

WABASH NATIONAL CORP /DE

Form 10-Q

November 09, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006  
OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
**Commission File Number: 1-10883  
WABASH NATIONAL CORPORATION**  
( Exact name of registrant as specified in its charter)

Delaware

52-1375208

(State of Incorporation)  
1000 Sagamore Parkway South,

(IRS Employer Identification Number)

Lafayette, Indiana

47905

(Address of Principal  
Executive Offices)

(Zip Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares of common stock outstanding at November 3, 2006 was 31,158,199.

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                      | Name of exchange on which registered |
|--|--------------------------------------|
| Common stock, \$0.01 par value           | New York Stock Exchange              |
| Series D Preferred Share Purchase Rights | New York Stock Exchange              |

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**WABASH NATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands)

|   | September<br>30,<br>2006<br>(Unaudited) | December<br>31,<br>2005 |
|---|---|-------------------------|
| <b>ASSETS</b>   |   |                         |
| <b>CURRENT ASSETS:</b>                                |   |                         |
| Cash and cash equivalents                             | \$ 16,211                               | \$ 67,437               |
| Accounts receivable, net                              | 161,983                                 | 131,671                 |
| Current portion of finance contracts                  | 51                                      | 1,472                   |
| Inventories   | 169,788                                 | 108,044                 |
| Deferred income taxes                                 | 27,920                                  | 40,550                  |
| Prepaid expenses and other                            | 3,401                                   | 7,425                   |
| <b>Total current assets</b>                           | <b>379,354</b>                          | <b>356,599</b>          |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>             | <b>131,518</b>                          | <b>131,561</b>          |
| <b>EQUIPMENT LEASED TO OTHERS, net</b>                | <b>6,264</b>                            | <b>7,646</b>            |
| <b>DEFERRED INCOME TAXES</b>                          |   | <b>3,050</b>            |
| <b>GOODWILL</b>                                       | <b>77,670</b>                           | <b>33,018</b>           |
| <b>INTANGIBLE ASSETS</b>                              | <b>36,863</b>                           | <b>2,116</b>            |
| <b>OTHER ASSETS</b>                                   | <b>17,776</b>                           | <b>14,663</b>           |
|   | <b>\$ 649,445</b>                       | <b>\$ 548,653</b>       |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>            |   |                         |
| <b>CURRENT LIABILITIES:</b>                           |   |                         |
| Accounts payable                                      | \$ 134,719                              | \$ 84,147               |
| Current maturities of long-term debt                  | 36,974                                  | 500                     |
| Other accrued liabilities                             | 55,129                                  | 58,751                  |
| <b>Total current liabilities</b>                      | <b>226,822</b>                          | <b>143,398</b>          |
| <b>LONG-TERM DEBT, net of current maturities</b>      | <b>125,000</b>                          | <b>125,000</b>          |
| <b>DEFERRED INCOME TAXES</b>                          | <b>3,090</b>                            |                         |
| <b>OTHER NONCURRENT LIABILITIES AND CONTINGENCIES</b> | <b>972</b>                              | <b>1,553</b>            |
| <b>STOCKHOLDERS EQUITY:</b>                           |   |                         |

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|  |            |            |
|--|------------|------------|
| Preferred stock, 25,000,000 shares authorized, 300,000 designated as Series D Junior Participating Preferred, no shares issued and outstanding |            |            |
| Common stock 75,000,000 shares authorized, \$0.01 par value, 31,154,032 and 31,125,768 shares issued and outstanding, respectively             | 319        | 315        |
| Additional paid-in capital   | 341,726    | 337,327    |
| Retained deficit   | (46,533)   | (56,653)   |
| Accumulated other comprehensive income   | 3,201      | 2,358      |
| Treasury stock at cost, 288,400 and 248,600 common shares, respectively  | (5,152)    | (4,645)    |
| Total stockholders' equity   | 293,561    | 278,702    |
|  | \$ 649,445 | \$ 548,653 |

See Notes to Condensed Consolidated Financial Statements.

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**WABASH NATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

(Unaudited)

|   | Three Months        |            | Nine Months         |            |
|---|---------------------|------------|---------------------|------------|
|   | Ended September 30, |            | Ended September 30, |            |
|   | 2006                | 2005       | 2006                | 2005       |
| NET SALES                               | \$ 362,290          | \$ 293,834 | \$ 957,981          | \$ 872,922 |
| COST OF SALES                           | 336,177             | 263,749    | 881,805             | 772,330    |
| Gross profit                            | 26,113              | 30,085     | 76,176              | 100,592    |
| GENERAL AND ADMINISTRATIVE EXPENSES     | 12,068              | 10,068     | 36,998              | 29,499     |
| SELLING EXPENSES                        | 3,651               | 3,810      | 10,446              | 11,772     |
| Income from operations                  | 10,394              | 16,207     | 28,732              | 59,321     |
| OTHER INCOME (EXPENSE):                 |                     |            |                     |            |
| Interest expense                        | (2,081)             | (1,666)    | (5,163)             | (4,889)    |
| Foreign exchange gains and losses, net  | (28)                | 698        | (28)                | 246        |
| Other, net                              | (365)               | 1,975      | (123)               | 978        |
| Income before income taxes              | 7,920               | 17,214     | 23,418              | 55,656     |
| INCOME TAX EXPENSE (BENEFIT)            | 2,931               | (6,441)    | 9,045               | (35,736)   |
| NET INCOME                              | \$ 4,989            | \$ 23,655  | \$ 14,373           | \$ 91,392  |
| COMMON STOCK DIVIDENDS DECLARED         | \$ 0.045            | \$ 0.045   | \$ 0.135            | \$ 0.135   |
| BASIC NET INCOME PER SHARE              | \$ 0.16             | \$ 0.76    | \$ 0.46             | \$ 2.94    |
| DILUTED NET INCOME PER SHARE            | \$ 0.15             | \$ 0.66    | \$ 0.44             | \$ 2.50    |
| COMPREHENSIVE INCOME                    |                     |            |                     |            |
| Net income                              | \$ 4,989            | \$ 23,655  | \$ 14,373           | \$ 91,392  |
| Foreign currency translation adjustment | 86                  | 934        | 843                 | 553        |

|                          |          |           |           |           |
|--------------------------|----------|-----------|-----------|-----------|
| NET COMPREHENSIVE INCOME | \$ 5,075 | \$ 24,589 | \$ 15,216 | \$ 91,945 |
|--------------------------|----------|-----------|-----------|-----------|

See Notes to Condensed Consolidated Financial Statements.

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

(in thousands)

(Unaudited)

|   | Nine Months<br>Ended September 30, |           |
|---|------------------------------------|-----------|
|   | 2006                               | 2005      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                                    |           |
| Net income  | \$ 14,373                          | \$ 91,392 |
| Adjustments to reconcile net cash (used in) provided by operating activities: |                                    |           |
| Depreciation and amortization   | 15,587                             | 11,864    |
| Net loss (gain) on the sale of assets   | 54                                 | (1,069)   |
| Recovery of losses on accounts receivable and finance contracts               |                                    | (23)      |
| Deferred income taxes   | 8,007                              | (35,986)  |
| Trailer valuation charges   |                                    | 161       |
| Excess tax benefits from stock-based compensation                             | (339)                              |           |
| Stock-based compensation  | 3,029                              | 1,000     |
| Changes in operating assets and liabilities:                                  |                                    |           |
| Accounts receivable   | (25,380)                           | (31,139)  |
| Finance contracts   | 1,393                              | 3,254     |
| Inventories   | (56,987)                           | (70,212)  |
| Prepaid expenses and other  | 2,394                              | 1,697     |
| Accounts payable and accrued liabilities                                      | 30,727                             | 29,048    |
| Other, net  | 1,464                              | 652       |
| Net cash (used in) provided by operating activities                           | (5,678)                            | 639       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                  |                                    |           |
| Capital expenditures  | (10,899)                           | (22,989)  |
| Acquisition, net of cash acquired   | (69,307)                           |           |
| Proceeds from the sale of property, plant and equipment                       | 1,890                              | 9,623     |
| Net cash used in investing activities   | (78,316)                           | (13,366)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                  |                                    |           |
| Proceeds from exercise of stock options                                       | 713                                | 3,752     |
| Excess tax benefits from stock-based compensation                             | 339                                |           |
| Purchase of treasury stock  | (507)                              |           |
| Borrowings under revolving credit facility                                    | 205,496                            | 15,286    |
| Payments under revolving credit facility                                      | (168,521)                          | (15,286)  |
| Payments under long-term debt obligations                                     | (500)                              | (1,500)   |
| Common stock dividends paid   | (4,252)                            | (2,820)   |
| Net cash provided by (used in) financing activities                           | 32,768                             | (568)     |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                     | (51,226)                           | (13,295)  |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                              | 67,437                             | 41,928    |



|  |           |           |
|--|-----------|-----------|
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 16,211 | \$ 28,633 |
|--|-----------|-----------|

See Notes to Condensed Consolidated Financial Statements.

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**WABASH NATIONAL CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**1. GENERAL**

The condensed consolidated financial statements of Wabash National Corporation (the Company) have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of the Company, its results of operations and cash flows. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's 2005 Annual Report on Form 10-K.

Certain items previously reported in specific condensed consolidated financial statement captions have been reclassified to conform to the 2006 presentation.

**2. NEW ACCOUNTING PRONOUNCEMENTS**

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Financial Accounting Standard 109, *Accounting for Income Taxes* (FIN 48), to create a single model to address uncertainty in tax positions. FIN 48 purports to clarify accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect, if any, of adopting FIN 48 will be recorded in retained earnings. The Company has not determined the effect, if any, that the adoption of FIN 48 will have on the Company's financial position and results of operations.

**3. ACQUISITION**

As part of the Company's commitment to expand its customer base and grow its market leadership, Wabash National Corporation acquired all of the outstanding shares of Transcraft Corporation on March 3, 2006, for approximately \$68.7 million in cash. The Company also incurred \$0.6 million in closing costs, consisting primarily of legal and accounting fees. Additional consideration of up to \$4.5 million is payable if Transcraft Corporation achieves certain 2006 performance targets.

Transcraft Corporation is the leading manufacturer of flatbed and drop deck trailers in North America. Transcraft operates manufacturing facilities in Anna, IL and Mt. Sterling, KY. This acquisition allows Wabash and Transcraft to capitalize on their core competencies of product innovation, quality manufacturing and customer satisfaction. Transcraft's operating results are included in the Company's consolidated financial statements in the manufacturing segment from the date of acquisition.

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Goodwill and intangible assets of \$43.9 million and \$38.5 million, respectively, were recorded as a result of the acquisition. The amount of goodwill that is expected to be deductible for tax purposes is \$31.9 million. The intangible assets consisted of the following:

| (\$ in millions)       | Amount  | Useful Life |
|------------------------|---------|-------------|
| Customer Relationships | \$ 27.0 | 11 years    |
| Trademarks/Trade Names | 10.0    | 20 years    |
|                        |         | Less than 1 |
| Backlog                | 1.5     | year        |
|                        | \$ 38.5 |             |

The aggregate purchase price of \$69.3 million was allocated to the opening balance sheet of Transcraft at March 3, 2006, the date of acquisition, which is still preliminary and subject to adjustment, as follows (in thousands):

|                             |           |
|-----------------------------|-----------|
| Current Assets              | \$ 9,587  |
| Property, Plant & Equipment | 4,532     |
| Goodwill                    | 43,939    |
| Intangibles                 | 38,500    |
| Total Assets                | \$ 96,558 |
| Current Liabilities         | \$ 16,489 |
| Deferred Taxes              | 10,762    |
| Total Liabilities           | \$ 27,251 |
| Net Assets Acquired         | \$ 69,307 |

*Unaudited Pro forma Results*

The results of Transcraft are included in the Consolidated Statements of Operations from the date of acquisition. The following unaudited pro forma information is shown below as if the acquisition of Transcraft had been completed as of the beginning of each fiscal year presented (in thousands, except per share amounts).

|                            | Three Months Ended |           | Nine Months Ended |           |
|----------------------------|--------------------|-----------|-------------------|-----------|
|                            | September 30,      |           | September 30,     |           |
|                            | 2006               | 2005      | 2006              | 2005      |
| Sales                      | \$362,290          | \$317,378 | \$988,938         | \$943,476 |
| Operating Income           | 10,394             | 20,283    | 29,468            | 64,588    |
| Net Income                 | 4,989              | 26,100    | 14,793            | 94,552    |
| Basic Earnings per Share   | 0.16               | 0.84      | 0.47              | 3.04      |
| Diluted Earnings per Share | 0.15               | 0.72      | 0.45              | 2.59      |

The information presented above is for informational purposes only and is not necessarily indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of the respective period, nor are they necessarily indicative of future operating results of the combined companies under the ownership and management of the Company.

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Inventories consisted of the following (in thousands):

|                             | September<br>30,<br>2006 | December<br>31,<br>2005 |
|-----------------------------|--------------------------|-------------------------|
| Raw material and components | \$ 65,910                | \$ 42,886               |
| Work in process             | 4,513                    | 10,537                  |
| Finished goods              | 82,995                   | 27,392                  |
| After-market parts          | 5,433                    | 4,975                   |
| Used trailers               | 10,937                   | 22,254                  |
|                             | \$ 169,788               | \$ 108,044              |

**5. STOCK-BASED COMPENSATION*****Description of the Plans***

The Company has stock incentive plans that provide for the issuance of stock appreciation rights (SARs), restricted stock and the granting of common stock options to directors, officers and other eligible employees.

*Stock Options.* At the 2004 Annual Meeting of Stockholders, the 2004 Stock Incentive Plan was approved making available 1,100,000 shares for issuance, as well as a reduction of shares available for granting under the 2000 Stock Option and Incentive Plan to 100,000 shares. The Company has three non-qualified stock option plans which allow eligible employees to purchase shares of common stock at a price not less than market price at the date of grant. Under the terms of the stock option plans, up to an aggregate of approximately 3,850,000 shares are reserved for issuance, subject to adjustment for stock dividends, recapitalizations and the like. Options granted to employees under the stock option plans generally become exercisable in annual installments over three to five years depending upon the grant. Options granted to non-employee directors of the Company are fully vested and exercisable six months after the date of grant. All options granted expire 10 years after the date of grant.

The Company has issued non-qualified stock options in connection with inducing certain individuals to commence employment with the Company. In the aggregate, the Company has issued options to purchase 385,000 shares of common stock to three individuals. The exercise price for each option granted was set by the Compensation Committee at the fair market value of the shares subject to that option. The Compensation Committee set vesting schedules that vest over three years. Upon a change in control of the Company, all outstanding shares subject to these options vest. The options expire in 10 years if not exercised.

*Restricted Stock.* From time-to-time, the Company has granted to certain key employees and outside directors shares of the Company's stock to be earned over time. These shares are valued at the market price on the date of grant. These grants have been made under the 2000 Stock Option and Incentive Plan and the 2004 Stock Incentive Plan.

***Adoption of FASB Statement No. 123(R), Share-Based Payment***

The Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* on January 1, 2006 (SFAS No. 123R). SFAS No. 123R, which revised SFAS No. 123, *Accounting for Stock-Based Compensation*, superseded APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Statement No. 123R requires that all share-based payments to

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employees, including grants of employee stock options, be recognized in the financial statements based upon their fair value. The Company had previously followed APB No. 25, in accounting for its stock options and accordingly, no compensation cost had been previously expensed.

The Company has adopted SFAS No. 123R using the modified prospective method. Under this transition method, compensation cost has been recognized for all share-based payments in the consolidated financial statements in 2006 based upon the fair value of the stock or option grant. Prior period results have not been restated. The Company will value new awards granted subsequent to the adoption of SFAS No. 123R using a binomial model. The Company believes valuing awards using a binomial model provides a better estimate of fair value versus the Black-Scholes-Merton formula used in valuing previous awards. The amount of after-tax compensation cost related to nonvested stock options and restricted stock not yet recognized was \$6.1 million at September 30, 2006, which is expected to be realized through 2010.

As a result of adopting Statement No. 123R on January 1, 2006, the Company has incurred additional stock-based compensation expense of \$0.5 million (\$0.3 million after tax and approximately \$0.01 per basic and diluted earnings per share) for the quarter ended September 30, 2006, and \$1.5 million (\$0.9 million after tax and approximately \$0.03 per basic and \$0.02 per diluted earnings per share) for the nine months ended September 30, 2006.

Prior to the adoption of SFAS No. 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS No. 123R requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The \$0.3 million excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow if the Company had not adopted SFAS No. 123R.

Statement No. 123, as amended, required pro forma presentation as if compensation costs had been expensed under the fair value method. For purpose of pro forma disclosure, the estimated fair value of stock options at the grant date is amortized to expense over the vesting period. The following table illustrates the effect on net income and net income per share as if compensation expense had been recognized in the three and nine month periods ending September 30, 2005 (in thousands, except for per share amounts):

|  | Periods Ended September 30,<br>2005 |                |
|--|-------------------------------------|----------------|
|  | Three<br>Months                     | Nine<br>Months |
| Reported net income  | \$ 23,655                           | \$ 91,392      |
| Pro forma stock-based employee compensation expense (net of tax) | (1,012)                             | (2,976)        |
| Stock-based employee compensation expense recorded (net of tax)  | 393                                 | 1,000          |
| Pro forma net income   | \$ 23,036                           | \$ 89,416      |
| Basic net income per share:                                      |                                     |                |
| Reported net income per share                                    | \$ 0.76                             | \$ 2.94        |
| Pro forma net income per share                                   | \$ 0.74                             | \$ 2.87        |
| Diluted net income per share:                                    |                                     |                |
| Reported net income per share                                    | \$ 0.66                             | \$ 2.50        |
| Pro forma net income per share                                   | \$ 0.64                             | \$ 2.45        |



**Table of Contents*****Stock Option and Stock Related Grants******Restricted Stock***

In August 2006, the Compensation Committee approved a grant of 24,250 shares of restricted stock to employees, of which one-third vested on the grant date and two-thirds will vest one year from the grant date. The grants are forfeitable in the event of terminated employment prior to vesting. The restricted stock includes the right to vote and receive dividends.

Also in May 2006, the Compensation Committee approved a grant of 85,200 shares of restricted stock to employees, which will vest at the end of the three years from the grant date. These grants are forfeitable in the event of terminated employment prior to vesting. The restricted stock includes the right to vote and receive dividends.

Additionally in May 2006, the Compensation Committee approved a grant of 162,940 shares of restricted stock to employees, which carry performance condition requirements. These shares will vest based on the achievement of specified corporate financial performance metrics at the end of 2008. The grant also includes a provision for vesting of additional common shares at the end of 2008 if performance metrics exceed original targets.

During the first nine months of 2006 and 2005, the Company granted 272,890 and 163,940 shares, respectively, of restricted stock with aggregate fair values on the date of grant of \$4.5 million and \$4.4 million, respectively. The grants generally vest over periods ranging from two to five years.

As of September 30, 2006 and December 31, 2005, there was a total unearned compensation balance of \$6.6 million and \$4.1 million, respectively. In the first nine months of 2006 and 2005, the Company recorded compensation expense of \$1.6 million and \$1.0 million, respectively, related to restricted stock.

|  | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--|---------------------|---|
| Restricted Stock Outstanding at December 31, 2005  | 213,490             | \$ 25.56  |
| Granted  |                     |   |
| Vested   |                     |   |
| Cancelled  | (3,070)             | \$ 26.93  |
| Restricted Stock Outstanding at March 31, 2006     | 210,420             | \$ 25.55  |
| Granted  | 248,640             | \$ 16.82  |
| Vested   |                     |   |
| Cancelled  | (4,110)             | \$ 26.93  |
| Restricted Stock Outstanding at June 30, 2006      | 454,950             | \$ 20.76  |
| Granted  | 24,250              | \$ 13.93  |
| Vested   | (7,992)             | \$ 13.93  |
| Cancelled  | (13,910)            | \$ 22.73  |
| Restricted Stock Outstanding at September 30, 2006 | 457,298             | \$ 20.46  |

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In May 2006, the Compensation Committee approved the grant of 324,700 stock options to employees with an exercise price equal to fair market value of the underlying common stock at the date of grant. These options will vest ratably over a three-year period. Expense will be recognized using the straight-line attribution method.

Using a binomial option valuation model, the estimated fair value of the options granted in May 2006 was \$7.63 per option. Principal weighted-average assumptions used in applying the binomial model were as follows:

|                            |        |
|----------------------------|--------|
| Binomial Model Assumptions | 2006   |
| Risk-free interest rate    | 4.95%  |
| Expected volatility        | 49.7%  |
| Expected dividend yield    | 1.07%  |
| Expected term              | 5 yrs. |

A summary of all stock option activity for the periods indicated below are as follows:

|   | Number of<br>Options | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value<br>(\$ in<br>millions) |
|---|----------------------|------------------------------------|--|--|
| Options Outstanding at December 31, 2005  | 991,875              | \$ 16.37                           |  |  |
| Granted                                   |                      |                                    |  |  |
| Exercised                                 | (17,999)             | \$ 8.48                            |  |  |
| Cancelled                                 | (2,768)              | \$ 22.04                           |  |  |
| Options Outstanding at March 31, 2006     | 971,108              | \$ 16.40                           | 6.5  |  |
| Granted                                   | 325,550              | \$ 16.84                           |  |  |
| Exercised                                 | (36,610)             | \$ 7.56                            |  |  |
| Cancelled                                 | (19,730)             | \$ 22.91                           |  |  |
| Options Outstanding at June 30, 2006      | 1,240,318            | \$ 16.67                           | 7.3  |  |
| Granted                                   |                      |                                    |  |  |
| Exercised                                 | (4,667)              | \$ 7.43                            |  |  |
| Cancelled                                 | (20,415)             | \$ 23.79                           |  |  |
| Options Outstanding at September 30, 2006 | 1,215,236            | \$ 16.59                           | 7.0  | \$ 2.2   |
| Options Exercisable at September 30, 2006 | 748,116              | \$ 14.76                           | 5.7  | \$ 2.2   |

**6. STOCKHOLDER S EQUITY**

On August 9, 2006, the Company's Board of Directors approved an amendment to its stock repurchase program allowing the Company to repurchase up to \$50 million of common stock without placing a limitation on the number of shares. The previous program authorized the Company to repurchase up to two million shares. As of September 30, 2006, \$46.1 million remained available under the authorization. Stock repurchases under this program may be made in the open market or in private transactions, at times and in amounts that management deems appropriate, until September 15, 2007. During the third quarter of 2006, the Company repurchased 39,800 shares for \$0.5 million.



**Table of Contents****7. COMMITMENTS AND CONTINGENCIES**

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the Company arising in the ordinary course of business, including those pertaining to product liability, labor and health related matters, successor liability, environmental and possible tax assessments. While the amounts claimed could be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are currently pending or asserted will not have a material adverse effect on the Company's financial position, liquidity or results of operations.

**8. NET INCOME PER SHARE**

Per share results have been computed based on the average number of common shares outstanding. The following table presents the number of incremental weighted average shares used in computing diluted per share amounts (in thousands, except per share amounts):

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2006                                | 2005      | 2006                               | 2005      |
| Basic net income per share:                           |                                     |           |                                    |           |
| Net income applicable to common stockholders          | \$ 4,989                            | \$ 23,655 | \$ 14,373                          | \$ 91,392 |
| Weighted average common shares outstanding            | 31,174                              | 31,249    | 31,148                             | 31,121    |
| Basic net income per share                            | \$ 0.16                             | \$ 0.76   | \$ 0.46                            | \$ 2.94   |
| Diluted net income per share:                         |                                     |           |                                    |           |
| Net income applicable to common stockholders          | \$ 4,989                            | \$ 23,655 | \$ 14,373                          | \$ 91,392 |
| After-tax equivalent of interest on convertible notes | 741                                 | 1,234     | 2,222                              | 3,679     |
| Diluted net income applicable to common stockholders  | \$ 5,730                            | \$ 24,889 | \$ 16,595                          | \$ 95,071 |
| Weighted average common shares outstanding            | 31,174                              | 31,249    | 31,148                             | 31,121    |
| Dilutive stock options/shares                         | 154                                 | 196       | 191                                | 314       |
| Convertible notes equivalent shares                   | 6,619                               | 6,548     | 6,598                              | 6,534     |
| Diluted weighted average common shares outstanding    | 37,947                              | 37,993    | 37,937                             | 37,969    |
| Diluted net income per share                          | \$ 0.15                             | \$ 0.66   | \$ 0.44                            | \$ 2.50   |

**9. INCOME TAXES**

We recognized income tax expense of \$9.0 million in the first nine months of 2006 compared to a tax benefit of \$35.7 million in the prior year period. The effective tax rate for the nine months of 2006 was 38.6%. In 2005, the Company recognized income tax benefit due to the reversal of tax valuation allowance and utilization of net operating loss (NOL) carryforwards. The following table provides a reconciliation of differences from the U.S. federal capitalized statutory rate (in thousands):

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|  | Nine Months Ended September<br>30, |             |
|--|------------------------------------|-------------|
|  | 2006                               | 2005        |
| Pretax book income                             | \$ 23,418                          | \$ 55,656   |
| U.S. Federal tax expense at 35% statutory rate | 8,196                              | 19,480      |
| U.S. Federal alternative minimum tax           |                                    | 1,095       |
| State income taxes                             | 1,138                              | 2,992       |
| Reversal of tax valuation allowance            |                                    | (35,879)    |
| Current utilization of net operating losses    | (185)                              | (23,030)    |
| Other  | (104)                              | (394)       |
| Total income tax expense (benefit)             | \$ 9,045                           | \$ (35,736) |

**10. PRODUCT WARRANTIES**

The following table presents the changes in the product warranty accrual, included in Other Accrued Liabilities, for the first nine months of 2006 and 2005 (in thousands):

|   | 2006      | 2005     |
|---|-----------|----------|
| Balance at January 1                              | \$ 10,217 | \$ 8,399 |
| Provision for warranties issued in current year   | 4,004     | 3,560    |
| Additional provisions for pre-existing warranties | 2,384     | 1,148    |
| Other*  | 2,100     |          |
| Payments  | (4,859)   | (4,793)  |
| Balance at September 30                           | \$ 13,846 | \$ 8,314 |

\* Denotes warranty reserves pertaining to the acquisition of Transcraft as of March 3, 2006.

The Company's warranty policy generally provides coverage for components of the trailer the Company produces or assembles. Typically, the coverage period is five years for trailers sold prior to 2005. Beginning in 2005, the coverage period for DuraPlate® trailer panels was extended to ten years. The Company's policy is to accrue the estimated cost of warranty coverage at the time of the sale.

**11. SEGMENTS**

The Company has two reportable segments: manufacturing and retail and distribution. The manufacturing segment produces and sells new trailers to the retail and distribution segment or to customers who purchase trailers direct or through independent dealers. The retail and distribution segment includes the sale of new and used trailers, as well as the sale of after-market parts and service through its retail branch network.

Reportable segment information is as follows (in thousands):

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|  | Manufacturing | Retail and<br>Distribution | Eliminations | Consolidated<br>Totals |
|--|---------------|----------------------------|--------------|------------------------|
| <b>Three Months Ended September 30, 2006</b> |               |                            |              |                        |
| Net Sales                                    |               |                            |              |                        |
| External customers                           | \$ 310,866    | \$ 51,424                  | \$           | \$ 362,290             |
| Intersegment sales                           | 25,976        |                            | (25,976)     |                        |
| Total Net Sales                              | \$ 336,842    | \$ 51,424                  | \$ (25,976)  | \$ 362,290             |
| Income (Loss) from Operations                | \$ 9,467      | \$ 1,183                   | \$ (256)     | \$ 10,394              |
| Assets                                       | \$ 721,009    | \$ 159,914                 | \$ (231,478) | \$ 649,445             |
| <b>Three Months Ended September 30, 2005</b> |               |                            |              |                        |
| Net Sales                                    |               |                            |              |                        |
| External customers                           | \$ 231,302    | \$ 62,532                  | \$           | \$ 293,834             |
| Intersegment sales                           | 26,803        |                            | (26,803)     |                        |
| Total Net Sales                              | \$ 258,105    | \$ 62,532                  | \$ (26,803)  | \$ 293,834             |
| Income from Operations                       | \$ 14,794     | \$ 636                     | \$ 777       | \$ 16,207              |
| Assets                                       | \$ 523,659    | \$ 195,883                 | \$ (164,104) | \$ 555,438             |
| <b>Nine Months Ended September 30, 2006</b>  |               |                            |              |                        |
| Net Sales                                    |               |                            |              |                        |
| External customers                           | \$ 813,169    | \$ 144,812                 | \$           | \$ 957,981             |
| Intersegment sales                           | 57,190        |                            | (57,190)     |                        |
| Total Net Sales                              | \$ 870,359    | \$ 144,812                 | \$ (57,190)  | \$ 957,981             |
| Income (Loss) from Operations                | \$ 27,091     | \$ 2,092                   | \$ (451)     | \$ 28,732              |
| Assets                                       | \$ 721,009    | \$ 159,914                 | \$ (231,478) | \$ 649,445             |
| <b>Nine Months Ended September 30, 2005</b>  |               |                            |              |                        |
| Net Sales                                    |               |                            |              |                        |
| External customers                           | \$ 686,990    | \$ 185,932                 | \$           | \$ 872,922             |
| Intersegment sales                           | 90,794        |                            | (90,794)     |                        |
| Total Net Sales                              | \$ 777,784    | \$ 185,932                 | \$ (90,794)  | \$ 872,922             |
| Income (Loss) from Operations                | \$ 57,562     | \$ 2,343                   | \$ (584)     | \$ 59,321              |
| Assets                                       | \$ 523,659    | \$ 195,883                 | \$ (164,104) | \$ 555,438             |

*Product Information*

The Company offers products primarily in three categories: new trailers, used trailers and parts and service. Other is primarily freight revenue. The following table sets forth the major product categories and their percentage of total net sales (dollars in thousands):

|                                  |                                 |
|----------------------------------|---------------------------------|
| Three Months Ended September 30, | Nine Months Ended September 30, |
| 2006                             | 2006                            |
| 2005                             | {2005                           |

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|                 | \$      | %     | \$      | %     | \$      | %     | \$      | %     |
|-----------------|---------|-------|---------|-------|---------|-------|---------|-------|
| New Trailers    | 329,114 | 90.8  | 261,829 | 89.1  | 861,515 | 89.9  | 776,910 | 89.0  |
| Used Trailers   | 13,233  | 3.7   | 13,041  | 4.5   | 44,414  | 4.6   | 38,918  | 4.4   |
| Parts & Service | 14,431  | 4.0   | 15,076  | 5.1   | 42,052  | 4.4   | 45,272  | 5.2   |
| Other           | 5,512   | 1.5   | 3,888   | 1.3   | 10,000  | 1.1   | 11,822  | 1.4   |
| Total Net Sales | 362,290 | 100.0 | 293,834 | 100.0 | 957,981 | 100.0 | 872,922 | 100.0 |

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

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report, including documents incorporated herein by reference, contains forward-looking statements. Additional written or oral forward-looking statements may be made by Wabash from time to time in filings with the Securities and Exchange Commission or otherwise. The words believe, expect, anticipate, and project and similar expressions identify forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, information regarding revenues, income or loss, capital expenditures, acquisitions, plans for future operations, our enterprise resource planning (ERP) system, commodity pricing and our ability to obtain commodities, financing needs or plans, the impact of inflation and plans relating to services of Wabash, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. Statements in this report, including those set forth in

Management's Discussion and Analysis of Financial Condition and Results of Operations, describe factors, among others, that could contribute to or cause such differences.

Although we believe that our expectations that are expressed in these forward-looking statements are reasonable, we cannot promise that our expectations will turn out to be correct. Our actual results could be materially different from and worse than our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations include the factors that are disclosed under the heading Risk Factors in our Form 10-K for the year ended December 31, 2005 and elsewhere herein, including, but not limited to, Item 1A of Part II hereof.

Wabash National Corporation is one of North America's leaders in designing, manufacturing and marketing standard and customized truck trailers and related transportation equipment. Established in 1985, we specialize in the design and production of dry freight vans, refrigerated vans, flatbed trailers, drop deck trailers, and intermodal equipment. Our core products are sold under the DuraPlate, ArcticLite, and Eagle brand names. We operate our business through two reportable segments, manufacturing and retail and distribution.

As part of our commitment to expand customer base and grow market leadership, we acquired Transcraft Corporation on March 3, 2006, for approximately \$69.3 million in cash, including closing costs. Additional consideration of up to \$4.5 million is payable if Transcraft Corporation achieves certain 2006 performance targets.

Transcraft Corporation is the leading manufacturer of flatbed and drop deck trailers in North America. Transcraft operates manufacturing facilities in Anna, IL and Mt. Sterling, KY. This acquisition allows us to capitalize on our core competencies of product innovation, quality manufacturing and customer satisfaction. Transcraft's operating results are included in the Company's consolidated financial statements in the manufacturing segment from the date of acquisition.

**Table of Contents****Results of Operations**

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

|  | Percentage of Net Sales             |        |                                    |        |
|--|-------------------------------------|--------|------------------------------------|--------|
|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|  | 2006                                | 2005   | 2006                               | 2005   |
| Net sales                              | 100.0%                              | 100.0% | 100.0%                             | 100.0% |
| Cost of sales                          | 92.8                                | 89.8   | 92.0                               | 88.5   |
| Gross profit                           | 7.2                                 | 10.2   | 8.0                                | 11.5   |
| General and administrative expenses    | 3.3                                 | 3.4    | 3.9                                | 3.4    |
| Selling expenses                       | 1.0                                 | 1.3    | 1.1                                | 1.3    |
| Income from operations                 | 2.9                                 | 5.5    | 3.0                                | 6.8    |
| Interest expense                       | (0.6)                               | (0.5)  | (0.6)                              | (0.5)  |
| Foreign exchange gains and losses, net |                                     | 0.2    |                                    |        |
| Other, net                             | (0.1)                               | 0.7    |                                    | 0.1    |
| Income before income taxes             | 2.2                                 | 5.9    | 2.4                                | 6.4    |
| Income tax expense (benefit)           | 0.8                                 | (2.2)  | 0.9                                | (4.1)  |
| Net income                             | 1.4%                                | 8.1%   | 1.5%                               | 10.5%  |

In the third quarter and nine months ended September 30, 2006, we recorded net sales of \$362.3 million and \$958.0 million, respectively, compared to \$293.8 million and \$872.9 million in the comparable periods in 2005. In addition, income from operations in the third quarter and nine months of 2006 was \$10.4 million and \$28.7 million, respectively, compared to \$16.2 million and \$59.3 million in comparable periods in 2005. Although we had an increase in sales, our performance was negatively impacted by an increase in raw material costs year over year. In addition to the increases in raw material costs, operating income was negatively impacted by manufacturing inefficiencies incurred as a result of problems associated with the implementation of our new ERP system on May 1, 2006.

As the recognized industry leader, we continue to focus on various programs in order to strengthen our industry position and increase profitability, including manufacturing automation, seeking lower cost sources of component parts and workforce rationalization.

**Table of Contents****Three Months Ended September 30, 2006****Net Sales**

Net sales increased \$68.5 million compared to the third quarter of 2005. By business segment, net external sales and related units sold were as follows (dollars in millions):

|                         | Three Months Ended September 30, |          |          |
|-------------------------|----------------------------------|----------|----------|
|                         | 2006                             | 2005     | % Change |
| Sales by Segment:       |                                  |          |          |
| Manufacturing           | \$ 310.9                         | \$ 231.3 | 34.4     |
| Retail and Distribution | 51.4                             | 62.5     | (17.8)   |
| Total                   | \$ 362.3                         | \$ 293.8 | 23.3     |
| <br>                    |                                  |          |          |
| New trailers:           | (units)                          |          |          |
| Manufacturing           | 15,400                           | 12,200   | 26.2     |
| Retail and Distribution | 1,200                            | 1,400    | (14.3)   |
| Total                   | 16,600                           | 13,600   | 22.1     |
| <br>                    |                                  |          |          |
| Used trailers           | 1,700                            | 1,400    | 21.4     |

Manufacturing segment sales increased \$79.6 million compared to the third quarter of 2005 as a result of the following:

Inclusion of Transcraft, which was acquired March 3, 2006, added \$28.7 million in sales.

Increased van trailer sales of approximately 1,800 units or \$34.4 million. Van trailer sales in the prior year period were adversely affected as our customers confronted logistical issues and higher fuel costs.

Increased selling prices for van trailers reflecting changes in product mix, primarily due to discontinuing the lower priced container business in 2006, and commodity price increases in the third quarter of 2006 as compared to the third quarter of 2005 resulted in an increase of \$14.7 million.

Retail and distribution segment sales declined \$11.1 million in the third quarter compared to the prior year quarter, reflecting declines in both new trailer sales and parts and service sales of \$10.0 million and \$1.1 million, respectively, primarily as a result of having fewer branch locations. On a same branch basis, new trailer sales increased \$7.5 million. Used trailer sales were comparable to the prior year period.

**Table of Contents****Gross Profit**

Gross profit was \$26.1 million, or 7.2% of sales, for the third quarter of 2006 compared to \$30.1 million, or 10.2% of sales, in the third quarter of 2005. Gross profit by segment was as follows (in millions):

|                          | Three Months Ended September 30, |         |          |
|--------------------------|----------------------------------|---------|----------|
|                          | 2006                             | 2005    | % Change |
| Gross Profit by Segment: |                                  |         |          |
| Manufacturing            | \$ 21.5                          | \$ 24.5 | (12.2)   |
| Retail and Distribution  | 4.9                              | 4.8     | 2.1      |
| Eliminations             | (0.3)                            | 0.8     |          |
| Total Gross Profit       | \$ 26.1                          | \$ 30.1 | (13.3)   |

The manufacturing segment's gross profit as a percentage of sales was 6.9%, a 3.7 percentage point decline from the 2005 third quarter. The decrease reflected selling prices that have not kept pace with increased raw material costs, particularly aluminum, as well as production inefficiencies and production outages resulting from the implementation of a new ERP system. Subsequent to the implementation of our new ERP system on May 1, 2006, many of our key operating metrics deteriorated. Improvements were attained in the third quarter. The majority of trailers shipped in the quarter were manufactured in June, July and August, which were the periods during which we experienced the highest levels of the material shortages and consequent line outages.

The retail and distribution segment's gross profit was essentially the same as the prior year quarter despite lower sales. Gross profit as a percent of sales was 9.5% compared to 7.7% in the third quarter of 2005 due primarily to an improved product mix of a higher percentage of parts and service sales and cost containment activities.

**General and Administrative Expenses**

General and administrative expenses were \$12.1 million, an increase \$2.0 million from the prior year period. The increase was primarily due to inclusion of \$1.5 million of Transcraft expenses, \$0.5 million related to the adoption of SFAS No. 123R, and a \$0.5 million increase in expenses related to the implementation of our ERP system. These increases were partially offset by reductions in other expenses.

**Selling Expense**

Selling expense decreased \$0.2 million to \$3.7 million in the third quarter of 2006, as the inclusion of Transcraft was offset by the reduction of branch locations.

**Other Income (Expense)**

*Interest expense* totaled \$2.1 million for the quarter ended September 30, 2006, an increase of \$0.4 million from the prior year period, due to increased borrowings.

*Other, net* for the quarter ended September 30, 2006 was expense of \$0.4 million compared to income of \$2.0 million in the 2005 period, primarily related to a gain on the sale of a branch property in the third quarter of 2005.



**Table of Contents****Income Taxes**

We recognized income tax expense of \$2.9 million for the three months ending September 30, 2006, compared to a tax benefit of \$6.4 million in the prior year period. The effective tax rate for the third quarter of 2006 was 37.0%. In 2005, the Company recognized income tax benefit due to the reversal of tax valuation allowance and utilization of net operating loss (NOL) carryforwards.

**Nine Months Ended September 30, 2006****Net Sales**

Net sales increased \$85.1 million compared to the 2005 period. By business segment, net external sales and related units sold were as follows (dollars in millions):

|                         | Nine Months Ended September 30, |                 |             |
|-------------------------|---------------------------------|-----------------|-------------|
|                         | 2006                            | 2005            | % Change    |
| Sales by Segment:       |                                 |                 |             |
| Manufacturing           | \$ 813.2                        | \$ 687.0        | 18.4        |
| Retail and Distribution | 144.8                           | 185.9           | (22.1)      |
| <b>Total</b>            | <b>\$ 958.0</b>                 | <b>\$ 872.9</b> | <b>9.7</b>  |
| <br>                    |                                 |                 |             |
| New trailers:           | (units)                         |                 |             |
| Manufacturing           | 41,100                          | 35,700          | 15.1        |
| Retail and Distribution | 2,900                           | 4,300           | (32.6)      |
| <b>Total</b>            | <b>44,000</b>                   | <b>40,000</b>   | <b>10.0</b> |
| <br>                    |                                 |                 |             |
| Used trailers           | 5,100                           | 4,200           | 21.4        |

Manufacturing sales increased in the first nine months of 2006 due primarily to the inclusion of approximately \$64.7 million in sales from Transcraft since the date of acquisition, \$43.6 million in a higher volume of van trailer sales and \$12.0 million due to higher average selling prices per unit as the Company passed along a portion of the increases in the cost of materials.

Retail and distribution segment sales declined \$41.1 million in the first nine months of 2006 compared to the prior year period primarily as a result of having fewer retail outlets. New trailer sales decreased \$38.5 million and parts and service sales decreased \$7.3 million. Used trailer sales increased \$5.4 million compared to the prior year period reflecting increased unit volume, offset in part by lower average selling prices related to product mix.

**Table of Contents****Gross Profit**

Gross profit for the nine months of 2006 was \$76.2 million compared to \$100.6 million for the prior year period. Gross profit as a percent of sales was 8.0% compared to 11.5% for the same period in 2005. Gross profit by segment was as follows (in millions):

|                          | Nine Months Ended September 30, |          |          |
|--------------------------|---------------------------------|----------|----------|
|                          | 2006                            | 2005     | % Change |
| Gross Profit by Segment: |                                 |          |          |
| Manufacturing            | \$ 64.6                         | \$ 85.8  | (24.7)   |
| Retail and Distribution  | 12.0                            | 15.4     | (22.1)   |
| Eliminations             | (0.4)                           | (0.6)    |          |
| Total Gross Profit       | \$ 76.2                         | \$ 100.6 | (24.3)   |

The manufacturing segment's gross profit as a percentage of sales was 7.9% in 2006, a 4.6 percentage point decrease from the prior year period. This decline is attributed to higher raw material costs, as well as production inefficiencies and production outages resulting from the implementation of our new ERP system.

The retail and distribution segment's gross profit declined as a result of lower sales primarily driven by having fewer retail outlets in 2006 as compared to 2005. Gross profit as a percent of sales of 8.3% was unchanged from the 2005 period.

**General and Administrative Expenses**

General and administrative expenses increased \$7.5 million in 2006 compared to 2005 primarily due to inclusion of Transcraft expenses of \$5.0 million, the adoption of SFAS No. 123R resulting in an increase of \$1.5 million, and an increase in expenses related to the implementation of our ERP system of \$2.9 million. These cost increases were partially offset by \$1.1 million reduction in incentive compensation and a \$0.5 million reduction in expense related to branch locations sold in 2005.

**Selling Expense**

Selling expense decreased \$1.3 million in 2006 compared to the prior year period primarily due to the sale of branch locations in 2005. These cost reductions were partially offset by the inclusion of Transcraft expenses of \$0.5 million.

**Other Income (Expense)**

*Interest expense* totaled \$5.2 million for the nine months ended September 30, 2006, an increase of \$0.3 million from the prior year period due to increased borrowings.

*Other, net* for the nine months ended September 30, 2006 was expense of \$0.1 million compared to income of \$1.0 million in 2005, primarily related to gains on the sale of properties.

**Income Taxes**

We recognized income tax expense of \$9.0 million in the nine months of 2006 compared to a tax benefit of \$35.7 million in the prior year period. The effective tax rate for the nine months of 2006 was 38.6%. In 2005, the Company recognized income tax benefit due to the reversal of tax valuation allowance and utilization of net operating loss (NOL) carryforwards.

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**Liquidity and Capital Resources**

**Capital Structure**

Our capital structure is comprised of a mix of equity and debt. As of September 30, 2006, our debt to equity ratio was approximately 1.0:1.8. Our objective is to generate operating cash flows sufficient to satisfy normal requirements for working capital and capital expenditures and be positioned to take advantage of market opportunities.

**Cash Flow**

Cash used in operating activities amounted to \$5.7 million compared to \$0.6 million provided by operating activities in the 2005 period. This decrease was driven by a \$26.6 million reduction in net income (adjusted for non-cash items) which was offset in part by changes to working capital. The following is a discussion of factors impacting certain working capital items in the nine months of 2006 as compared to the nine months of 2005.

Accounts receivables increased \$25.4 million in 2006 compared to a \$31.1 million increase in 2005. Days sales outstanding, a measure of working capital efficiency that measures the amount of time a receivable is outstanding, was 41 days at September 30, 2006, an increase of four days versus the prior year. The increase in days sales outstanding was primarily due to the timing of collections.

Inventory increased \$57.0 million compared to a \$70.2 million increase in the prior year period. At September 30, 2006, inventories amounted to \$169.8 million compared to \$164.7 million at September 30, 2005. The September 30, 2006 balance includes \$15.0 million related to Transcraft offset in part by a \$9.2 million reduction in used trailer inventories. The September 30, 2005 inventories reflect the impact of delivery delays resulting from the aftermath of the Gulf Coast hurricanes. Inventory turns, a commonly used measure of working capital efficiency that measures how quickly inventory turns, increased to approximately 7.9 times versus 6.4 times in the prior year period.

Investing activities used \$78.3 million in cash in 2006 primarily due to the Transcraft acquisition.

Financing activities provided \$32.8 million during the period, an increase of \$33.3 million from the prior year period primarily due to increased net borrowings under our revolving credit facility in support of working capital requirements.

As of September 30, 2006, our liquidity position, defined as cash on hand and available borrowing capacity, amounted to approximately \$97.1 million and total debt and lease obligations amounted to approximately \$166.7 million, including \$4.7 million of operating lease commitments. We expect that in 2006, we will be able to generate sufficient cash flow from operations to fund working capital, capital expenditure requirements and quarterly dividend payments. Borrowings under our revolver of \$37.0 million are classified as a current liability as the maturity date of the facility is September 30, 2007. We anticipate entering into a new borrowing facility in the near future.

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**Capital Expenditures**

Capital spending amounted to approximately \$10.9 million for the nine months of 2006 and is anticipated to be approximately \$15 million for the full year. Spending to date included \$5.0 million related to our ERP project and \$1.4 million for completing the installation of a semi-automated trailer assembly line.

**Outlook**

Based on our existing backlog and production schedule, we are expecting van shipments for the fourth quarter of 2006 to be approximately 15,500 units for a total of approximately 55,000 units for the year. As a result of recent announcements regarding a strike at The Goodyear Tire & Rubber Company, our leading supplier of trailer tires, we have taken actions to ensure the availability of tire stock to support production levels through the end of 2006. We will continue to monitor the situation and believe that we will be able to take the steps necessary to meet production requirements.

The factor that will most likely affect trailer demand and profitability is the increase in commodity prices, most significantly aluminum, and the impact such increases will have to our pricing models. Continued efforts are being made to aggressively reduce all costs associated with labor and other indirect costs through effective scheduling, alternative sourcing and on-going product standardization.

According to the most recent ACT estimates, industry-wide trailer shipments are anticipated to be approximately 279,000 units in 2006, an increase of approximately 9% from 2005. The expansion is predicated on a number of factors including favorable general economic conditions and pent-up trucking industry demand for replacement units as the average age of trailer fleets increases. We expect to participate in the industry growth because: (a) our core customers are among the largest participants in the trucking industry; (b) our DuraPlate® trailer continues to have increased market acceptance and penetration; and, (c) our expanded presence into the middle market carriers approximately 1,250 target carriers with trailer fleet sizes ranging from 250 to 7,500 units. For 2006, we have added 350 new customers accounting for over 4,500 new units. By the end of 2008, as we continue to expand our customer base, we expect to have added over 2,000 new customers.

**Contractual Obligations and Commercial Commitments**

We have included a summary of our Contractual Obligations and Commercial Commitments in our annual report on Form 10-K for the year ended December 31, 2005, filed on February 27, 2006. There have been no material changes to the summary provided in that report.

**Off-Balance Sheet Transactions**

As of September 30, 2006, we had approximately \$4.7 million in operating lease commitments. We did not enter into any material off-balance sheet debt or operating lease transactions during the quarter.

**Critical Accounting Policies and Estimates**

We have included a summary of our Critical Accounting Estimates in our annual report on Form 10-K for the year ended December 31, 2005, filed on February 27, 2006. There have been no material changes to the summary provided in that report.

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**Backlog**

Orders that have been confirmed by the customer in writing and can be produced during the next 18 months are included in backlog. Orders that comprise the backlog may be subject to changes in quantities, delivery, specifications and terms. Our backlog of orders was approximately \$558 million at September 30, 2006 compared to \$594 million and \$610 million at June 30, 2006 and March 31, 2006, respectively. We expect to complete the majority of our existing backlog orders within the next 12 months.

**Customer Credit Risk**

We sublease certain highly specialized RoadRailer equipment to Grupo Transportation Marititma Mexicana SA (TMM), who has experienced financial difficulties in the past. The customer has a history of delinquent payments; however, the account is current as of October 31, 2006. At that time, the customer owed us \$4.9 million secured by highly specialized RoadRailer® equipment, which due to the nature of the equipment, has a minimal recovery value.

**New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Financial Accounting Standard 109, *Accounting for Income Taxes* (FIN 48), to create a single model to address uncertainty in tax positions. FIN 48 purports to clarify accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect, if any, of adopting FIN 48 will be recorded in retained earnings. The Company has not determined the effect, if any, that the adoption of FIN 48 will have on the Company's financial position and results of operations.

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

In addition to the risks inherent in its operations, the Company has 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 the Company's exposure to these risks.

***a. Commodity Price Risks***

The Company is exposed to fluctuation in commodity prices through the purchase of raw materials that are processed from commodities such as aluminum, steel, wood and virgin plastic pellets. Given the historical volatility of certain commodity prices, this exposure can significantly impact product costs. The Company may manage aluminum price changes by entering into fixed price contracts with its suppliers. As of September 30, 2006, the Company had outstanding purchase commitments of approximately \$19.5 million through December 2006 for materials that will be used in the production process. The Company typically does not set prices for its products more than 45-90 days in advance of its commodity purchases and can, subject to competitive market conditions, take into account the cost of the commodity in setting its prices for each order. To the extent that the Company is unable to offset the increased commodity costs in its product prices, the Company's results would be materially and adversely affected.

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***b. Interest Rates***

As of September 30, 2006, the Company had approximately \$37 million of floating rate debt outstanding under the ABL facility revolving line of credit. A hypothetical 100 basis-point increase in the floating interest rate from the current level would correspond to approximately a \$0.4 million increase in interest expense over a one-year period. 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.

***c. Foreign Exchange Rates***

The Company is subject to fluctuations in the Canadian dollar exchange rate that impact intercompany transactions between the Company and its Canadian subsidiary, as well as U.S. denominated transactions between the Canadian subsidiaries and unrelated parties. A five cent change in the Canadian exchange rate would result in an approximately \$0.3 million impact on results of operations. The Company does not hold or issue derivative financial instruments for speculative purposes.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. Based on an evaluation conducted under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2006, it was determined that those controls and procedures were not effective because of material weaknesses that are described below.

As of September 30, 2006, we identified control deficiencies related to accounting for inventory at our Lafayette facility and the financial statement close process, which represent material weaknesses. These control deficiencies arose from the conversion to a new ERP system on May 1, 2006. To ensure that our consolidated financial statements for the three and nine month periods ended September 30, 2006 are fairly stated in accordance with U.S. generally accepted accounting principles, we expanded procedures to be performed in order to prepare the consolidated financial statements as of September 30, 2006. These procedures included a physical inventory as of September 30, 2006, additional analyses, recalculations and review of the inventory processes and related balances to fairly state inventory and the associated cost of goods sold in the period. Additionally, we performed account analyses and reconciliations related to the financial statement close process.

Additional steps are planned for the achievement of financial reporting objectives including, deploying resources to mitigate internal control risks, enhancing the capabilities of financial reporting from the ERP system, improving processes in operational areas related to purchasing, inventory management and inventory relief, performing periodical physical inventories, testing the accuracy of our data, and performing multiple levels of review within the financial statement close process. We anticipate the remediation will likely continue into 2007.

Other than as described above, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

There have been no material changes in legal proceedings from the items disclosed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**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, 2005, including those under the heading "Risk Factors" appearing in Item 1A of Part I of the Form 10-K and other information contained in this Quarterly Report before investing in our securities. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

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

For the quarter ending September 30, 2006, the Company made the following repurchases of common stock:

| Period                 | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans | Maximum<br>Amount of<br>Available<br>Funds to<br>Purchase<br>Shares<br>Under the<br>Plans<br>(Mil) |
|------------------------|---|------------------------------------|---|--|
| July 1 - 31, 2006      |   |                                    |   | \$ 46.6  |
| August 1 - 31, 2006    | 39,800                                    | \$ 12.72                           | 39,800  | \$ 46.1  |
| September 1 - 30, 2006 |   |                                    |   | \$ 46.1  |
| Total                  | 39,800                                    | \$ 12.72                           | 39,800  | \$ 46.1  |

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

Not Applicable

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**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).

**SIGNATURES**

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: November 9, 2006

By: /s/ Robert J. Smith  
Robert J. Smith  
Senior Vice President and Chief  
Financial Officer  
(Principal Financial Officer)