WABASH NATIONAL CORP /DE
Form 10-Q
October 29, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED September 30, 2013
OR

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

For the transition period from __________ to __________

Commission File Number: 1-10883

WABASH NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

The number of shares of common stock outstanding at October 22, 2013 was 68,516,919.

WABASH NATIONAL CORPORATION

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FORM 10-Q

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

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash	$65,880	$81,449
Accounts receivable	130,086	96,590
Inventories	239,606	189,487
Deferred income taxes	36,979	42,330
Prepaid expenses and other	3,951	8,239
Total current assets	$476,502	$418,095
PROPERTY, PLANT AND EQUIPMENT	139,735	132,146
DEFERRED INCOME TAXES	4,614	21,894
GOODWILL	150,277	146,444
INTANGIBLE ASSETS	164,559	171,990
OTHER ASSETS	10,141	12,057
	$945,828	$902,626
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$3,240	$3,381
Current portion of capital lease obligations	1,706	1,140
Accounts payable	138,009	87,299
Other accrued liabilities	88,733	104,873
Total current liabilities	$231,688	$196,693
LONG-TERM DEBT	378,037	416,849
CAPITAL LEASE OBLIGATIONS	7,064	3,781
DEFERRED INCOME TAXES	1,993	1,065
OTHER NONCURRENT LIABILITIES	17,086	15,511
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock 200,000,000 shares authorized, $0.01 par value, 68,507,448 and 68,378,984 shares outstanding, respectively	703	702

Additional paid-in capital	623,863	618,550
Accumulated deficit	(287,551)	(323,657)
Accumulated other comprehensive income	96	248
Treasury stock at cost, 1,873,870 and 1,870,205 common shares, respectively	(27,151)	(27,116)
Total stockholders' equity	$309,960	$268,727
	$945,828	$902,626

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

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WABASH NATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
NET SALES	$ 439,977	$ 405,917	$ 1,177,332	$ 1,046,007
COST OF SALES	378,480	355,843	1,014,796	936,523
Gross profit	$ 61,497	$ 50,074	$ 162,536	$ 109,484
GENERAL AND ADMINISTRATIVE EXPENSES	14,559	12,548	43,208	30,870
SELLING EXPENSES	7,628	7,134	23,029	16,112
AMORTIZATION OF INTANGIBLES	5,454	2,984	16,278	7,175
ACQUISITION EXPENSES	26	172	883	14,074
Income from operations	$ 33,830	$ 27,236	$ 79,138	$ 41,253
OTHER INCOME (EXPENSE):				
Interest expense	(6,252)	(7,760)	(20,364)	(13,934)
Loss on debt extinguishment	(605)	-	(1,304)	-
Other, net	-	211	2,604	151
Income before income taxes	$ 26,973	$ 19,687	$ 60,074	$ 27,470
INCOME TAX EXPENSE	10,737	1,246	23,968	2,023
Net income	$ 16,236	$ 18,441	$ 36,106	$ 25,447
BASIC NET INCOME PER SHARE	$ 0.24	$ 0.27	$ 0.52	$ 0.37
DILUTED NET INCOME PER SHARE	$ 0.23	$ 0.27	$ 0.52	$ 0.37

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

WABASH NATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
NET INCOME	$ 16,236	$ 18,441	$ 36,106	$ 25,447
Other comprehensive income (loss):				
Foreign currency translation adjustment	191	207	(152)	313
Total other comprehensive income (loss)	191	207	(152)	313
COMPREHENSIVE INCOME	$ 16,427	$ 18,648	$ 35,954	$ 25,760

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

WABASH NATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30, 2013		2012	
Cash flows from operating activities				
Net income	$	36,106	$	25,447
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation		12,429		10,660
Amortization of intangibles		16,278		7,175
Loss on debt extinguishment		1,304		-
Deferred income taxes		23,559		1,666
Stock-based compensation		5,525		3,611
Accretion of debt discount		3,455		1,865
Changes in operating assets and liabilities				
Accounts receivable		(33,419)		(551)
Inventories		(49,173)		(1,097)
Prepaid expenses and other		1,788		170
Accounts payable and accrued liabilities		33,315		(20,558)
Other, net		2,593		(855)
Net cash provided by operating activities	$	53,760	$	27,533
Cash flows from investing activities				
Capital expenditures		(11,566)		(9,013)
Acquisition, net of cash acquired		(15,985)		(364,012)
Other		2,500		-
Net cash used in investing activities	$	(25,051)	$	(373,025)
Cash flows from financing activities				
Proceeds from exercise of stock options		447		340
Borrowings under revolving credit facilities		910		205,786
Payments under revolving credit facilities		(910)		(270,786)
Principal payments under capital lease obligations		(1,309)		(1,388)
Proceeds from issuance of convertible senior notes		-		145,500
Proceeds from issuance of term loan credit facility, net of issuance costs		-		292,500
Principal payments under term loan credit facility		(42,135)		(1,500)
Principal payments under industrial revenue bond		(265)		-
Debt issuance costs paid		(981)		(5,065)
Stock repurchase		(35)		(564)
Net cash (used in) provided by financing activities	$	(44,278)	$	364,823
Net (decrease) increase in cash	$	(15,569)	$	19,331
Cash at beginning of period		81,449		19,976

Cash at end of period	$ 65,880	$ 39,307

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

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

1. DESCRIPTION OF THE BUSINESS

The condensed consolidated financial statements of Wabash National Corporation (the "Company") have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of the Company, its results of operations and cash flows. 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 2012 Annual Report on Form 10-K.

2. ACQUISITIONS

Beall Corporation

On February 4, 2013, the Company completed the acquisition of certain assets of the tank and trailer business of Beall Corporation, a Portland, Oregon-based manufacturer of aluminum tank trailers and related equipment. Beall Corporation began Chapter 11 reorganization proceedings in September of 2012, followed by a bankruptcy-court approved auction of its assets in December. The Company was the winning bidder for certain assets of Beall's tank and trailer business, including equipment, inventory, certain product designs, intellectual property and other related assets. The aggregate consideration paid by the Company for the acquired assets and the assumed liabilities was $13.9 million, subject to post-closing purchase price adjustments related to the acquired working capital, and was preliminarily allocated to the opening balance sheet as follows (in thousands):

Current assets	$1,023
Property, plant and equipment	2,714
Intangibles	8,860
Goodwill	1,796
Total assets	$14,393
Current liabilities	$(462)
Total liabilities	$(462)
Acquisition	$13,931

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

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

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

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

Walker Group Holdings LLC

On May 8, 2012, the Company completed the acquisition (the "Walker Acquisition") of all the equity interests of Walker Group Holdings LLC ("Walker") from Walker Group Resources LLC, the parent of Walker ("Seller"), pursuant to the Purchase and Sale Agreement, dated March 26, 2012, by and among the Company, Walker and Seller (the "Purchase and Sale Agreement"). The aggregate consideration paid by the Company for the Walker Acquisition was $377.0 million in cash. The amount of working capital acquired at the date of acquisition, previously in dispute between the Company and the Seller, was resolved during the second quarter of 2013 and the outcome required the Company to make an additional payment of $2.1 million, which was recorded to Goodwill. The Company financed the Walker Acquisition and related fees and expenses using the proceeds of the Company's offering of 3.375% Convertible Senior Notes due 2018 and the Company's borrowings under the Term Loan Credit Agreement (as described in further detail in Note 4).

Walker is a manufacturer of liquid-transportation systems and engineered products based in New Lisbon, Wisconsin. Walker manufacturing operations are integrated into the Company's Diversified Products segment while Walker retail operations are integrated into the Retail segment in a manner that is consistent with its focus to leverage operational and market synergies. Walker has manufacturing facilities for its liquid-transportation products in New Lisbon, Wisconsin; Fond du Lac, Wisconsin; Kansas City, Missouri; Kansas City, Kansas; and Queretaro, Mexico with parts and service centers in Houston, Texas; Baton Rouge, Louisiana; Findlay, Ohio; Chicago, Illinois; Mauston, Wisconsin; West Memphis, Arkansas; and Ashland, Kentucky. Manufacturing facilities for Walker's engineered products are located in New Lisbon, Wisconsin; Elroy, Wisconsin; and Huddersfield, United Kingdom with parts and service centers in Tavares, Florida; Dallas, Texas; and Philadelphia, Pennsylvania.

The aggregate purchase price of $377.0 million was allocated to the opening balance sheet of Walker at May 8, 2012, the date of acquisition, as follows (in thousands):

Cash	$10,982
Current assets	93,409
Property, plant and equipment	32,541
Intangibles	162,800
Deferred income taxes	4,640
Goodwill	148,498
Total assets	$452,870
Current liabilities	$(74,722)
Deferred income taxes	(1,100)
Total liabilities	$(75,822)
	$377,048
Acquisition, net of cash acquired	$366,066

Intangible assets of $162.8 million were recorded as a result of the acquisition. The intangible assets consist of the following (in thousands):

	Amount	Useful Life
Backlog	$ 900	Less than 1 year
Tradenames and Trademarks	27,600	20 years
Technology	15,300	12 years
Customer relationships	119,000	10 years
	$ 162,800	

Intangible asset amortization expense for the three and nine month periods ended September 30, 2013 and 2012 was $5.5 million and $16.3 million, respectively, and $3.0 million and $7.2 million, respectively. Annual intangible asset amortization expense for the next five fiscal years is estimated to be $21.7 million in 2013, $21.9 million in 2014, $21.3 million in 2015, $20.1 million in 2016 and $16.9 million in 2017.

Goodwill of $148.5 million was recorded as a result of the Walker Acquisition in the Diversified Products and Retail segments. Goodwill is comprised of operational synergies that are expected to be realized in both the short and long-term and the opportunity to enter new market sectors with higher margin potential, which will enable us to deliver greater value to our customers and shareholders. The Company expects the amount recorded as goodwill for the Walker Acquisition to be fully deductible for tax purposes.

The results of Walker are included in the Condensed Consolidated Statements of Operations from the date of acquisition. Revenue for the three and nine month periods ended September 30, 2013 and 2012 was $102.3 million and $300.6 million, respectively, and $96.5 million and $140.8 million, respectively. Income before income taxes for the three and nine month periods ended September 30, 2013 and 2012 was $12.9 million and $38.2 million, respectively, and $13.2 million and $16.8 million, respectively.

The following unaudited pro forma information is shown below as if the acquisition of Walker had been completed as of the beginning of the earliest period presented (in thousands, except per share amounts):

	Nine Months Ended September 30, 2012	
Sales	$	1,182,073
Operating income	$	70,537
Net income	$	44,641
Basic and diluted net income per share	$	0.65

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 January 1, 2012, nor is it necessarily indicative of future operating results of the combined companies under the ownership and management of the Company.

The Company incurred various costs related to both the Walker Acquisition and the purchase of certain assets of Beall including fees paid to an investment banker for acquisition services and the related bridge financing commitment, as well as professional fees for diligence, legal and accounting services. These costs totaled less than $0.1 million and $0.9 million and $0.2 million and $14.1 million for the three and nine month periods ended September 30, 2013 and 2012, respectively, and have been recorded as *Acquisition Expenses* in the Condensed Consolidated Statements of Operations.

3. INVENTORIES

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

	September 30, 2013		December 31, 2012	
Raw materials and components	$	61,837	$	57,187
Work in progress		26,656		24,849
Finished goods		127,822		82,930
Aftermarket parts		10,802		9,882
Used trailers		12,489		14,639
	$	239,606	$	189,487

4. DEBT

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

	September 30, 2013		December 31, 2012	
Convertible senior notes	$	150,000	$	150,000
Term loan credit agreement		255,615		297,750
Industrial revenue bond		2,235		2,500
	$	407,850	$	450,250
Less: unamortized discount		(26,573)		(30,020)
Less: current portion		(3,240)		(3,381)
	$	378,037	$	416,849

Convertible Senior Notes

On April 23, 2012, the Company issued Convertible Senior Notes due 2018 (the “Notes”) with an aggregate principal amount of $150 million in a public offering. The Notes bear interest at the rate of 3.375% per annum from the date of issuance, payable semi-annually on May 1 and November 1, commencing on November 1, 2012. The Notes are senior unsecured obligations of the Company ranking equally with its existing and future senior unsecured debt.

The Notes are convertible by their holders into cash, shares of the Company’s common stock or any combination thereof at the Company’s election, at an initial conversion rate of 85.4372 shares of the Company’s common stock per $1,000 in principal amount of Notes, which is equal to an initial conversion price of approximately $11.70 per share, only under the following circumstances: (A) before November 1, 2017 (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2012 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price (as defined in the indenture for the Notes) per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; (3) if the Company calls the Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; and (4) upon the occurrence of specified corporate events as described in the indenture for the Notes; and (B) at any time on or after November 1, 2017 until the close of business on the second business day immediately preceding the maturity date.

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

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

The Company will apply the treasury stock method in the calculation of the dilutive impact of the Notes. For the three and nine month periods ended September 30, 2013, the calculation of diluted net income per share excludes the impact of these Notes as the average stock price of the Company’s common stock was below the initial conversion price of approximately $11.70 per share.

Clearstream has advised us that it is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its participants and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities, and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream and Euroclear.

Distributions with respect to permanent global securities held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by the U.S. depositary for Clearstream.

Euroclear holds securities for participants of Euroclear and clears and settles transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear participants include banks (including central banks), securities brokers and dealers, and other professional financial intermediaries and may include the underwriters for a particular offering of securities. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Euroclear is operated by Euroclear Bank S.A./N.V. (the Euroclear Operator). Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable law (collectively, the Terms and Conditions). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. The Euroclear Operator holds all securities in Euroclear on a fungible basis without attribution of specific certificates to specific securities clearance accounts.

Distributions with respect to permanent global securities held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by the U.S. depositary for Euroclear.

Unless otherwise specified in a prospectus supplement with respect to a particular series of permanent global securities, initial settlement for permanent global securities will be made in immediately available funds. If the prospectus supplement specifies that interests in the permanent global securities may be held through Clearstream or Euroclear, Clearstream and/or Euroclear participants will conduct secondary market trading with other Clearstream and/or Euroclear participants in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear. Then secondary market trades will settle using the procedures applicable to conventional eurobonds in immediately available funds.

Investors should be aware that they will be able to make and receive deliveries, payments and other communications involving the securities through Clearstream and Euroclear only on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States. In addition, because of time zone differences, there may be problems with completing transactions involving Clearstream and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the securities, or to receive or make a payment or delivery of the securities, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream or Euroclear is used.

The information in this section concerning Euroclear and Clearstream has been obtained from sources that we believe to be accurate, but we assume no responsibility for the accuracy thereof. We do not have any responsibility for the performance by Euroclear or Clearstream or its participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

Although DTC, Clearstream, and Euroclear have agreed to the procedures described above in order to facilitate transfers of interests in permanent global securities among DTC participants, Clearstream, and Euroclear, they are under no obligation to perform those procedures, and those procedures may be discontinued at any time.

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PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

We may sell the securities from time to time as follows:

- to or through underwriters or dealers, which may be affiliates;
- through agents, which may be affiliates;
- directly to purchasers; or
- through a combination of any of these methods.

We may also offer and sell, or agree to deliver, securities pursuant to, or in connection with, any put option agreement or other contractual arrangement, whether directly to investors or through one or more special purpose vehicles.

In addition, we may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with a transaction the third parties may, pursuant to this prospectus and the applicable prospectus supplement, sell securities covered by this prospectus and the applicable prospectus supplement. If so, the third party may use securities borrowed from us or others to settle such sales and may use securities received from us to close out any related short positions. We may also lend or pledge securities covered by this prospectus and the applicable prospectus supplement to third parties, who may sell the loaned securities or, in an event of default in the case of a pledge, sell the pledged securities pursuant to this prospectus and the applicable prospectus supplement.

The distribution of the securities may be effected from time to time in one or more transactions:

- at a fixed price, or prices, which may be changed from time to time;
- at market prices prevailing at the time of sale;
- at prices related to the prevailing market prices; or
- at negotiated prices.

Each prospectus supplement will describe the method of distribution of the securities and any applicable restrictions.

The prospectus supplement with respect to the securities of a particular series will describe the terms of the offering of the securities, including the following:

- the name or names of any underwriters, dealers or agents and the amount of securities underwritten or purchased by each of them;
- the public offering or purchase price;
- any over-allotment options under which agents or underwriters may purchase additional securities from us;
- any discounts, concessions and commissions to be allowed or paid to the agent or underwriters;
- all other items constituting agent or underwriting compensation;
- any discounts and commissions to be allowed or reallowed or paid to dealers; and
- any securities exchanges on which the securities may be listed.

Any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

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If underwriters are used in the sale of any securities, the securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions described above. Generally, the underwriters obligations to purchase the securities will be subject to specified conditions. The underwriters will be obligated to purchase all of the securities if they purchase any of the securities. If agents are used in the sale of any securities, they generally will be acting on a best efforts basis for the period of their appointment.

Only the agents, dealers or underwriters named in the prospectus supplement will be the agents, dealers or underwriters in connection with the securities being offered. Under agreements that we may enter into, underwriters, dealers or agents who participate in the distribution of securities by use of this prospectus and any prospectus supplements may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act, or to contribution with respect to payments that those underwriters, dealers or agents may be required to make.

As one of the means of direct issuance of offered securities, we may utilize the services of an entity through which we may conduct an electronic dutch auction or similar offering of the offered securities among potential purchasers who are eligible to participate in the auction or offering of the offered securities, if so described in the applicable prospectus supplement.

If so indicated in the applicable prospectus supplement, we will authorize agents, underwriters or dealers to solicit offers by certain institutions to purchase securities from us pursuant to delayed delivery contracts providing for payment and delivery on the future date stated in the prospectus supplement. Such contracts will be subject only to those conditions set forth in the prospectus supplement or supplements.

Some of the underwriters and their affiliates may have in the past provided, may be currently providing and may in the future from time to time provide, financial advisory, commercial banking, investment banking, research, trading, trustee, escrow, transfer agent and custody services to us or our subsidiaries (including as parties to our credit agreement), for which they have in the past received, and may currently or in the future receive, customary fees and expenses.

Any underwriter, agent or dealer that we use in the initial offering of debt securities will not confirm sales to any account over which it exercises discretionary authority without the prior specific written approval of its customer.

If Schwab or any other broker-dealer subsidiary that we may have participates in the distribution of our securities, we will conduct the offering in accordance with the applicable requirements of Rule 5121 of the Financial Industry Regulatory Authority s rules or any successor provisions.

Following the initial distribution of any of these securities, our affiliates, including Schwab, may offer and sell these securities (as well as securities initially offered and sold under previous registration statements) in market-making transactions as part of their business as broker-dealers. Schwab and our other affiliates may act as principals or agents in these transactions and may make any sales at varying prices related to prevailing market prices at the time of sale or otherwise. Schwab and our other affiliates may use this prospectus in connection with such transactions.

Unless we or our agent inform you in your confirmation of sale that the security is being purchased in its original offering and sale, you may assume that you are purchasing the security in a market-making transaction.

The securities may be new issues of securities and may have no established trading market. The securities may or may not be listed on a securities exchange. We can make no assurance as to the liquidity of or the existence of trading markets for any of the securities.

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VALIDITY OF SECURITIES

The validity of the securities to be issued under this prospectus, will be passed upon for us by Arnold & Porter Kaye Scholer LLP, counsel to The Charles Schwab Corporation. Partners of that firm beneficially own an aggregate of less than 1% of our common stock.

EXPERTS

The consolidated financial statements and the related financial statement schedule, incorporated in this prospectus by reference from our Annual Report on Form 10-K, and the effectiveness of our internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference. Such consolidated financial statements and financial statement schedule have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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