April 1, 2018. We used the net proceeds of $318.9 million from the sale of the Senior Notes to finance a portion of the acquisition of Supreme and to pay related fees and expenses.

The Senior Notes will mature on October 1, 2025. At any time prior to October 1, 2020, we may redeem some or all of the Senior Notes for cash at a redemption price equal to 100% of the aggregate principal amount of the Senior Notes being redeemed plus an applicable make-whole premium set forth in the indenture for the Senior Notes and accrued and unpaid interest to, but not including, the redemption date. Prior to October 1, 2020, we may redeem up to 40% of the Senior Notes at a redemption price of 105.50% of the principal amount, plus accrued and unpaid interest to, but not including, the redemption date, with the proceeds of certain equity offerings so long as if, after any such redemption occurs, at least 60% of the aggregate principal amount of the Senior Notes remains outstanding. On and after October 1, 2020, we may redeem some or all of the Senior Notes at redemption prices (expressed as percentages of principal amount) equal to 102.750% for the twelve-month period beginning on October 1, 2020, 101.375% for the twelve-month period beginning October 1, 2021 and 100.000% beginning on October 1, 2022, plus accrued and unpaid interest to, but not including, the redemption date. Upon the occurrence of a Change of Control (as defined in the indenture for the Senior Notes), unless we have exercised our optional redemption right in respect of the Senior Notes, the holders of the Senior Notes have the right to require us to repurchase all or a portion of the Senior Notes at a price equal to 101% of the aggregate principal amount of the Senior Notes, plus any accrued and unpaid interest to, but not including, the date of repurchase.

The Senior Notes are guaranteed on a senior unsecured basis by all of our direct and indirect existing and future domestic restricted subsidiaries, subject to certain restrictions. The Senior Notes and related guarantees are our and the guarantors' general unsecured senior obligations and are subordinate to all of our and the guarantors' existing and future secured debt to the extent of the assets securing that secured obligation. In addition, the Senior Notes are structurally subordinate to any existing and future debt of any of our subsidiaries that are not guarantors, to the extent of the assets of those subsidiaries.

The indenture for the Senior Notes restricts our ability and the ability of certain of our subsidiaries to: (i) incur additional indebtedness; (ii) pay dividends or make other distributions in respect of, or repurchase or redeem, its capital stock or with respect to any other interest or participation in, or measured by, its profits; (iii) make loans and certain investments; (iv) sell assets; (v) create or incur liens; (vi) enter into transactions with affiliates; and (vii) consolidate, merge or sell all or substantially all of its assets. These covenants are subject to a number of important exceptions and qualifications. During any time when the Senior Notes are rated investment grade by Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services and no event of default has occurred or is continuing, many of these covenants will be suspended and the Company and its subsidiaries will not be subject to such covenants during such period.

The indenture for the Senior Notes contains customary events of default, including payment defaults, breaches of covenants, failure to pay certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs and is continuing, the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, may be declared immediately due and payable. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.

Contractual coupon interest expense and accretion of discount and fees for the Senior Notes for the six months ended June 30, 2018 was $9.2 million and is included in *Interest Expense* on our Condensed Consolidated Statements of Operations.

Revolving Credit Agreement

In May 2012, we entered into the Amended and Restated Credit Agreement (as subsequently 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 Wells Fargo Capital Finance, LLC, as arranger and administrative agent (the “Agent”). The Credit Agreement provides for, among other things, (x) a $175 million senior secured revolving credit facility that matures on June 4, 2020, subject to certain springing maturity events and (y) an uncommitted accordion feature allowing for an increase to the availability under the revolving credit facility of up to $50 million, subject to certain conditions (the “Revolving Credit Facility”).

The Revolving Credit Facility (i) bears interest, at the Borrowers’ election, at (x) the London Interbank Offer Rate (“LIBOR”) (subject to a floor of 0%) plus a margin ranging from 150 basis points to 200 basis points, or (y) a base rate plus a margin ranging from 50 basis points to 100 basis points, in each case, based upon the monthly average excess availability under the Revolving Credit Facility, (ii) requires us to pay a monthly unused line fee equal to 25 basis points times the average unused availability under the Revolving Credit Facility, (iii) provides that if availability under the Revolving Credit Facility is less than 12.5% of the total commitment under the Revolving 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 Revolving Credit Facility, and (iv) requires us 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 Revolving Credit Facility is less than 10% of the total commitment under the Revolving Credit Facility.

In connection with, and in order to permit under the Credit Agreement, the Senior Notes offering and the acquisition of Supreme, on August 16, 2017, we entered into the Third Amendment to the Credit Agreement (the “Third Amendment”). The Third Amendment also permitted us to incur certain other indebtedness in connection with the acquisition of Supreme and to acquire certain liens and obligations of Supreme upon the consummation of the acquisition.

The Credit Agreement is guaranteed by certain of our 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 Agent and the Term Agent (as defined below) (the “Intercreditor Agreement”).

The Credit Agreement 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 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, 2018, we were in compliance with all covenants of the Credit Agreement.

Term Loan Credit Agreement

In May 2012, we entered into a Term Loan Credit Agreement (as amended, the “Term Loan Credit Agreement”), dated as of May 8, 2012, among us, the several lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as administrative agent (the “Term Agent”), joint lead arranger and joint bookrunner, and Wells Fargo Securities, LLC, as joint lead arranger and joint bookrunner, which provides for, among other things, (x) a senior secured term loan of $188.0 million that matures on March 19, 2022, subject to certain springing maturity events (the “Term Loans”), and (y) an uncommitted accordion feature to provide for additional senior secured term loans of up to $75 million plus an unlimited amount provided that the senior secured leverage ratio would not exceed 3.00 to 1.00, subject to certain conditions (the “Term Loan Facility”).

In connection with, and in order to permit under the Term Loan Credit Agreement, the Senior Notes offering and the acquisition of Supreme, on August 18, 2017, we entered into Amendment No. 4 to the Term Loan Credit Agreement ("Amendment No. 4"). Amendment No. 4 also permitted us to incur certain other indebtedness in connection with the Supreme acquisition and to acquire certain liens and obligations of Supreme upon the consummation of the Supreme acquisition.

Furthermore, on November 17, 2017, we entered into Amendment No. 5 to the Term Loan Credit Agreement ("Amendment No. 5"). As of the Amendment No. 5 date, $188.0 million of the Term Loans were outstanding. Under Amendment No. 5, the lenders agreed to provide us term loans in the same aggregate principal amount of the outstanding Term Loans, which were used to refinance the outstanding Term Loans.

The Term Loans amortize in equal quarterly installments in aggregate amounts equal to 0.25% of the initial principal amount of the Tem Loans, with the balance payable at maturity, and bear interest at a rate, at the Company's election, equal to (i) LIBOR (subject to a floor of 0%) plus a margin of 225 basis points or (ii) a base rate (subject to a floor of 0%) plus a margin of 125 basis points. We are not subject to any financial covenants under the Term Loan Facility.

The Term Loan Credit Agreement is guaranteed by certain of our subsidiaries, 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.

The Term Loan Credit Agreement 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 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 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, 2018 and 2017, under the Term Loan Credit Agreement, we paid interest of $3.9 million and $3.8 million, respectively, and principal of $0.9 million during each period. In connection with Amendment No. 3 we recognized a loss on debt extinguishment of $0.6 million during the first quarter of 2017, which was included in *Other, net* on our Condensed Consolidated Statements of Operations. As of June 30, 2018, we had $186.6 million outstanding under the Term Loan Credit Agreement, of which $1.9 million was classified as current on the Condensed Consolidated Balance Sheet.

For the six month periods ended June 30, 2018 and 2017, we incurred charges of $0.1 million and less than $0.1 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 2018 totaled $40.5 million, compared to providing $75.2 million during the same period in 2017. The cash provided by operations during the current year period was the result of net income adjusted for various non-cash activities including depreciation, amortization, gain on the sale of assets, deferred taxes, loss on debt extinguishment, stock-based compensation, and accretion of debt discount partially offset by a $28.1 million increase in working capital. Changes in key working capital accounts for 2018 and 2017 are summarized below (in thousands):

	Six months ended June 30,		
	2018	**2017**	**Change**
Source (Use) of cash:			
Accounts receivable	$(46,564)	$30,656	$(77,220)
Inventories	(56,057)	(60,748)	4,691
Accounts payable and accrued liabilities	72,792	35,285	37,507
Net source (use) of cash	(29,829)	5,193	(35,022)

Accounts receivable increased by $46.6 million in the first six months of 2018 as compared to a decrease of $30.7 million in the prior year period. Days sales outstanding, a measure of working capital efficiency that measures the amount of time a receivable is outstanding, was 29 days in 2018 as compared to 26 days in the same period in 2017. The increase in accounts receivable during the first six months of 2018 was primarily due to increased demand, as well as timing of shipments. Inventory increased by $56.1 million during the first six months of 2018 as compared to an increase of $60.7 million in the 2017 period. The increase in inventory for the 2018 period was primarily due to higher finished goods and raw materials inventory resulting from increased demand for the first six months of 2018. Our inventory turns, a commonly used measure of working capital efficiency that measures how quickly inventory turns per year, was approximately eight times in both the 2018 and 2017 periods. Accounts payable and accrued liabilities increased by $72.8 million in 2018 compared to an increase of $35.3 million for the same period in 2017. The increase during the first six months of 2018 was primarily due to continued strong production levels and purchasing activities required to meet current demand. Days payable outstanding, a measure of working capital efficiency that measures the amount of time a payable is outstanding, was 31 days in 2018 as compared to 27 days in the same period in 2017.

Investing activities provided $8.4 million during the first six months of 2018, as compared to $5.9 million used in the same period in 2017. Investing activities for the first six months of 2018 include proceeds from the sale of certain branch location assets totaling $19.5 million offset by capital expenditures of $11.1 million.

Financing activities used $111.1 million during the first six months of 2018 as compared to $54.2 million used in the same period in 2017. Cash used in financing activities during the current year period primarily relates to repurchase of Convertible Notes totaling $80.2 million, common stock repurchases of $21.4 million and cash dividends paid to our shareholders of $9.3 million. Cash used in financing activities in the first six months of 2017 primarily relates to common stock repurchases through our share repurchase program of $38.5 million, cash dividends paid to our shareholders of $7.8 million, and the repurchase of Convertible Notes totaling $7.3 million offset by proceeds from the exercise of stock options of $5.6 million.

As of June 30, 2018, our liquidity position, defined as cash on hand and available borrowing capacity, amounted to $287.7 million, representing a decrease of $60.5 million compared to June 30, 2017 and a decrease of $73.4 million compared to December 31, 2017. Total debt and capital lease obligations amounted to $512.8 million as of June 30, 2018. As we continue to see a strong demand environment within the trailer industry and excellence in operational performance across all of our business segments, we believe our liquidity is adequate to fund our currently planned operations, working capital needs and capital expenditures for the remainder of 2018.

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Capital Expenditures

Capital spending amounted to $11.1 million for the first six months of 2018 and is expected to be approximately $40 million for 2018. Capital spending for 2018 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, 2018, we had approximately $5.2 million in operating lease commitments, inclusive of Supreme. We did not enter into any material off-balance sheet debt or operating lease transactions during the year.

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, 2018 are as follows (in thousands):

	2018	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
DEBT:							
Revolving Facility (due 2020)	$-	$-	$-	$-	$-	$ -	$-
Term Loan Credit Facility (due 2022)	940	1,880	1,880	1,880	180,057	-	186,637
Senior Notes (due 2025)	-	-	-	-	-	325,000	325,000
Capital Leases (including principal and interest)	180	361	361	361	30	-	1,293
TOTAL DEBT	$1,120	$2,241	$2,241	$2,241	$180,087	$ 325,000	$512,930
OTHER:							
Operating Leases	$1,331	$1,699	$961	$746	$290	$ 140	$5,167
TOTAL OTHER	$1,331	$1,699	$961	$746	$290	$ 140	$5,167
OTHER COMMERCIAL COMMITMENTS:							
Letters of Credit	$6,669	$-	$-	$-	$-	$ -	$6,669
Raw Material Purchase Commitments	69,015	2,165	-	-	-	-	71,180
Chassis Converter Pool Agreements	22,131	-	-	-	-	-	22,131
	$97,815	$2,165	$-	$-	$-	$ -	$99,980

TOTAL OTHER COMMERCIAL COMMITMENTS							
TOTAL OBLIGATIONS	$100,266	$6,105	$3,202	$2,987	$180,377	$ 325,140	$618,077

Scheduled payments for our Revolving Credit Facility exclude interest payments as rates are variable. Borrowings under our Revolving Credit Facility bear interest at a variable rate based on the LIBOR or a base rate determined by the lender's prime rate plus an applicable margin, as defined in the agreement. Outstanding borrowings under our Revolving 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 our Revolving 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.

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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 0.00%) plus a margin of 2.25% or (ii) a base rate plus a margin of 1.25%. The Term Loan Credit Agreement matures in March 2022, subject to certain springing maturity events.

Scheduled payments for our Senior Notes exclude interest payments. The Notes bear interest at the rate of 5.5% per annum from the date of issuance, payable semi-annually on April 1 and October 1.

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 $6.7 million issued in connection with workers compensation claims and surety bonds.

We have $71.2 million in purchase commitments through March 2019 for various raw material commodities, including aluminum, steel and nickel as well as other raw material components which are within normal production requirements.

We, through our subsidiary Supreme, obtain most vehicle chassis for our specialized vehicle products directly from the chassis manufacturers under converter pool agreements. Chassis are obtained from the manufacturers based on orders from customers, and to a lesser extent, for unallocated orders. Although each manufacturer's agreement has different terms and conditions, the agreements generally state that the manufacturer will provide a supply of chassis to be maintained from time to time at our various facilities with the condition that we will store such chassis and will not move, sell, or otherwise dispose of such chassis except under the terms of the agreement. The manufacturer transfers the chassis to us on a "restricted basis," retaining the sole authority to authorize commencement of work on the chassis and to make certain other decisions with respect to the chassis including the terms and pricing of sales of the chassis to the manufacturer's dealers. The manufacturer also does not transfer the certificate of origin to us nor permit us to sell or transfer the chassis to anyone other than the manufacturer (for ultimate resale to a dealer). Although we are party to related finance agreements with manufacturers, we have not historically settled, nor expect to in the future settle, any related obligations in cash. Instead, the obligation is settled by the manufacturer upon reassignment of the chassis to an accepted dealer, and the dealer is invoiced for the chassis by the manufacturer. Accordingly, as of June 30, 2018 our outstanding chassis converter pool with the manufacturer totaled $14.6 million and we have included this financing agreement on our Consolidated Balance Sheets within *Prepaid expenses and other* and *Other accrued liabilities*. All other chassis programs through our Supreme subsidiary are handled as consigned inventory belonging to the manufacturer and totaled approximately $7.5 million. Under these agreements, if the chassis is not delivered to a customer within a specified time frame we are required to pay a finance or storage charge on the chassis. Additionally, we receive finance support funds from the manufacturer when the chassis are assigned into our chassis pool. Typically, chassis are converted and delivered to customers within 90 days of the receipt of the chassis.

Backlog

Orders that have been confirmed by customers in writing, have defined delivery timeframes 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, terms or cancellation. Our backlog of orders was $1,154 million at June 30, 2018 compared to $1,213 million at December 31, 2017 and $762 million at June 30, 2017. We expect to complete the majority of our backlog orders as of June 30, 2018 within 12 months of this date.

OUTLOOK

The demand environment for trailers remained strong through the second quarter of 2018, 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 maintain strong margins. Recent estimates from industry analysts, ACT Research Company ("ACT") and FTR Associates ("FTR"), forecast trailer demand for 2018 and beyond to remain healthy. ACT currently estimates trailer production to be approximately 320,000 trailers for 2018, representing an increase of 10% as compared to 2017, and forecasting continued demand levels to be above replacement demand into the foreseeable future with estimated demand for 2019 to be approximately 298,000 and annual average demand for the four year period ending 2023 to be approximately 263,000 new trailers. FTR anticipates new trailer production to be approximately 310,000 new trailers in 2018, representing an increase of 8.8% as compared to 2017 as well as projecting an increase in 2019 with production totaling 300,000 trailers. In spite of a strong forecasted demand environment, there remain downside risks relating to issues with both the domestic and global economies, including the housing, energy and construction-related markets in the U.S.

Other potential risks we face for the remainder of 2018 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 and volatility in the cost of certain commodities, raw materials or components have had and may continue to have an adverse effect on our results of operations. Costs of raw materials are expected to be further increased by the impact U.S. trade policy has had on domestic materials, including steel and aluminum. 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 have been, and may continue to be, shortages of supplies for raw materials or components which would have an adverse impact on our ability to meet demand for our products.

We believe we remain 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 a strong 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 our extensive dealer network to market and sell our products.

Seeing the growth in e-commerce and the impact it has had and will to continue to have on the transportation industry, Wabash entered the final mile space in late 2015 with the introduction of heavy-duty truck bodies. With the acquisition of Supreme, the second largest U.S. manufacturer of truck bodies, on September 27, 2017, we accelerated our growth opportunities by greatly expanding our presence in the final mile space, increasing our manufacturing and distribution paths as well as growing our product and customer base. This acquisition further supports and accelerates our corporate strategy to transform our business into a more diversified industrial manufacturer addressing new potential markets, enhancing our financial profile, and reducing the impact of cyclicality within our business. While demand for some of our 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 organic and strategic initiatives. 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 in the marketplace.

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, 2017. 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 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, 2018, we had $71.2 million in raw material purchase commitments through March 2019 for materials that will be used in the production process, as compared to $58.7 million as of December 31, 2017. 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, 2018, we had no floating rate debt outstanding under our Revolving Credit Facility and for the second quarter of 2018 we maintained no floating rate borrowings under our Revolving Credit Facility. In addition, as of June 30, 2018, we had outstanding borrowings under our Term Loan Credit Agreement, as amended, totaling $186.6 million that bear interest at a floating rate, subject to a minimum interest rate. Based on the average borrowings under our revolving 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 $1.9 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 our 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, 2018.

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 2018 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, 2017. See also Note 9, "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, 2017, 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. In addition, the following risk factor is provided to supplement and update the Risk Factors previously disclosed in the Risk Factors section of our Annual Report on Form 10-K. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

Changes in US trade policy, including the imposition of tariffs and the resulting consequences, may have a material adverse impact on our financial results.

The U.S. government has announced, and in some cases implemented, a new approach to trade policy, including renegotiating or potentially terminating certain trade agreements, as well as implementing or increasing tariffs on foreign goods and raw materials such as steel and aluminum. These tariffs and potential tariffs, and in some cases the uncertainty around U.S. trade policy and the reactions to it by other countries, have resulted, or may result, in increased prices for certain imported goods and raw materials. While we source the majority of our materials and components domestically, tariffs and potential tariffs have caused, and may continue to cause, increases and volatility in prices for domestically sourced goods and materials that we require for our products, particularly aluminum and steel. When the costs of our components and raw materials increase, we may not always be able to hedge or pass on these costs to our customers, which could materially and negatively affect our gross margin, operating income and net income.

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

Purchases of Our Equity Securities

In February 2017, the Company announced that the Board of Directors approved the repurchase of an additional $100 million in shares of common stock over a two year period. This authorization was an increase to the previous $100 million repurchase program approved in February 2016. For the quarter ended June 30, 2018, we repurchased a total of 798,992 shares 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 2018	0	$ 0.00	0	$ 52.9
May 2018	210,987	$ 20.62	210,987	$ 48.6
June 2018	588,005	$ 19.81	588,005	$ 36.9
Total	798,992	$ 20.03	798,992	$ 36.9

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: August 8, 2018 By: /s/ Jeffery L. Taylor
Jeffery L. Taylor
Senior Vice President and Chief Financial Officer (Principal Financial Officer)

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