

STILWELL JOSEPH  
Form SC 13D/A  
November 16, 2009  
UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 13D**

**Under the Securities Exchange Act of 1934**

**(Amendment No. 12)**

**KINGSWAY FINANCIAL SERVICES INC.**

(Name of Issuer)

Common Shares, no par value

(Title of Class of Securities)

496904103

(CUSIP Number)

Mr. Joseph Stilwell

26 Broadway, 23<sup>rd</sup> Floor

New York, New York 10004

Telephone: (212) 269-5800

with a copy to:

Spencer L. Schneider, Esq.

70 Lafayette Street, 7<sup>th</sup> Floor

New York, New York 10013

Telephone: (212) 233-7400

(Name, Address and Telephone Number of Person

Authorized to Receive Notices and Communications)

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November 11, 2009

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e),

240.13d-1(f) or 240.13d-1(g), check the following box. ☐ ]

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 496904103

SCHEDULE 13D

Page 2 of 30

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only).  
Stilwell Value Partners III, L.P.
  2. Check the Appropriate Box if a Member of a Group (See Instructions)
    - (a) ☒ X
    - (b) ☐
  3. SEC Use Only
  4. Source of Funds (See Instructions) WC, OO
  5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o  
Citizenship or Place of Organization:
  6. Delaware
- Number of  
Shares  
Beneficially  
Owned by  
Each  
Reporting  
Person With
7. Sole Voting Power: 0
  8. Shared Voting Power: 5,525,000
  9. Sole Dispositive Power: 0
  10. Shared Dispositive Power: 5,525,000
  11. Aggregate Amount Beneficially Owned by Each Reporting Person: 5,525,000
  12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o
  13. Percent of Class Represented by Amount in Row (11): 10.7%
  14. Type of Reporting Person (See Instructions)  
PN
-

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CUSIP No. 496904103

SCHEDULE 13D

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1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only).  
Stilwell Value Partners IV, L.P.
  2. Check the Appropriate Box if a Member of a Group (See Instructions)  
(a) ☒ X  
(b) ☐
  3. SEC Use Only
  4. Source of Funds (See Instructions) WC, OO
  5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o  
Citizenship or Place of Organization:
  6. Delaware
- Number of  
Shares  
Beneficially  
Owned by  
Each  
Reporting  
Person With
7. Sole Voting Power: 0
  8. Shared Voting Power: 5,525,000
  9. Sole Dispositive Power: 0
  10. Shared Dispositive Power: 5,525,000
11. Aggregate Amount Beneficially Owned by Each Reporting Person: 5,525,000
  12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o
  13. Percent of Class Represented by Amount in Row (11): 10.7%
  14. Type of Reporting Person (See Instructions)  
PN
-

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CUSIP No. 496904103

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1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only).  
Stilwell Associates, L.P.
  2. Check the Appropriate Box if a Member of a Group (See Instructions)  
(a) ☒ X  
(b) ☐
  3. SEC Use Only
  4. Source of Funds (See Instructions) WC, OO
  5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o  
Citizenship or Place of Organization:
  6. Delaware
- Number of  
Shares  
Beneficially  
Owned by  
Each  
Reporting  
Person With
7. Sole Voting Power: 0
  8. Shared Voting Power: 5,525,000
  9. Sole Dispositive Power: 0
  10. Shared Dispositive Power: 5,525,000
  11. Aggregate Amount Beneficially Owned by Each Reporting Person: 5,525,000
  12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o
  13. Percent of Class Represented by Amount in Row (11): 10.7%
  14. Type of Reporting Person (See Instructions)

PN

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1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only).  
Stilwell Offshore Ltd.
  2. Check the Appropriate Box if a Member of a Group (See Instructions)  
(a) ☒ X  
(b) ☐
  3. SEC Use Only .....
  4. Source of Funds (See Instructions) WC, OO
  5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o  
Citizenship or Place of Organization:
  6. Cayman Islands
- Number of  
Shares  
Beneficially  
Owned by  
Each  
Reporting  
Person With
7. Sole Voting Power: 0
  8. Shared Voting Power: 5,525,000
  9. Sole Dispositive Power: 0
  10. Shared Dispositive Power: 5,525,000
  11. Aggregate Amount Beneficially Owned by Each Reporting Person: 5,525,000
  12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o
  13. Percent of Class Represented by Amount in Row (11): 10.7%
  14. Type of Reporting Person (See Instructions)
- OO
-

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1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only).  
Stilwell Associates Insurance Fund of The S.A.L.I. Multi-Series Fund L.P.
  2. Check the Appropriate Box if a Member of a Group (See Instructions)  
(a) ☒ X  
(b) ☐
  3. SEC Use Only .....
  4. Source of Funds (See Instructions) WC, OO
  5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o  
Citizenship or Place of Organization:
  6. Delaware
- Number of  
Shares  
Beneficially  
Owned by  
Each  
Reporting  
Person With
7. Sole Voting Power: 0
  8. Shared Voting Power: 5,525,000
  9. Sole Dispositive Power: 0
  10. Shared Dispositive Power: 5,525,000
  11. Aggregate Amount Beneficially Owned by Each Reporting Person: 5,525,000
  12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o
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  14. Type of Reporting Person (See Instructions)
- PN
-

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CUSIP No. 496904103

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1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only).  
Stilwell Value LLC
  2. Check the Appropriate Box if a Member of a Group (See Instructions)  
(a) ☒ X  
(b) ☐
  3. SEC Use Only
  4. Source of Funds (See Instructions) n/a
  5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o  
Citizenship or Place of Organization:
  6. Delaware
- Number of  
Shares  
Beneficially  
Owned by  
Each  
Reporting  
Person With
7. Sole Voting Power: 0
  8. Shared Voting Power: 5,525,000
  9. Sole Dispositive Power: 0
  10. Shared Dispositive Power: 5,525,000
  11. Aggregate Amount Beneficially Owned by Each Reporting Person: 5,525,000
  12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o
  13. Percent of Class Represented by Amount in Row (11): 10.7%
  14. Type of Reporting Person (See Instructions)

OO

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CUSIP No. 496904103

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1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only).  
Stilwell Management LLC
  2. Check the Appropriate Box if a Member of a Group (See Instructions)  
(a) ☒ X  
(b) ☐
  3. SEC Use Only .....
  4. Source of Funds (See Instructions) n/a
  5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o  
Citizenship or Place of Organization:
  6. Delaware
- Number of  
Shares  
Beneficially  
Owned by  
Each  
Reporting  
Person With
7. Sole Voting Power: 0
  8. Shared Voting Power: 5,525,000
  9. Sole Dispositive Power: 0
  10. Shared Dispositive Power: 5,525,000
  11. Aggregate Amount Beneficially Owned by Each Reporting Person: 5,525,000
  12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o
  13. Percent of Class Represented by Amount in Row (11): 10.7%
  14. Type of Reporting Person (See Instructions)
- OO

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20,636

318

30,480,034    \$ 319    \$ 342,737    \$ (52,887)    \$ 2,975    \$

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

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

|                                                                                   | Years Ended December 31, |             |             |
|-----------------------------------------------------------------------------------|--------------------------|-------------|-------------|
|                                                                                   | 2006                     | 2005        | 2004        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                          |             |             |
| Net income                                                                        | \$ 9,420                 | \$ 111,087  | \$ 58,405   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |             |             |
| Depreciation and amortization                                                     | 20,598                   | 15,547      | 19,441      |
| Net (gain) loss on the sale of assets                                             | (796)                    | 344         | (2,089)     |
| Deferred income taxes                                                             | 7,744                    | (37,347)    |             |
| Cash used for restructuring activities                                            |                          |             | (3,007)     |
| Loss on debt extinguishments                                                      |                          |             | 607         |
| Excess tax benefits from stock-based compensation                                 | (352)                    |             |             |
| Stock-based compensation                                                          | 3,978                    | 1,547       | 426         |
| Impairment of goodwill                                                            | 15,373                   |             |             |
| Changes in operating assets and liabilities:                                      |                          |             |             |
| Accounts receivable                                                               | 26,141                   | (43,565)    | (20,871)    |
| Finance contracts                                                                 | 1,497                    | 3,623       | 5,070       |
| Inventories                                                                       | (20,332)                 | (13,704)    | (8,037)     |
| Prepaid expenses and other                                                        | 1,716                    | (141)       | (716)       |
| Accounts payable and accrued liabilities                                          | (15,649)                 | 12,395      | 5,081       |
| Other, net                                                                        | 2,431                    | 714         | 2,614       |
| Net cash provided by operating activities                                         | \$ 51,769                | \$ 50,500   | \$ 56,924   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                          |             |             |
| Capital expenditures                                                              | (12,931)                 | (30,880)    | (15,495)    |
| Acquisition, net of cash acquired                                                 | (69,307)                 |             |             |
| Proceeds from the sale of property, plant and equipment                           | 7,121                    | 11,736      | 6,800       |
| Net cash used in investing activities                                             | \$ (75,117)              | \$ (19,144) | \$ (8,695)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                          |             |             |
| Proceeds from exercise of stock options                                           | 762                      | 3,755       | 5,261       |
| Excess tax benefits from stock-based compensation                                 | 352                      |             |             |
| Proceeds from issuance of common stock                                            |                          |             | 75,702      |
| Borrowings under revolving credit facilities                                      | 243,313                  | 15,414      | 667,522     |
| Payments under revolving credit facilities                                        | (243,313)                | (15,414)    | (727,879)   |
| Payments under long-term debt obligations                                         | (500)                    | (2,000)     | (39,459)    |
| Repurchase of common stock                                                        | (9,164)                  | (3,366)     |             |
| Common stock dividends paid                                                       | (5,654)                  | (4,236)     |             |
| Net cash used in financing activities                                             | \$ (14,204)              | \$ (5,847)  | \$ (18,853) |

|                                                      |    |          |    |        |    |        |
|------------------------------------------------------|----|----------|----|--------|----|--------|
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | \$ | (37,552) | \$ | 25,509 | \$ | 29,376 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR       |    | 67,437   |    | 41,928 |    | 12,552 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR             | \$ | 29,885   | \$ | 67,437 | \$ | 41,928 |

Supplemental disclosures of cash flow information:

Cash paid during the period for:

|                        |    |       |    |       |    |       |
|------------------------|----|-------|----|-------|----|-------|
| Interest               | \$ | 5,266 | \$ | 4,814 | \$ | 9,021 |
| Income taxes paid, net | \$ | 41    | \$ | 739   | \$ | 1,137 |

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

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**WABASH NATIONAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF THE BUSINESS**

Wabash National Corporation (the Company) designs, manufactures and markets standard and customized truck trailers and intermodal equipment under the Wabash®, DuraPlate®, DuraPlateHD®, FreightPro®, ArcticLite®, RoadRailer®, Transcraft® Eagle®, Eagle II® and D-Eagle® trademarks. The Company's wholly-owned subsidiary, Wabash National Trailer Centers, Inc. (WNTC), sells new and used trailers through its retail network and provides aftermarket parts and service for the Company's and competitors' trailers and related equipment.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*a. Basis of Consolidation*

The consolidated financial statements reflect the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All significant intercompany profits, transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to prior periods to conform to the current year presentation. These reclassifications had no effect on net income for the periods previously reported.

*b. Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that directly affect the amounts reported in its consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

*c. Foreign Currency Accounting*

The financial statements of the Company's Canadian subsidiary have been translated into U.S. dollars in accordance with Financial Accounting Standards Board (FASB) Statement No. 52, *Foreign Currency Translation*. Assets and liabilities have been translated using the exchange rate in effect at the balance sheet date. Revenues and expenses have been translated using a weighted-average exchange rate for the period. The resulting translation adjustments are recorded as *Accumulated Other Comprehensive Income* in Stockholders' Equity. Gains or losses resulting from foreign currency transactions are included in *Foreign Exchange Gains and Losses, net* on the Company's Consolidated Statements of Operations.

The Company has continued to designate a \$30 million Canadian dollar intercompany loan as a permanent investment. Gains and losses associated with this investment are charged to *Accumulated Other Comprehensive Income* in the Consolidated Balance Sheets. As of December 31, 2006, 2005 and 2004, accumulated gains of \$3.5 million, \$3.5 million and \$2.6 million, respectively, have been recorded related to this permanent investment.

*d. Revenue Recognition*

The Company recognizes revenue from the sale of trailers and aftermarket parts when the customer has made a fixed commitment to purchase the trailers for a fixed or determinable price, collection is reasonably assured under the Company's billing and credit terms and ownership and all risk of loss has been transferred to the buyer, which is normally upon shipment or pick up by the customer.

The Company recognizes revenue from direct finance leases based upon a constant rate of return while revenue from operating leases is recognized on a straight-line basis in an amount equal to the invoiced rentals.

*e. Used Trailer Trade Commitments and Residual Value Guarantees*

The Company has commitments with certain customers to accept used trailers on trade for new trailer purchases. These commitments arise in the normal course of business related to future new trailer orders at the time a new trailer order is placed by the customer. The Company acquired used trailers of approximately \$36.9 million, \$55.3 million and \$37.9 million in 2006, 2005 and 2004, respectively. As of December 31, 2006 and 2005, the

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Company had approximately \$18.0 million and \$10.9 million, respectively, of outstanding trade commitments. On occasion, the amount of the trade allowance provided for in the used trailer commitments may exceed the net realizable value of the underlying used trailer. In these instances, the Company's policy is to recognize the loss related to these commitments at the time the new trailer revenue is recognized. The net realizable value of the used trailers subject to the remaining outstanding trade commitments was approximately \$16.6 million and \$9.8 million as of December 31, 2006 and 2005, respectively.

In connection with certain new trailer sale transactions prior to 2002, the Company had entered into agreements to guarantee end-of-term residual value, which contain an option for the Company to purchase the used equipment at a pre-determined price. Since 2002, the Company has not provided any additional used trailer residual guarantees. The Company recognizes a loss contingency for used trailer residual commitments for the difference between the equipment's purchase price and its fair value when it becomes probable that the purchase price at the guarantee date will exceed the equipment's fair market value at that date.

Under these agreements, future guarantee payments that may be required as of December 31, 2006 were \$1.8 million for 2007. The purchase option on the equipment as of December 31, 2006 was \$4.7 million. In relation to the guarantees, as of December 31, 2006 and 2005, the Company recorded loss contingencies of less than \$0.1 million.

*f. Cash and Cash Equivalents*

Cash equivalents consist of highly liquid investments, which are readily convertible into cash and have maturities of three months or less.

*g. Accounts Receivable and Finance Contracts*

Accounts receivable are shown net of allowance for doubtful accounts and primarily include trade receivables. Finance contracts, net of allowances, totaled less than \$0.1 million and \$1.5 million as of December 31, 2006 and 2005, respectively, and are reported within *Prepaid expenses and other* on the Consolidated Balance Sheets. The Company records and maintains a provision for doubtful accounts for customers based upon a variety of factors including the Company's historical experience, the length of time the account has been outstanding and the financial condition of the customer. If the circumstances related to specific customers were to change, the Company's estimates with respect to the collectibility of the related accounts could be further adjusted. Provisions to the allowance for doubtful accounts are charged to *General and Administrative Expenses* in the Consolidated Statements of Operations. The activity in the allowance for doubtful accounts was as follows (in thousands):

|                              | Years Ended December 31, |          |          |
|------------------------------|--------------------------|----------|----------|
|                              | 2006                     | 2005     | 2004     |
| Balance at beginning of year | \$ 1,807                 | \$ 2,985 | \$ 4,160 |
| Expense (income)             | 36                       | (98)     | (231)    |
| Write-offs, net              | (426)                    | (1,080)  | (944)    |
| Balance at end of year       | \$ 1,417                 | \$ 1,807 | \$ 2,985 |

**Table of Contents***h. Inventories*

Inventories are primarily stated at the lower of cost, 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):

|                              | December 31, |            |
|------------------------------|--------------|------------|
|                              | 2006         | 2005       |
| Raw materials and components | \$ 50,398    | \$ 42,886  |
| Work in progress             | 1,157        | 10,537     |
| Finished goods               | 64,299       | 27,392     |
| Aftermarket parts            | 5,770        | 4,975      |
| Used trailers                | 11,509       | 22,254     |
|                              | \$ 133,133   | \$ 108,044 |

*i. Prepaid Expenses and Other*

Prepaid expenses and other as of December 31, 2006 and 2005 were \$4.1 million and \$8.9 million, respectively. Prepaid expenses and other primarily included prepaid expenses, such as insurance premiums, computer software maintenance, finance contracts and assets held for sale. Assets held for sale, which included closed manufacturing facilities and branch locations, were \$1.8 million as of December 31, 2005. During 2006, the Company sold the remaining properties at amounts that approximated carrying values.

*j. Property, Plant and Equipment*

Property, plant and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred, while expenditures that extend the useful life of an asset are capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives are up to 33 years for buildings and building improvements and a range of three to 10 years for machinery and equipment. Depreciation expense on property, plant and equipment was \$12.8 million, \$12.3 million and \$13.0 million for 2006, 2005 and 2004, respectively.

Property, plant and equipment consist of the following (in thousands):

|                                     | December 31, |           |
|-------------------------------------|--------------|-----------|
|                                     | 2006         | 2005      |
| Land                                | \$ 21,147    | \$ 20,820 |
| Buildings and building improvements | 88,218       | 85,301    |
| Machinery and equipment             | 144,353      | 129,780   |
| Construction in progress            | 4,545        | 12,398    |
|                                     | 258,263      | 248,299   |
| Less accumulated depreciation       | (128,938)    | (116,738) |

\$ 129,325      \$ 131,561

*k. Equipment Leased to Others*

Equipment leased to others as of December 31, 2006 and 2005 was \$1.3 million and \$7.6 million, net of accumulated depreciation of \$2.4 million and \$5.3 million, respectively. Equipment leased to others is depreciated over the estimated life of the equipment or the term of the underlying lease arrangement, not to exceed 15 years, with a 20% residual value or a residual value equal to the estimated market value of the equipment at lease termination. Depreciation expense on equipment leased to others was \$1.6 million, \$2.2 million and \$3.1 million for the years 2006, 2005 and 2004, respectively. The future minimum lease payments to be received under the lease arrangements are less than \$0.1 million per year through 2009.

**Table of Contents***l. Goodwill*

The changes in the carrying amount of goodwill by reportable segment are as follows (in thousands):

|                                 | Manufacturing | Retail and<br>Distribution | Total     |
|---------------------------------|---------------|----------------------------|-----------|
| Balance as of January 1, 2005   | \$ 18,357     | \$ 16,154                  | \$ 34,511 |
| Effects of foreign currency     |               | 534                        | 534       |
| Allocated to disposals          |               | (2,027)                    | (2,027)   |
| Balance as of December 31, 2005 | \$ 18,357     | \$ 14,661                  | \$ 33,018 |
| Effects of foreign currency     |               | 712                        | 712       |
| Acquisition - Transcraft        | 48,335        |                            | 48,335    |
| Impairment                      |               | (15,373)                   | (15,373)  |
| Balance as of December 31, 2006 | \$ 66,692     | \$                         | \$ 66,692 |

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, the Company tests goodwill for impairment on an annual basis or more frequently if an event occurs or circumstances change that could more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company estimates fair value based upon the present value of future cash flows. In estimating the future cash flows, the Company takes into consideration the overall and industry economic conditions and trends, market risk of the Company and historical information.

The Company conducted its annual impairment test as of October 1, 2006 and determined that no impairment of goodwill existed for the Company's reporting units within the Manufacturing reportable segment.

The Company conducted its annual impairment test as of October 1, 2006 and determined that the goodwill within the Retail and Distribution reporting unit was impaired. The Company determined that the book value of the reporting unit exceeded the estimated fair value of the reporting unit as determined using the present value of expected future cash flows on the assessment date. After calculating the implied fair value of the goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit, it was determined that the recorded goodwill of \$15.4 million was impaired. The goodwill impairment was the result of the revised outlook as determined by Company's budgeting process for future periods. Future periods are being impacted by changes in the pattern of used trailer trade activity by larger fleet operators resulting in longer trade cycles and increased levels of direct sales of the used trailers by customers. These changes impact both the profitability of used trailer and the parts and services operations. Also impacting future periods is the continued reduction of our retail locations.

During December 2005, the Company sold three of its Canadian branch locations. As part of the transaction, \$2.0 million of goodwill was allocated to the disposal. A net loss of \$0.9 million was recorded on the sale in *Other, net* in the Consolidated Statements of Operations. The allocation was based on the relative fair values of the retained and to be disposed of businesses.

*m. Intangible Assets*

The Company has intangible assets including patents, licenses, trade names, trademarks, customer relationships and technology costs, which are being amortized on a straight-line basis over periods ranging from two to twenty years. As of December 31, 2006 and 2005, the Company had gross intangible assets of \$54.0 million (\$36.0 million net of amortization), and \$15.5 million (\$2.1 million net of amortization), respectively. Amortization expense for 2006, 2005 and 2004 was \$4.6 million, \$0.9 million and \$1.3 million, respectively, and is estimated to be \$3.5 million, \$3.3 million, \$3.1 million, \$3.1 million and \$3.0 million for 2007, 2008, 2009, 2010 and 2011, respectively.

*n. Other Assets*

The Company capitalizes the cost of computer software developed or obtained for internal use in accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Capitalized software is amortized using the straight-line method over three to seven years. In 2005, the

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Company began a project to implement a new enterprise resource planning system, which was completed in May 2006. As of December 31, 2006, \$15.2 million of costs were capitalized related to the project. As of December 31, 2006 and 2005, the Company had software costs, net of amortization of \$14.1 million and \$10.1 million, respectively. Amortization expense for 2006, 2005 and 2004 was \$1.6 million, \$0.1 million and \$2.0 million, respectively.

*o. Long-Lived Assets*

Long-lived assets are reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever facts and circumstances indicate that the carrying amount may not be recoverable. Specifically, this process involves comparing an asset's carrying value to the estimated undiscounted future cash flows the asset is expected to generate over its remaining life. If this process were to result in the conclusion that the carrying value of a long-lived asset would not be recoverable, a write-down of the asset to fair value would be recorded through a charge to operations. Fair value is determined based upon discounted cash flows or appraisals as appropriate.

*p. Other Accrued Liabilities*

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

|                           | Years Ended December 31, |                  |
|---------------------------|--------------------------|------------------|
|                           | 2006                     | 2005             |
| Customer deposits         | \$ 8,257                 | \$ 11,067        |
| Warranty                  | 14,978                   | 10,217           |
| Payroll and related taxes | 13,020                   | 9,832            |
| Accrued taxes             | 6,536                    | 7,851            |
| Self-insurance            | 8,742                    | 7,733            |
| All other                 | 7,173                    | 12,051           |
|                           | <b>\$ 58,706</b>         | <b>\$ 58,751</b> |

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

|                                                   | 2006             | 2005             |
|---------------------------------------------------|------------------|------------------|
| Balance at January 1                              | \$ 10,217        | \$ 8,399         |
| Provision for warranties issued in current year   | 5,333            | 4,974            |
| Additional provisions for pre-existing warranties | 3,547            | 3,298            |
| Transcraft acquisition                            | 2,100            |                  |
| Payments                                          | (6,219)          | (6,454)          |
| Balance at December 31                            | <b>\$ 14,978</b> | <b>\$ 10,217</b> |

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 10 years, with all other components remaining at five years. The Company's policy is to accrue the estimated cost of warranty coverage at the time of the sale.

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The following table presents the changes in the self-insurance accrual included in *Other Accrued Liabilities* (in thousands):

|                                 | Self-Insurance<br>Accrual |
|---------------------------------|---------------------------|
| Balance as of January 1, 2005   | \$ 8,159                  |
| Expense                         | 24,442                    |
| Payments                        | (24,868)                  |
| Balance as of December 31, 2005 | \$ 7,733                  |
| Expense                         | 26,295                    |
| Payments                        | (25,286)                  |
| Balance as of December 31, 2006 | \$ 8,742                  |

The Company is self-insured up to specified limits for medical and workers' compensation coverage. The self-insurance reserves have been recorded to reflect the undiscounted estimated liabilities, including claims incurred but not reported, as well as catastrophic claims as appropriate.

*q. Income Taxes*

The Company determines its provision or benefit for income taxes under the asset and liability method. The asset and liability method measures the expected tax impact at current enacted rates of future taxable income or deductions resulting from differences in the tax and financial reporting basis of assets and liabilities reflected in the Consolidated Balance Sheets. Future tax benefits of tax losses and credit carryforwards are recognized as deferred tax assets. Deferred tax assets are reduced by a valuation allowance to the extent the Company concludes there is uncertainty as to their realization.

*r. New Accounting Pronouncements*

*Income Taxes.* In June 2006, the Financial Accounting Standards Board (FASB) 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 adoption of FIN 48 will not have a material impact on the Company's financial position and results of operations.

*Fair Value Measurements.* In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. The Statement provides guidance for using fair value to measure assets and liabilities and only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not expand the use of fair value measurement. This Statement is effective for fiscal years beginning after November 15, 2007. The adoption of this Statement is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

*Inventory Costs.* In November 2004, the FASB issued SFAS No. 151, *Inventory Costs – an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4*. The Statement clarified that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current-period expenses regardless of how abnormal the circumstances. In addition, this Statement required that the allocation of fixed overheads to the costs of conversion be based upon normal production capacity levels. The Statement was effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this Statement had no impact on the Company's financial position, results of operations and cash flows.

**Table of Contents****3. FAIR VALUE OF FINANCIAL INSTRUMENTS**

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of fair value information for certain financial instruments. The differences between the carrying amounts and the estimated fair values, using the methods and assumptions listed below, of the Company's financial instruments at December 31, 2006, and 2005 were immaterial, with the exception of the Senior Convertible Notes.

*Cash and Cash Equivalents, Accounts Receivable and Accounts Payable.* The carrying amounts reported in the Consolidated Balance Sheets approximate fair value.

*Long-Term Debt.* The fair value of long-term debt is estimated based on current quoted market prices for similar issues or debt with the same maturities. The interest rates on the Company's bank borrowings under its Bank Facility are adjusted regularly to reflect current market rates. The estimated fair value of the Company's Senior Convertible Notes, based on market quotes, is approximately \$124 million and \$141 million, compared to a carrying value of \$125 million, as of December 31, 2006 and 2005, respectively.

*Foreign Currency Forward Contracts.* From time-to-time, the Company holds foreign currency contracts to mitigate the impact of Canadian currency fluctuations. No contracts were outstanding as of December 31, 2006 and \$1.7 million were outstanding as of December 31, 2005.

**4. 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 \$69.3 million in cash, including \$0.6 million in closing costs, consisting primarily of legal and accounting fees. An additional purchase price payment of \$4.5 million is payable in the first half of 2007 based on Transcraft's achievement of 2006 performance targets.

Transcraft Corporation is the leading manufacturer of flatbed and drop deck trailers in North America. Transcraft operates manufacturing facilities in Anna, Illinois and Mt. Sterling, Kentucky. 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.

Goodwill and intangible assets of \$48.3 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         |
| Backlog                | 1.5     | Less than 1 year |
|                        | \$ 38.5 |                  |

The aggregate purchase price of \$73.8 million, including the additional purchase price payment of \$4.5 million payable in 2007, was allocated to the opening balance sheet of Transcraft as follows (in thousands):

|                             |                |
|-----------------------------|----------------|
| Current Assets              | \$ 9,587       |
| Property, Plant & Equipment | 4,532          |
| Goodwill                    | 48,335         |
| Intangibles                 | 38,500         |
| <br>Total Assets            | <br>\$ 100,954 |
| Current Liabilities         | \$ 16,385      |
| Deferred Taxes              | 10,762         |
| <br>Total Liabilities       | <br>\$ 27,147  |
| <br>Net Assets Acquired     | <br>\$ 73,807  |

**Table of Contents***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).

|                              | Twelve Months Ended December 31, |              |
|------------------------------|----------------------------------|--------------|
|                              | 2006                             | 2005         |
| Sales                        | \$ 1,343,137                     | \$ 1,310,864 |
| Operating Income             | 28,629                           | 90,123       |
| Net Income                   | 9,840                            | 117,164      |
| Basic Net Income per Share   | 0.32                             | 3.76         |
| Diluted Net Income per Share | 0.31                             | 3.22         |

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.

**5. PER SHARE OF COMMON STOCK**

Per share results have been computed based on the average number of common shares outstanding. The computation of basic and diluted net income per share is determined using net income applicable to common stockholders as the numerator and the number of shares included in the denominator as follows (in thousands):

|                                                       | Years Ended December 31, |            |           |
|-------------------------------------------------------|--------------------------|------------|-----------|
|                                                       | 2006                     | 2005       | 2004      |
| Basic net income per share:                           |                          |            |           |
| Net income applicable to common stockholders          | \$ 9,420                 | \$ 111,087 | \$ 58,405 |
| Weighted average common shares outstanding            | 31,102                   | 31,139     | 27,748    |
| Basic net income per share                            | \$ 0.30                  | \$ 3.57    | \$ 2.10   |
| Diluted net income per share:                         |                          |            |           |
| Net income applicable to common stockholders          | \$ 9,420                 | \$ 111,087 | \$ 58,405 |
| After-tax equivalent of interest on convertible notes |                          | 4,914      | 4,828     |
| Diluted net income applicable to common stockholders  | \$ 9,420                 | \$ 116,001 | \$ 63,233 |
| Weighted average common shares outstanding            | 31,102                   | 31,139     | 27,748    |
| Dilutive stock options/shares                         | 189                      | 276        | 832       |
| Convertible notes equivalent shares                   |                          | 6,542      | 6,510     |

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|                                                    |         |         |         |
|----------------------------------------------------|---------|---------|---------|
| Diluted weighted average common shares outstanding | 31,291  | 37,957  | 35,090  |
| Diluted net income per share                       | \$ 0.30 | \$ 3.06 | \$ 1.80 |

Average diluted shares outstanding in 2006 exclude the antidilutive effects of the Company's Senior Convertible Notes, for which the after-tax equivalent of interest on convertible notes was \$3.0 million and the convertible notes equivalent shares were 6.6 million.

**Table of Contents****6. OTHER LEASE ARRANGEMENTS**

The Company leases office space, manufacturing, warehouse and service facilities and equipment under operating leases, the majority of which expire through 2009. Future minimum lease payments required under these other lease commitments as of December 31, 2006 are as follows (in thousands):

|            | Payments |
|------------|----------|
| 2007       | \$ 1,750 |
| 2008       | 1,313    |
| 2009       | 797      |
| 2010       | 611      |
| 2011       | 270      |
| Thereafter | 245      |
|            | \$ 4,986 |

Total rental expense was \$4.7 million, \$3.2 million and \$6.2 million for 2006, 2005 and 2004, respectively.

**7. DEBT**

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

|                                           | December 31, |            |
|-------------------------------------------|--------------|------------|
|                                           | 2006         | 2005       |
| Senior Convertible Notes (3.25% due 2008) | \$ 125,000   | \$ 125,000 |
| Other Notes Payable (7.25% due 2006)      |              | 500        |
|                                           | 125,000      | 125,500    |
| Less: Current maturities                  |              | (500)      |
|                                           | \$ 125,000   | \$ 125,000 |

*b. Senior Convertible Notes*

The Company had \$125 million of five-year senior unsecured convertible notes (convertible notes) at December 31, 2006, which are currently convertible into approximately 6.6 million shares of the Company's common stock. The convertible notes have a conversion price of \$18.83, which has been adjusted for the impact of cash dividend payments, or a rate of 53.1123 shares per \$1,000 principal amount of note. The conversion feature of the convertible notes is subject to further adjustment in connection with the payment of future cash dividends. As a result of any future payment of a cash dividend, upon any conversion of the notes, the Company would be required to issue additional shares of common stock. The convertible notes bear interest at 3.25% per annum payable semi-annually on February 1 and August 1. If not converted, the balance is due on August 1, 2008.

*c. Bank Facility*

On March 6, 2007, the Company entered into a Second Amended and Restated Loan and Security Agreement (Revolving Facility) with its lenders. The Revolving Facility replaced the Company's prior facility. The Revolving Facility increased the capacity under the facility from \$125 million to \$150 million, subject to a borrowing base, and extended the maturity date of the facility from September 30, 2007 to March 6, 2012. The Revolving Facility provides for a letter of credit and letter of credit guaranty and a swingline loan subfacility and allows for overadvances in certain circumstances.

The Company has the option to increase the credit facility by up to an additional \$100 million during the term of the facility, subject to a borrowing base. The lenders under the Revolving Facility are under no obligation to provide any additional commitments and any increase in commitments will be subject to customary conditions precedent.

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All obligations under the Revolving Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all assets of the Company.

The Revolving Facility includes certain covenants that restrict, among other things and subject to certain exceptions, the Company's ability and the ability of its subsidiaries to:

incur additional debt;

pay any distributions, including dividends on our common stock in excess of \$20 million per year;

repurchase our common stock in excess of \$50 million over the term of the agreement;

consolidate, merge or transfer all or substantially all of our assets;

make certain investments, loans, mergers and acquisitions;

enter into material transactions with affiliates unless in the ordinary course, upon fair and reasonable terms and no less favorable than would be obtained in a comparable arms-length transaction;

use proceeds from the Revolving Facility to make payment on certain indebtedness, excluding certain payments relating to our Senior Convertible Notes and indebtedness incurred in connection with a repurchase of our Senior Convertible Notes;

amend the terms of certain indebtedness;

sell, lease or dispose of certain assets;

amend our organizational documents in certain circumstances;

enter into operating leases with an aggregate rentals payable in excess of \$10 million;

change in any material respect the nature of our business conducted as of March 6, 2007; and

create certain liens.

Additionally, should the Company's available borrowing capacity drop below \$30 million, the Company would be subject to a minimum fixed charge coverage ratio of 1.1:1.0 which could limit its ability to make capital expenditures and stock repurchases and further limit the amount of dividends it could pay. Also, the definition of earnings before interest, taxes, depreciation and amortization (EBITDA) was further amended to exclude expenses relating to the issuance of any new convertible indebtedness.

The Revolving Facility also requires that no later than May 1, 2008, the Company do one or more of the following in connection with our Senior Convertible Notes: (i) repurchase all or a portion of the Senior Convertible Notes, (ii) defease any outstanding indebtedness evidenced by the Senior Convertible Notes or (iii) institute cash reserves equal to the outstanding principal balance of the Senior Convertible Notes from funds other than proceeds from the Revolving Facility, which cash reserves shall only be used to satisfy the Company's obligations under the Senior Convertible Notes and which shall remain in place until the Senior Convertible Notes have been paid in full.

The Revolving Facility also contains additional customary affirmative covenants and events of default, including among other events, certain cross defaults, business disruption, condemnation and change in ownership.

Borrowings under the Revolving Facility bear interest at a variable rate based on the London Interbank Offer Rate (LIBOR) or a base rate determined by the lender's prime rate plus an applicable margin, as defined in the agreement. The applicable margin for borrowings under the Revolving Facility ranges from 0.00% to 0.75% for base rate borrowings and 1.25% to 2.25% for LIBOR borrowings, subject to adjustment based on the average availability under the Revolving Facility. Until September 30, 2007, the applicable margin is 0.00% for base rate borrowings and 1.25% for LIBOR borrowings. The Company also pays a commitment fee on the unused portion of the facility at a rate of 0.25%. All interest and fees are paid monthly.

On February 14, 2006, the Company and its lenders entered into a consent and amendment of facility at that time. The consent allowed the completion of the Transcraft acquisition. Additionally, the definition of EBITDA was

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amended to exclude expenses relating to stock options and restricted stock grants, which are additional add-backs to EBITDA.

On September 23, 2005, the Company and its lenders also entered into an amendment of the prior facility to, among other things, allow dividend payments up to \$20 million per fiscal year and allow the repurchase of up to \$50 million of common stock over the remaining term of the agreement.

As of December 31, 2006 and 2005, borrowing capacity under the previous facility was \$117.5 million and \$117.3 million, respectively. Under the new Revolving Facility, the borrowing capacity would have been \$142.5 million and \$142.3 million, respectively.

As of December 31, 2006, the 30-day LIBOR was 5.4%. For the quarter ended December 31, 2006, the weighted average interest rate was 7.25%

As of December 31, 2006, the Company was in compliance with all covenants of the Revolving Facility.

## **8. STOCKHOLDERS EQUITY**

### *a. Common Stock*

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. As of December 31, 2006, \$36.1 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.

In 2006 and 2005, the Company declared dividends of \$5.7 million and \$5.6 million, respectively.

### *b. Preferred Stock*

Effective December 29, 2005, in connection with the expiration of the Company's prior Stockholder Rights Plan, the Company's Board of Directors adopted resolutions eliminating the Series A Junior Participating Preferred Stock authorized by the Company.

On December 28, 2005, in connection with the adoption of a Stockholders Rights Plan discussed further below, the Company's Board of Directors adopted resolutions creating a series of 300,000 shares of Preferred Stock designated as Series D Junior Participating Preferred Stock, par value \$.01 per share. As of December 31, 2006, the Company had no shares issued or outstanding.

The Board of Directors has the authority to issue up to 25 million shares of unclassified preferred stock and to fix dividends, voting and conversion rights, redemption provisions, liquidation preferences and other rights and restrictions.

### *c. Stockholders Rights Plan*

On December 28, 2005, the Company's Board of Directors adopted a Stockholders Rights Plan (the Rights Plan) replacing a similar plan that expired. The Rights Plan is designed to deter coercive or unfair takeover tactics in the event of an unsolicited takeover attempt. It is not intended to prevent a takeover of Wabash on terms that are favorable and fair to all stockholders and will not interfere with a merger approved by the Board of Directors. Each right entitles

stockholders to buy one one-thousandth of a share of Series D Junior Participating Preferred Stock at an exercise price of \$120. The rights will be exercisable only if a person or a group acquires or announces a tender or exchange offer to acquire 20% or more of the Company's common stock or if the Company enters into other business combination transactions not approved by the Board of Directors. In the event the rights become exercisable, the Rights Plan allows for the Company's stockholders to acquire stock of Wabash or the surviving corporation, whether or not Wabash is the surviving corporation having a value twice that of the exercise price of the rights. The rights will expire December 28, 2015 or are redeemable for \$0.01 per right by the Company's Board of Directors under certain circumstances.

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**9. 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.

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.

*Stock Options.* The Company has three non-qualified stock option plans (1992 Stock Option Plan, 2000 Stock Option and Incentive Plan and 2004 Stock Incentive Plan), which allow eligible employees to purchase shares of common stock at a price not less than market price at the date of grant. The Company currently only allows new grants under the 2000 and 2004 plans. 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 vest 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 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 and based on achievement of specific corporate financial performance metrics. 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. 123(R)). SFAS No. 123(R), 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*. SFAS No. 123(R) requires that all share-based payments to 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. 123(R) 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 Company's policy is to recognize expense for awards subject to graded vesting using the straight-line attribution method. The amount of after-tax compensation cost

related to nonvested stock options and restricted stock not yet recognized was \$5.5 million at December 31, 2006, for which the expense will be recognized through 2010.

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company has incurred additional stock-based compensation expense of \$2.0 million (\$1.2 million after tax and approximately \$0.04 per basic and diluted earnings per share) related to stock options for the year ending December 31, 2006.

Prior to the adoption of SFAS No. 123(R), 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.

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SFAS No. 123(R) 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 \$0.4 million excess tax benefits classified as a financing cash inflow would have been classified as an operating cash inflow if the Company had not adopted SFAS No. 123(R).

SFAS No. 123(R), 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 thousands, except for per share amounts):

|                                                                  | Year Ended December 31, |           |
|------------------------------------------------------------------|-------------------------|-----------|
|                                                                  | 2005                    | 2004      |
| Reported net income                                              | \$ 111,087              | \$ 58,405 |
| Pro forma stock-based employee compensation expense (net of tax) | (4,027)                 | (2,613)   |
| Stock-based employee compensation expense recorded (net of tax)  | 1,547                   | 417       |
| Pro forma net income                                             | \$ 108,607              | \$ 56,209 |
| Basic net income per share:                                      |                         |           |
| Reported net income per share                                    | \$ 3.57                 | \$ 2.10   |
| Pro forma net income per share                                   | \$ 3.49                 | \$ 2.02   |
| Diluted net income per share:                                    |                         |           |
| Reported net income per share                                    | \$ 3.06                 | \$ 1.80   |
| Pro forma net income per share                                   | \$ 2.99                 | \$ 1.74   |

***Stock Options 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. Based on current estimates, the Company believes that 50% of the shares granted will ultimately vest.

During 2006, 2005 and 2004, the Company granted 272,890, 171,390 and 69,510 shares, respectively, of restricted stock with aggregate fair values on the date of grant of \$4.5 million, \$4.5 million and \$1.7 million, respectively. The grants generally vest over periods ranging from two to five years.

In 2006, 2005 and 2004, the Company recorded compensation expense of \$2.0 million, \$1.5 million and \$0.4 million, respectively, related to restricted stock.

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A summary of all restricted stock activity for the periods indicated below is as follows:

|                                                   | 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                                           | 272,890             | \$ 16.56                                        |
| Vested                                            | (14,492)            | \$ 17.90                                        |
| Forfeited                                         | (24,753)            | \$ 23.71                                        |
| Restricted Stock Outstanding at December 31, 2006 | 447,135             | \$ 20.42                                        |

The total fair value of restricted stock that vested during 2006, 2005 and 2004 was \$0.2 million, \$1.5 million and \$0.1 million, respectively.

*Stock Options*

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 2006 was \$8.23 per option. The estimated fair values of options granted in 2005 and 2004 were estimated using the Black-Scholes-Merton model. The values for 2005 and 2004 were \$12.29 and \$15.35, respectively. Expected volatility is based upon the Company's historical experience. Principal weighted-average assumptions used in applying these models were as follows:

| Valuation Assumptions   | 2006   | 2005   | 2004    |
|-------------------------|--------|--------|---------|
| Risk-free interest rate | 4.95%  | 3.99%  | 4.70%   |
| Expected volatility     | 49.7%  | 51.5%  | 52.1%   |
| Expected dividend yield | 1.07%  | 0.68%  | 0.50%   |
| Expected term           | 6 yrs. | 5 yrs. | 10 yrs. |

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

|                                          | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value<br>(\$ in millions) |
|------------------------------------------|----------------------|------------------------------------------|---------------------------------------------------------|-----------------------------------------------------|
| Options Outstanding at December 31, 2005 | 991,875              | \$ 16.37                                 |                                                         |                                                     |

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|                                          |           |    |       |     |        |
|------------------------------------------|-----------|----|-------|-----|--------|
| Granted                                  | 325,550   | \$ | 16.84 |     |        |
| Exercised                                | (65,278)  | \$ | 7.86  | \$  | 0.7    |
| Forfeited                                | (40,167)  | \$ | 23.26 |     |        |
| Expired                                  | (22,100)  | \$ | 20.36 |     |        |
| Options Outstanding at December 31, 2006 | 1,189,880 | \$ | 16.58 | 6.9 | \$ 2.7 |
| Options Exercisable at December 31, 2006 | 733,063   | \$ | 14.77 | 5.6 | \$ 2.7 |

The total intrinsic value of options exercised during 2006, 2005 and 2004 was \$0.7 million, \$6.5 million and \$7.3 million, respectively.

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The following table summarizes information about stock options outstanding as of December 31, 2006:

| Range of<br>Exercise<br>Prices | Number<br>Outstanding | Weighted<br>Average<br>Remaining<br>Life | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable<br>at 12/31/06 | Weighted<br>Average<br>Exercise<br>Price |
|--------------------------------|-----------------------|------------------------------------------|------------------------------------------|--------------------------------------|------------------------------------------|
| \$ 6.68 - \$10.01              | 445,074               | 5.8                                      | \$ 8.92                                  | 445,074                              | \$ 8.92                                  |
| \$ 10.02 - \$13.35             | 1,500                 | 4.4                                      | \$ 12.95                                 | 1,500                                | \$ 12.95                                 |
| \$ 13.36 - \$16.69             | 26,000                | 1.8                                      | \$ 15.34                                 | 26,000                               | \$ 15.34                                 |
| \$ 16.70 - \$20.03             | 321,600               | 9.3                                      | \$ 16.83                                 | 2,667                                | \$ 18.04                                 |
| \$ 20.04 - \$23.36             | 57,350                | 3.6                                      | \$ 21.29                                 | 56,017                               | \$ 21.30                                 |
| \$ 23.37 - \$26.70             | 170,687               | 7.1                                      | \$ 24.03                                 | 109,450                              | \$ 23.93                                 |
| \$ 26.71 - \$30.04             | 167,669               | 5.9                                      | \$ 27.43                                 | 92,355                               | \$ 27.84                                 |

**10. EMPLOYEE SAVINGS PLANS**

Substantially all of the Company's employees are eligible to participate in a defined contribution plan that qualifies as a safe harbor plan under Section 401(k) of the Internal Revenue Code. The Company also provides a non-qualified defined contribution plan for senior management and certain key employees. Both plans provide for the Company to match, in cash, a percentage of each employee's contributions up to certain limits. The Company's matching contribution and related expense for these plans was approximately \$3.7 million, \$3.2 million and \$2.8 million for 2006, 2005 and 2004, respectively.

**11. INCOME TAXES***a. Income Before Income Taxes*

The consolidated income before income taxes for 2006, 2005 and 2004 consists of the following:

|                                  | 2006      | 2005      | 2004      |
|----------------------------------|-----------|-----------|-----------|
| Domestic                         | \$ 32,441 | \$ 75,520 | \$ 62,907 |
| Foreign                          | (16,139)  | (1,464)   | (3,902)   |
| Total income before income taxes | \$ 16,302 | \$ 74,056 | \$ 59,005 |

*b. Income Tax Expense (Benefit)*

The consolidated income tax expense (benefit) for 2006, 2005 and 2004 consists of the following components (in thousands):

|  | 2006 | 2005 | 2004 |
|--|------|------|------|
|--|------|------|------|

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|                                      |          |             |        |
|--------------------------------------|----------|-------------|--------|
| U.S. Federal                         | \$ 976   | \$ 1,301    | \$ 102 |
| Foreign                              |          |             |        |
| State                                | (1,838)  | (985)       | 498    |
| Deferred                             | 7,744    | (37,347)    |        |
| Total consolidated expense (benefit) | \$ 6,882 | \$ (37,031) | \$ 600 |

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The Company's following table provides a reconciliation of differences from the U.S. Federal statutory rate of 35% as follows (in thousands):

|                                                                     | 2006      | 2005        | 2004      |
|---------------------------------------------------------------------|-----------|-------------|-----------|
| Pretax book income                                                  | \$ 16,302 | \$ 74,056   | \$ 59,005 |
| Federal tax expense at 35% statutory rate                           | 5,706     | 25,920      | 20,652    |
| State and local income taxes                                        | 1,300     | 3,625       | 498       |
| U.S. federal alternative minimum tax                                |           | 1,095       | 400       |
| Reversal of tax valuation allowance and reserves                    | (4,763)   | (37,347)    |           |
| Current utilization of valuation allowance for net operating losses | (219)     | (29,981)    | (21,683)  |
| Foreign taxes                                                       | 5,649     | 512         | 1,366     |
| Other                                                               | (791)     | (855)       | (633)     |
| Total income tax expense (benefit)                                  | \$ 6,882  | \$ (37,031) | \$ 600    |

*c. Deferred Taxes*

The Company's deferred income taxes are primarily due to temporary differences between financial and income tax reporting for the depreciation of property, plant and equipment and tax credits and losses carried forward.

Under SFAS No. 109, *Accounting for Income Taxes*, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company determined that a valuation allowance was necessary and recorded a full valuation allowance for all deferred tax assets as of December 31, 2004. In 2005, the Company determined that the criteria for reversal of a portion of the income tax asset valuation allowance, including materially all valuation allowance recorded against U.S. federal loss carryforward tax assets were met, and accordingly, the Company recorded a tax benefit of \$37.3 million for the release of the valuation allowance. In the fourth quarter of 2006, the Company reversed \$4.8 million of valuation allowance and reserves, primarily related to settlement of state tax audits. In future periods, the Company will evaluate the remaining deferred income tax asset valuation allowance and adjust (reduce) the allowance when management has determined that impairment to future realizability of the related deferred tax assets, or a portion thereof, has been removed as provided in the criteria set forth in SFAS No. 109.

The Company has a U.S. federal tax net operating loss carryforward of approximately \$70.0 million, which will expire beginning in 2022, if unused, and which may be subject to other limitations under IRS rules. The Company has various, multistate income tax net operating loss carryforwards which have been recorded as a deferred income tax asset of approximately \$12.0 million, before valuation allowances. The Company has various U.S. federal income tax credit carryforwards which will expire beginning in 2013, if unused.

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The components of deferred tax assets and deferred tax liabilities as of December 31, 2006 and 2005 were as follows (in thousands):

|                                                   | 2006      | 2005      |
|---------------------------------------------------|-----------|-----------|
| Deferred tax assets:                              |           |           |
| Tax credits and loss carryforwards                | \$ 45,157 | \$ 55,936 |
| Accrued liabilities                               | 5,908     | 4,049     |
| Other                                             | 8,649     | 8,928     |
|                                                   | 59,714    | 68,913    |
| Deferred tax liabilities:                         |           |           |
| Property, plant and equipment                     | (4,608)   | (4,882)   |
| Intangibles                                       | (16,460)  | (2,058)   |
| Prepaid insurance                                 | (1,042)   | (858)     |
| Other                                             | (383)     | (759)     |
|                                                   | (22,493)  | (8,557)   |
| Net deferred tax asset before valuation allowance | 37,221    | 60,356    |
| Valuation allowance                               | (12,127)  | (16,756)  |
| Net deferred tax asset                            | \$ 25,094 | \$ 43,600 |

**12. COMMITMENTS AND CONTINGENCIES***a. Litigation*

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.

*Brazil Joint Venture*

In March 2001, Bernard Krone Indústria e Comércio de Máquinas Agrícolas Ltda. ( BK ) filed suit against the Company in the Fourth Civil Court of Curitiba in the State of Paraná, Brazil. This action seeks recovery of damages plus pain and suffering. Because of the bankruptcy of BK, this proceeding is now pending before the Second Civil Court of Bankruptcies and Creditors Reorganization of Curitiba, State of Paraná (No. 232/99).

This case grows out of a joint venture agreement between BK and the Company, which was generally intended to permit BK and the Company to market the RoadRailer® trailer in Brazil and other areas of South America. When BK

was placed into the Brazilian equivalent of bankruptcy late in 2000, the joint venture was dissolved. BK subsequently filed its lawsuit against the Company alleging among other things that it was forced to terminate business with other companies because of the exclusivity and non-compete clauses purportedly found in the joint venture agreement. In its complaint, BK asserts that it has been damaged by these alleged wrongs by the Company in the approximate amount of \$8.4 million.

The Company answered the complaint in May 2001, denying any wrongdoing. The Company believes that the claims asserted against it by BK are without merit and intends to defend itself vigorously against those claims. The Company believes that the resolution of this lawsuit will not have a material adverse effect on its financial position, liquidity or future results of operations; however, at this early stage of the proceeding, no assurance can be given as to the ultimate outcome of the case.

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*Intellectual Property*

On July 24, 2006, the Company filed a patent infringement suit against Trailmobile Corporation in the United States District Court for the Northern District of Illinois Eastern Division (Civil Action No. 06 CV 3991); and amended the Complaint on November 1, 2006 to include another patent. On December 1, 2006, Trailmobile Corporation filed its Answer to the Amended Complaint, along with a Counterclaim seeking a finding of non-infringement. The Company answered on December 8, 2006, denying any wrongdoing or merit to the allegations as set forth in the Counterclaim.

The Company believes that the claims asserted by Trailmobile Corporation are without merit and it intends to defend its position. The Company believes that the resolution of this lawsuit will not have a material adverse effect on its financial position, liquidity or future results of operations; however, at this stage of the proceeding, no assurance can be given as to the ultimate outcome of the case.

*Environmental*

In September 2003, the Company was noticed as a potentially responsible party (PRP) by the United States Environmental Protection Agency pertaining to the Motorola 52nd Street, Phoenix, Arizona Superfund Site pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. PRPs include current and former owners and operators of facilities at which hazardous substances were disposed. EPA's allegation that the Company was a PRP arises out of the operation of a former branch facility located approximately five miles from the original site. The Company does not expect that these proceedings will have a material adverse effect on the Company's financial condition or results of operations.

In January 2006, the Company received a letter from the North Carolina Department of Environment and Natural Resources indicating that a site that the Company formerly owned near Charlotte, North Carolina has been included on the state's October 2005 Inactive Hazardous Waste Sites Priority List. The letter states that the Company was being notified in fulfillment of the state's statutory duty to notify those who own and those who at present are known to be responsible for each Site on the Priority List. No action is being requested from the Company at this time. The Company does not expect that this designation will have a material adverse effect on its financial condition or results of operations.

*b. Environmental*

The Company generates and handles certain material, wastes and emissions in the normal course of operations that are subject to various and evolving federal, state and local environmental laws and regulations.

The Company assesses its environmental liabilities on an on-going basis by evaluating currently available facts, existing technology, presently enacted laws and regulations as well as experience in past treatment and remediation efforts. Based on these evaluations, the Company estimates a lower and upper range for the treatment and remediation efforts and recognizes a liability for such probable costs based on the information available at the time. As of December 31, 2006 and 2005, the Company had an estimated remediation costs of \$0.4 million for activities at a former branch property.

*c. Letters of Credit*

As of December 31, 2006, the Company had standby letters of credit totaling \$7.5 million issued in connection with workers compensation claims and surety bonds.

*d. Royalty Payments*

The Company is obligated to make quarterly royalty payments through 2007 in accordance with a licensing agreement related to the development of the Company's composite plate material used on its proprietary DuraPlate® trailer. The amount of the payments varies with the production volume of usable material with maximum royalties of \$0.2 million for 2007. Annual payments were \$0.2 million, \$0.7 million and \$0.7 million in 2006, 2005 and 2004, respectively.

**Table of Contents***e. Collective Bargaining Agreements*

As of December 31, 2006, approximately 350 full-time hourly associates, representing approximately 9% of the Company's total workforce, are under collective bargaining agreements. These agreements have expiration dates through 2009. The Company maintains one agreement, covering approximately 200 employees or 5% of its total workforce, that expires in 2007.

*f. Purchase Commitments*

The Company has \$40.1 million in purchase commitments through December 2007 for aluminum, which is within normal production requirements.

**13. SEGMENTS AND RELATED INFORMATION***a. Segment Reporting*

Under the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, 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 aftermarket parts and service through its retail branch network.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that the Company evaluates segment performance based on income from operations. The Company has not allocated certain corporate related charges such as administrative costs, interest and income taxes from the manufacturing segment to the Company's other reportable segment. The Company accounts for intersegment sales and transfers at cost plus a specified mark-up. Reportable segment information is as follows (in thousands):

|                                           | Manufacturing | Retail and<br>Distribution | Combined<br>Segments | Eliminations | Consolidated<br>Total |
|-------------------------------------------|---------------|----------------------------|----------------------|--------------|-----------------------|
| 2006                                      |               |                            |                      |              |                       |
| Net sales                                 |               |                            |                      |              |                       |
| External customers                        | \$ 1,120,717  | \$ 191,463                 | \$ 1,312,180         | \$           | \$ 1,312,180          |
| Intersegment sales                        | 76,966        |                            | 76,966               | (76,966)     | \$                    |
| Total net sales                           | \$ 1,197,683  | \$ 191,463                 | \$ 1,389,146         | \$ (76,966)  | \$ 1,312,180          |
| Depreciation and amortization             | 18,117        | 2,481                      | 20,598               |              | 20,598                |
| Impairment of goodwill                    |               | 15,373                     | 15,373               |              | 15,373                |
| Income (loss) from operations             | 36,782        | (13,487)                   | 23,295               | (402)        | 22,893                |
| Reconciling items to net income:          |               |                            |                      |              |                       |
| Interest income                           |               |                            |                      |              | (710)                 |
| Interest expense                          |               |                            |                      |              | 6,921                 |
| Foreign exchange gains and losses,<br>net |               |                            |                      |              | 77                    |

|                      |    |         |    |         |    |           |        |         |
|----------------------|----|---------|----|---------|----|-----------|--------|---------|
| Other income, net    |    |         |    |         |    | 303       |        |         |
| Income tax expense   |    |         |    |         |    | 6,882     |        |         |
| Net income           |    |         |    |         | \$ | 9,420     |        |         |
| Capital expenditures | \$ | 12,569  | \$ | 362     | \$ | \$        | 12,931 |         |
| Assets               | \$ | 659,808 | \$ | 128,123 | \$ | (231,448) | \$     | 556,483 |

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|                    | Manufacturing | Retail and<br>Distribution | Combined<br>Segments | Eliminations | Consolidated<br>Total |
|--------------------|---------------|----------------------------|----------------------|--------------|-----------------------|
| 2005               |               |                            |                      |              |                       |
| Net sales          |               |                            |                      |              |                       |
| External customers | \$ 968,419    | \$ 245,292                 | \$ 1,213,711         | \$           | \$ 1,213,711          |
| Intersegment sales | 102,938       |                            | 102,938              | (102,938)    | \$                    |