WABASH NATIONAL CORP /DE Form POS AM July 21, 2004

> As filed with the Securities and Exchange Commission on July 21, 2004 Registration No. 333-109375 \_\_\_\_\_ SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 \_\_\_\_\_ POST-EFFECTIVE AMENDMENT NO. 3 ΤO FORM S-3 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 \_\_\_\_\_ WABASH NATIONAL CORPORATION (Exact name of registrant as specified in its charter) DELAWARE 52-1375208 (State or other jurisdiction of (I.R.S. Employer Identification No.) incorporation or organization) 1000 SAGAMORE PARKWAY SOUTH, LAFAYETTE, INDIANA 47905 (765) 771-5300 (Address, including zip code, and telephone number, including area code, of registrant's principal executive offices) \_\_\_\_\_ WILLIAM P. GREUBEL PRESIDENT AND CHIEF EXECUTIVE OFFICER WABASH NATIONAL CORPORATION 1000 SAGAMORE PARKWAY SOUTH, LAFAYETTE, INDIANA 47905 (765) 771-5300 (name, address, including zip code, and telephone number, including area code, of agent for service) Copies to: MICHAEL J. SILVER AMY BOWERMAN FREED HOGAN & HARTSON L.L.P. 111 S. CALVERT STREET, SUITE 1600 BALTIMORE, MARYLAND 21202 (410) 659-2700 \_\_\_\_\_ APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time after this Registration Statement becomes effective.

> > If the only securities being registered on this form are being offered

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pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than the securities offered only in connection with dividend or interest reinvestment plans, check the following box.[X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

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If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.  $[\ ]$ 

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8 (a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8 (a), MAY DETERMINE.

### EXPLANATORY NOTE

The purpose of this Post-Effective Amendment No. 3 to the Registration Statement on Form S-3 of Wabash National Corporation (333-109375) is to amend the table under the caption "Selling Holders" in the prospectus to update information on the selling holders and update the list of documents incorporated by reference.

INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SEC IS EFFECTIVE. THIS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION DATED JULY 21, 2004

#### PROSPECTUS

#### \$125,000,000

WABASH NATIONAL CORPORATION 3.25% CONVERTIBLE SENIOR NOTES DUE AUGUST 1, 2008 AND

6,510,416 SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THE NOTES

Holders of our 3.25% Convertible Senior Notes due August 1, 2008 named herein may offer for sale the notes and the shares of our common stock into which the notes are convertible at any time at market prices prevailing at the time of sale or at privately negotiated prices. The selling holders may sell the notes or the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions.

The notes are convertible, at the option of the holder, into shares of our common stock. The notes are convertible at a conversion price of \$19.20 per share, which is equal to a conversion rate of approximately 52.0833 shares of common stock per \$1,000 principal amount of notes, subject to adjustment.

We will pay interest on the notes on August 1 and February 1 of each year, beginning on February 1, 2004, and at maturity. The notes will mature on August 1, 2008.

The notes are our unsecured and unsubordinated obligations and rank on a parity (except as described below) in right of payment with all our existing and future unsecured and unsubordinated indebtedness. In addition, the notes effectively rank junior to any secured indebtedness we currently have and may incur in the future to the extent of the value of the assets securing such debt and effectively junior to our subsidiaries' liabilities.

Our common stock currently trades on the New York Stock Exchange under the symbol "WNC." The last reported sale price on July 20, 2004 was \$25.28 per share.

INVESTING IN OUR COMMON STOCK OR THE NOTES INVOLVES A HIGH DEGREE OF RISK. PLEASE CAREFULLY CONSIDER THE "RISK FACTORS" BEGINNING ON PAGE 4 OF THIS PROSPECTUS.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2004.

In connection with this offering, no person is authorized to give any information or to make any representations not contained in this prospectus. This prospectus is neither an offer to sell nor a solicitation of an offer to buy any securities other than those registered by this prospectus, nor is it an offer to sell or a solicitation of an offer to buy securities where an offer or solicitation would be unlawful. You may not imply from the delivery of this prospectus, nor from any sale made under this prospectus, that our affairs are unchanged since the date of this prospectus or that the information contained in this prospectus is correct as of any time after the date of this prospectus.

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#### ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission ("SEC") to enable selling holders, from time to time, to sell the securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the notes and common stock that the selling holders may offer. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading "Additional Information."

When used in this prospectus, the terms "Wabash," "we," "our" and "us" refer to Wabash National Corporation and its consolidated subsidiaries, unless otherwise specified.

#### FORWARD LOOKING STATEMENTS

This prospectus contains and incorporates by reference "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements may include the words "may," "will," "estimate," "intend," "continue," "believe," "expect," "plan" or "anticipate" and other similar words. Our "forward-looking statements" include statements regarding:

- our business plans;
- completion of contemplated asset dispositions;

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- our expected revenues, income or loss and capital expenditures;
- plans for future operations;
- financing needs, plans and liquidity;
- our ability to achieve sustained profitability;
- reliance on certain customers and corporate partnerships;

- shortages of raw materials, availability of capital;
- dependence on industry trends;
- the outcome of any pending litigation;
- export sales and new markets;
- acceptance of new technology and products; and
- government regulation, as well as assumptions relating to the foregoing.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in this prospectus. Each forward-looking statement contained or incorporated by reference in this prospectus reflects our management's view only as of the date on which that forward-looking statement was made. We undertake no obligation to update forward-looking statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

Currently known risk factors that could cause actual results to differ materially from our expectations are described in the section of this prospectus entitled "Risk Factors" beginning on page 4. We urge you to carefully review that section for a more complete discussion of the risks of an investment in the notes and our common stock.

#### INDUSTRY AND OTHER INFORMATION

Unless we indicate otherwise, we base the information concerning the transportation equipment industry contained in this prospectus on our general knowledge of and expectations concerning the industry, our market positions and market shares, which are based on estimates prepared by us using data from various industry sources, and on assumptions we made based on such data and our knowledge of the transportation equipment industry. We have not independently verified data from industry sources. In addition, we believe that data regarding the transportation equipment industry and our market positions within such industry provide general guidance but are inherently imprecise. Further, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the "Risk Factors" section beginning on page 4 of this prospectus.

#### INCORPORATION BY REFERENCE

We are incorporating information included in reports and other filing we have made with the SEC by reference, which means that we are disclosing important information to you by referring to those publicly filed documents containing the information. The information that we incorporate by reference is considered to be part of this prospectus, and future information that we file with the SEC after the date of this prospectus and before the termination of the offering will automatically update and supersede the information in this

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prospectus. We incorporate by reference the documents that we have filed with the SEC that we list below; provided, however, that we are not incorporating any information furnished under either Item 9 or Item 12 of any Current Report on Form 8-K:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as amended;
- Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004;
- Current Reports on Form 8-K filed on June 21 and July 21, 2004;
- The description of our common stock contained in our Form 8-A filed on October 4, 1991, including any amendments or reports filed to update such information; and
- All documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and before the termination of the offering.

We will furnish without charge to each person to whom this prospectus is delivered, upon written or oral request of such person, a copy of any and all of the information that has been incorporated by reference in this prospectus (not including exhibits to the information that is incorporated by reference unless such exhibits are specifically incorporated by reference into the information that this Prospectus incorporates). You should direct any requests for copies to Wabash National Corporation, 1000 Sagamore Parkway South, Lafayette, Indiana 47905, Attention: Secretary, or by telephone to our Secretary at (765) 771-5300.

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#### SUMMARY

This summary contains basic information about us. It does not contain all of the information that is important to your investment decision. You should read the following summary together with the more detailed information contained elsewhere in this prospectus or incorporated by reference into this prospectus as described above under "Incorporation by Reference." To fully understand this offering, you should read all of that information.

Wabash National Corporation is a Delaware corporation incorporated in 1991 and is the successor by merger to a Maryland corporation organized in 1985. Our principal executive offices are located at 1000 Sagamore Parkway South, Lafayette, Indiana 47905 and our telephone number at that address is (765) 771-5300. Our website is located at www.wabashnational.com. The information on our website is not part of this prospectus.

#### OVERVIEW

We are one of North America's leaders in designing, manufacturing and marketing standard and customized truck trailers and related transportation equipment. Founded in 1985 as a start-up, we grew to over \$1.4 billion in sales in 1999, and had over \$888 million in sales in 2003. Our sales in the three-month period ended March 31, 2004 were approximately \$222 million. For the year ended December 31, 2003, our net loss was approximately \$57 million, and our net income for the three-month period ended March 31, 2004 was approximately \$6.9 million.

We market our transportation equipment under the Wabash(R) and DuraPlate(R) trademarks directly to customers, through independent dealers and through our factory-owned retail branch network. Our proprietary DuraPlate(R) composite truck trailer, which we introduced in 1996, has achieved widespread acceptance

by our customers. In 2003, sales of our DuraPlate(R) trailers represented approximately 80% of our total trailers shipped. We are also a competitive producer of standardized products, and are seeking to become a low-cost producer within our industry.

#### STRATEGY

We are committed to an operating strategy that seeks to deliver profitability throughout industry cycles. We intend to achieve our goals by executing on the core elements of our strategic plan:

- continue our transition from an organization focused on revenue to one focused on earnings and cash flow;
- continue to provide differentiated products that generate enhanced profit margins;
- continue to reduce our cost structure by adhering to continuous improvement and lean manufacturing initiatives;
- continue to focus on our longstanding customer partnerships and create new revenue opportunities by offering tailored transportation solutions;
- divest non-core assets; and
- delever the balance sheet to enhance financial flexibility and enable us to capitalize on future market opportunities.

#### THE OFFERING

The following is a brief summary description of this offering. For a more complete description of the terms of the notes, see "Description of the Notes" in this prospectus.

Issuer..... Wabash National Corporation

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Selling Holders..... All of the notes and common stock are being offered by selling holders named herein, and the Company will not receive any proceeds from the offering.

Maturity..... August 1, 2008

- Interest..... The notes bear interest at 3.25% per annum on the principal amount, payable semiannually in arrears on August 1, and February 1, beginning on February 1, 2004, and at maturity.
- Conversion Rights..... Holders may convert their notes prior to maturity, in multiples of \$1,000 principal amount, into shares of our common stock at any time. Initially the notes were convertible only after the occurrence of certain events, but as

of January 1, 2004 the conditions to conversion were met.

For each \$1,000 principal amount of notes surrendered for conversion, holders will receive 52.0833 shares of our common stock. This represents an initial conversion price of \$19.20 per share of common stock. As described in this prospectus, the conversion rate may be adjusted for certain reasons, but it will not be adjusted for accrued and unpaid interest. Ranking..... The notes are our senior unsecured and unsubordinated obligations and: - rank on a parity in right of payment with all existing and future senior unsecured and unsubordinated debt; - will rank senior to any future subordinated debt; - are effectively subordinated to any secured debt to the extent of the value of the assets securing such debt; and - are effectively subordinated to all liabilities and preferred stock of our subsidiaries. See "Description of the Notes -- Ranking." As of March 31, 2004, we had \$102 million of secured indebtedness and \$130 million of unsecured indebtedness. Upon a change of control event (as defined in Change of Control..... the indenture governing the notes), each holder of the notes may require us to repurchase some or all of its notes at a repurchase price equal to 100% of the aggregate principal amount of the notes plus accrued and unpaid interest. The repurchase price is payable: - in cash; or - in shares of our common stock, at our option, subject to the satisfaction of certain conditions as provided in the indenture. The number of shares of common stock will equal the repurchase price divided by 95% of the average of the closing sale prices of the common stock for the five consecutive trading days 2 ending on and including the third day prior

Upon a change of control, certain of our existing debt agreements would, and any debt

to the repurchase date.

agreements we enter into in the future may, prohibit us from paying the repurchase price in cash unless prior to any such payment we either repay our outstanding indebtedness subject to such restrictions, refinance such debt on other terms or obtain a waiver from such lenders. As a result, we cannot assure you that we will be able to pay the repurchase price in cash.

See "Description of the Notes -- Change of Control Permits Purchase of Notes at the Option of the Holder."

Use of Proceeds..... We will not receive any of the proceeds of sales by the selling holders of any of the securities covered by this prospectus.

Form..... The notes have been issued in book-entry form and are represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company ("DTC") and registered in the name of a nominee of DTC. Beneficial interests in any of the notes are shown on, and transfers are effected only through, records maintained by DTC or its nominee, and any such interest may not be exchanged for certificated securities, except in limited circumstances.

Trading..... Our common stock is traded on the New York Stock Exchange under the symbol "WNC."

Risk Factors...... See "Risk Factors" and the other information included and incorporated by reference in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the notes.

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#### RISK FACTORS

You should carefully consider the risks described below in addition to other information contained or incorporated by reference in this prospectus before making an investment decision. Realization of any of the following risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

#### RISKS RELATED TO OUR SUBSTANTIAL INDEBTEDNESS

OUR SUBSTANTIAL INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION.

We are highly leveraged and have substantial debt in relation to our shareholders' equity. As of March 31, 2004, we had an aggregate of \$232 million of outstanding indebtedness.

Our high level of debt could have important consequences to our investors, including:

- we may not be able to secure additional funds for working capital, capital expenditures, debt service requirements or general corporate

purposes;

- we will need to use a portion of our cash flow from operations to pay principal of and interest on our debt, which will reduce the amount of funds available to us for other purposes;
- we may be more highly leveraged than our competitors, which could put us at a competitive disadvantage; and
- we may not be able to adjust rapidly to changing market conditions, which may make us more vulnerable in the event of a downturn in general economic conditions of our business.

RESTRICTIVE COVENANTS IN OUR DEBT INSTRUMENTS COULD LIMIT OUR FINANCIAL AND OPERATING FLEXIBILITY AND SUBJECT US TO OTHER RISKS.

The agreements governing our indebtedness include certain covenants that restrict, among other things, our ability to:

- incur additional debt;
- pay dividends on our equity or repurchase our equity;
- make certain investments;
- create certain liens; and
- consolidate, merge or transfer all or substantially all of our assets.

Our ability to comply with such agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. In addition, upon the occurrence of an event of default under our debt agreements, the lenders could elect to declare all amounts outstanding under our debt agreements, together with accrued interest, to be immediately due and payable.

RISKS RELATED TO OUR BUSINESS, STRATEGY AND OPERATIONS

WE HAVE NOT GENERATED PROFITABILITY IN RECENT PERIODS.

The Company incurred significant net losses during the last three years. While in the first quarter of 2004, ended March 31, 2004, we reported net income of \$6.9 million, we have reported net losses of \$232.2 million, \$56.2 million and \$57.2 million for the years ended December 31, 2001, 2002 and 2003, respectively. The Company's ability to achieve and sustain profitability in the future will depend on the successful implementation of measures to reduce costs and achieve sales goals. While we have taken steps to improve cost performance, lower operating costs and reduce interest expense, and have seen our sales improve

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in the recent periods, we cannot assure you that our cost-reduction measures will be successful, sales will be sustained or increased or that we can achieve a sustained return to profitability.

OUR INVENTORIES ARE NOT MANAGED BY PERPETUAL INVENTORY CONTROL SYSTEMS.

Systems and processes used to manage and value our inventories require significant manual intervention and the verification of actual quantities requires a physical inventory which is taken once a year. Breakdowns of these

systems and processes, and errors in inventory estimates derived from these systems and processes, could go undetected until the next physical inventory and adversely affect our operations and financial results.

AN ADVERSE CHANGE IN OUR CUSTOMER RELATIONSHIPS OR IN THE FINANCIAL CONDITION OF OUR CUSTOMERS COULD ADVERSELY AFFECT OUR BUSINESS.

We have corporate partnering relationships with a number of customers where we supply the requirements of these customers. We do not have binding agreements with these customers. Our success is dependent, to a significant extent, upon the continued strength of these relationships and the growth of our corporate partners. We often are unable to predict the level of demand for our products from these partners, or the timing of their orders. In addition, the same economic conditions that adversely affect us also often adversely affect our customers. As some of our customers are highly leveraged and have limited access to capital, their continued existence may be uncertain. One of our customers, Grupo Transportation Marititma Mexicana SA (TMM), located in Mexico is experiencing financial difficulties. Although this customer is current in its payment obligation to us, the customer owes us \$7.8 million secured by highly specialized RoadRailer(R) equipment, which due to the nature of the equipment, has a minimal recovery value. The loss of a significant customer or unexpected delays in product purchases could adversely affect our business and results of operations.

OUR TECHNOLOGY AND PRODUCTS MAY NOT ACHIEVE MARKET ACCEPTANCE, WHICH COULD ADVERSELY AFFECT OUR COMPETITIVE POSITION.

We continue to introduce new products such as the DuraPlate(R) HD, and the Freight-Pro(R) trailer. We cannot assure you that these or other new products or technologies will achieve sustained market acceptance. In addition, new technologies or products that our competitors introduce may render our products obsolete or uncompetitive. We have taken steps to protect our proprietary rights in our new products. However, the steps we have taken to protect them may not be sufficient or may not be enforced by a court of law. If we are unable to protect our proprietary rights, other parties may attempt to copy or otherwise obtain or use our products or technology. If competitors are able to use our technology, our ability to compete effectively could be harmed.

WE HAVE A LIMITED NUMBER OF SUPPLIERS OF RAW MATERIALS; AN INCREASE IN THE PRICE OF RAW MATERIALS OR THE INABILITY TO OBTAIN RAW MATERIALS COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

We currently rely on a limited number of suppliers for certain key components in the manufacturing of truck trailers, such as landing gear, axles and specialty steel coil used in DuraPlate(R) panels. The loss of our suppliers or their inability to meet our price, quality, quantity and delivery requirements could have a significant impact on our results of operations.

DISRUPTION OF OUR MANUFACTURING OPERATIONS OR MANAGEMENT INFORMATION SYSTEMS WOULD HAVE AN ADVERSE EFFECT ON OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We manufacture our products at two facilities in Lafayette, Indiana, with our primary manufacturing facility accounting for approximately 85% of our manufacturing output. An unexpected disruption in our production at either of these facilities or in our management information systems for any length of time would have an adverse effect on our business, financial condition and results of operations.

THE LOSS OF KEY PERSONNEL COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

Many of our executive officers, including our CEO William P. Greubel, CFO Mark R. Holden and COO Richard J. Giromini, are critical to the management and direction of our business. Our future success depends, in large part, on our ability to retain these officers and other capable management personnel. The unexpected loss of the services of any of our key personnel could have an adverse effect on the operation of our business, as we may be unable to find suitable management to replace departing executives on a timely basis.

THE INABILITY TO REALIZE ADDITIONAL COSTS SAVINGS COULD WEAKEN OUR COMPETITIVE POSITION.

If we are unable to continue to successfully implement our program of cost reduction and continuous improvement, we may not realize additional anticipated cost savings, which could weaken our competitive position.

WE ARE SUBJECT TO CURRENCY EXCHANGE RATE FLUCTUATIONS, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL PERFORMANCE.

We are subject to currency exchange rate risk related to sales through our factory-owned retail distribution centers in Canada. For the three months ended March 31, 2004 and the year ended December 31, 2003, currency exchange rate fluctuations had an unfavorable impact of \$0.1 million and a favorable impact of \$5.3 million, respectively, on our results of operations. We cannot assure you that future currency exchange rate fluctuations will not have an adverse affect on our results of operations equivalent to or more severe than that for the three months ended March 31, 2004.

RISKS PARTICULAR TO THE INDUSTRIES IN WHICH WE OPERATE

OUR BUSINESS IS HIGHLY CYCLICAL, WHICH COULD ADVERSELY AFFECT OUR SALES AND RESULTS OF OPERATIONS.

The truck trailer manufacturing industry historically has been and is expected to continue to be cyclical, as well as affected by overall economic conditions. New trailer production for the trailer industry as a whole was approximately 140,000 in both 2001 and 2002 and totaled approximately 183,000 in 2003. Customers historically have replaced trailers in cycles that run from five to twelve years, depending on service and trailer type. Poor economic conditions can adversely affect demand for new trailers and in the past have led to an overall aging of trailer fleets beyond this typical replacement cycle. Our business is likely to continue to be adversely affected unless economic conditions improve.

SIGNIFICANT COMPETITION IN THE INDUSTRIES IN WHICH WE OPERATE MAY RESULT IN OUR COMPETITORS OFFERING NEW OR BETTER PRODUCTS AND SERVICES OR LOWER PRICES, WHICH COULD RESULT IN A LOSS OF CUSTOMERS AND A DECREASE IN OUR REVENUES.

The truck trailer manufacturing industry is highly competitive. We compete with other manufacturers of varying sizes, some of which may have greater financial resources than we do. Barriers to entry in the standard truck trailer manufacturing industry are low. As a result, it is possible that additional competitors could enter the market at any time. In addition, we believe that the manufacturing over-capacity and high leverage of some of our competitors, along with the recent bankruptcies and financial stresses that have affected the industry, have contributed to significant pricing pressures.

If we are unable to compete successfully with other trailer manufacturers, we could lose customers and our revenues may decline. In addition, competitive pressures in the industry may affect the market prices of our new and used equipment, which, in turn, may adversely affect our sales margins and results of

operations.

WE ARE SUBJECT TO EXTENSIVE GOVERNMENTAL LAWS AND REGULATIONS, AND OUR COSTS RELATED TO COMPLIANCE WITH, OR OUR FAILURE TO COMPLY WITH, EXISTING OR FUTURE LAWS AND REGULATIONS COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS.

The length, height, width, maximum weight capacity and other specifications of truck trailers are regulated by individual states. The Federal government also regulates certain truck tailer safety features, such as lamps, reflective devices, tires, air-brake systems and rear-impact guards. Changes or anticipation of changes in these regulations can have a material impact on our financial results, as our customers may defer

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customer purchasing decisions and we may have to reengineer products. In addition, we are subject to various environmental laws and regulations dealing with the transportation, storage, presence, use, disposal and handling of hazardous materials, discharge of storm water and underground fuel storage tanks and may be subject to liability associated with operations of prior owners of acquired property. If we are found to be in violation of applicable laws or regulations, it could have an adverse effect on our business, financial condition and results of operations. Our costs of complying with these or any other current or future environmental regulations may be significant. In addition, if we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines or sanctions.

A DECLINE IN THE VALUE OF USED TRAILERS COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

General economic and industry conditions, as well as the supply of used trailers, influence the value of used trailers. As part of our normal business practices, we maintain used trailer inventories and have entered into finance contracts secured by used trailers, as well as residual guarantees and purchase commitments for used trailers. Declines in the market value for used trailers or the need to dispose of excess inventories has had, and could in the future have, an adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO AN INVESTMENT IN THE NOTES AND COMMON STOCK

OUR COMMON STOCK HAS EXPERIENCED, AND MAY CONTINUE TO EXPERIENCE, PRICE VOLATILITY AND A LOW TRADING VOLUME.

The trading price of our common stock has been and may continue to be subject to large fluctuations and, therefore, the trading price of the notes may fluctuate significantly, which may result in losses to investors. Our stock price may increase or decrease in response to a number of events and factors, including:

- trends in our industry and the markets in which we operate;
- changes in the market price of the products we sell;
- the introduction of new technologies or products by us or our competitors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

- operating results that vary from the expectations of securities analysts and investors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures, financings or capital commitments;
- changes in laws and regulations; and
- general economic and competitive conditions.

This volatility may adversely affect the prices of our common stock and the notes regardless of our operating performance. The price of our common stock also may be adversely affected by the amount of common stock issuable upon conversion of the notes. Assuming \$125 million in aggregate principal amount of the notes are converted at a conversion price of \$19.20, the number of shares of our common stock outstanding would increase by approximately 6.5 million shares, or approximately 24%.

In addition, our common stock has experienced low trading volume in the past.

THERE IS A LIMITED TRADING MARKET FOR THE NOTES.

There is limited market activity in the notes. Although the initial purchasers of the notes are currently making a market in the notes, they are not obligated to do so and may discontinue such market making at any time without notice. In addition, such market making activity will be subject to the limits imposed by the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. Accordingly, there can be no assurance that any market for the notes will be maintained. If an active market for the notes fails to develop or

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be sustained, the trading price of the notes could be materially adversely affected. The notes are traded on the Portal Market; however, we do not intend to apply for listing of the notes on any securities exchange.

The liquidity of the trading market in these notes, and the market price quoted for these notes, may be materially adversely affected by:

- changes in the overall market for convertible subordinated securities;
- changes in our financial performance or prospects;
- the prospects for companies in our industry generally;
- the number of holders of the notes;
- the interest of securities dealers in making a market for the notes; and
- prevailing interest rates.

THE NOTES ARE UNSECURED AND EFFECTIVELY SUBORDINATED TO ANY SECURED INDEBTEDNESS WE HAVE AND MAY INCUR IN THE FUTURE AND THE LIABILITIES OF OUR SUBSIDIARIES.

The notes are our senior unsecured obligations, effectively junior in right of payment to our secured debt, to the extent of the assets securing such debt. In addition, the notes are effectively junior in right of payment to the

indebtedness and other liabilities of our subsidiaries. See "Description of the Notes -- Ranking."

In the event that we are declared bankrupt, become insolvent or are liquidated or reorganized, any debt that ranks ahead of the notes will be entitled to be paid in full from our assets before any payment may be made with respect to the notes. Holders of the notes will participate ratably with all holders of our other senior unsecured indebtedness, based upon the respective amounts owed to each holder or creditor, in our remaining assets. Upon the occurrence of any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of notes may receive less, ratably, than the holders of any secured indebtedness that we may then have outstanding.

WE MAY INCUR ADDITIONAL INDEBTEDNESS RANKING EQUAL TO THE NOTES.

If we incur any additional debt that ranks equally with the notes, including trade payables, the holders of that debt will be entitled to share ratably with you in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of us. This may have the effect of reducing the amount of proceeds paid to holders of notes, if any.

WE MAY NOT HAVE THE ABILITY TO RAISE THE FUNDS TO PURCHASE NOTES UPON A CHANGE OF CONTROL AS REQUIRED BY THE INDENTURE.

Upon the occurrence of certain change of control events, each holder of notes may require us to repurchase all or a portion of its notes at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. Our ability to repurchase the notes for cash upon a change of control would be limited by the terms of certain of our existing debt agreements and may be limited by the terms of any debt agreements that we enter into in the future. Currently, our existing debt agreements do not permit such cash payments. Upon a change of control, we may be required immediately to repay the outstanding principal, any accrued interest and any other amounts owed by us under our other debt agreements. We cannot assure you that we would be able to repay amounts outstanding under our debt agreements, or obtain necessary consents to repurchase the notes. Any requirement to offer to purchase any outstanding notes may result in our having to refinance our outstanding indebtedness, which we may not be able to do on terms favorable to us, if at all.

WE DO NOT EXPECT TO PAY CASH DIVIDENDS IN THE FORESEEABLE FUTURE.

Since December 2001, we have not declared or paid cash or other dividends on our common stock and do not expect to pay cash dividends on our common stock for the foreseeable future. We currently intend to retain all future earnings for use in the operation of our business and to fund future growth. In addition, the terms of

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our existing debt agreements restrict our ability to pay cash dividends on our common stock. We are permitted to pay preferred stock dividends on our outstanding Series B Preferred so long as no default or event of default exists at the time of the distribution.

ARTHUR ANDERSEN LLP, OUR FORMER AUDITORS, AUDITED CERTAIN FINANCIAL INFORMATION INCLUDED IN THIS PROSPECTUS. IN THE EVENT SUCH FINANCIAL INFORMATION IS LATER DETERMINED TO CONTAIN FALSE STATEMENTS, YOU MAY BE UNABLE TO RECOVER DAMAGES FROM ARTHUR ANDERSEN LLP.

Arthur Andersen LLP completed its audit of our financial statements for the

year ended December 31, 2001, and issued its report with respect to such financial statements dated April 12, 2002. On March 14, 2002, Arthur Andersen was indicted on, and on June 15, 2002 Arthur Andersen was convicted of, federal obstruction of justice charges arising from the U.S. Government's investigation of Enron Corporation.

On May 30, 2002, we dismissed Arthur Andersen as our independent auditors and we appointed Ernst & Young LLP as our independent auditors for fiscal year 2002. We had no disagreements with Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure or auditing scope or procedure. Arthur Andersen audited the financial statements that we include in this prospectus as of December 31, 2001 and for the years ending December 31, 2000 and 2001.

Arthur Andersen has stopped conducting business before the SEC and has limited assets available to satisfy the claims of creditors. As a result, you may be limited in your ability to recover damages from Arthur Andersen under federal or state law if it is later determined that there are false statements contained in this prospectus relating to or contained in financial data audited by Arthur Andersen.

RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

We present below the ratio of our earnings to combined fixed charges and preferred stock dividends for each of the years ended December 31, 2003, 2002, 2001, 2000 and 1999 and the three months ended March 31, 2004.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

|   | THREE MONTHS<br>ENDED MARCH 3, |                   | YEAR EN           | DED DECEMBE        | R 31,             |     |
|---|--------------------------------|-------------------|-------------------|--------------------|-------------------|-----|
|   | 2004                           | 2003              | 2002              | 2001               | 2000              | 199 |
|   |                                | (DOLLAR           | S IN THOUS        | ANDS)              |                   |     |
| Ratio of earnings to combined fixed charges and preferred |                                |                   |                   |                    |                   |     |
| stock dividends   | 3.20                           |                   |                   |                    |                   | 3.  |
| Earnings deficiency                                       | \$                             | \$58 <b>,</b> 207 | \$72 <b>,</b> 958 | \$276 <b>,</b> 708 | \$14 <b>,</b> 836 | \$  |

For the years ended December 31, 2003, 2002, 2001 and 2000, earnings are inadequate to cover fixed charges and the dollar amount of coverage deficiency is disclosed in the above table, in thousands.

We present below the pro forma ratio of our earnings to combined fixed charges and preferred stock dividends for the year ended December 31, 2003. The pro forma ratio has been prepared to illustrate the impact of the sale of certain assets of our rental and leasing business and wholesale aftermarket parts business and refinancings of our debt through the sale of \$125 million of 3.25% senior unsecured convertible notes and a three-year \$222 million bank facility. The asset divestiture and refinancings are described in the Company's Form 10-K, as amended, incorporated by reference into this prospectus. The pro forma ratio gives effect to the transactions as if they had occurred as of the beginning of the period.

PRO FORMA RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

|   | YEAR ENDED<br>DECEMBER 31, |
|---|----------------------------|
|   | 2003                       |
|   | (DOLLARS IN<br>THOUSANDS)  |
| Ratio of earnings to combined fixed charges and preferred stock dividends | 1.07                       |

#### USE OF PROCEEDS

We will not receive any proceeds from the sale of the notes or common stock by the selling holders.

#### SELLING HOLDERS

The notes were originally issued by us and sold to the initial purchasers in a transaction exempt from the registration requirements of the Securities Act of 1933 and were resold by the initial purchasers to persons reasonably believed by the initial purchasers to be qualified institutional buyers or other institutional accredited investors, in transactions exempt from the registration requirements. Selling holders, including their transferees, pledgees or donees or their successors, may from time to time offer and sell pursuant to this prospectus any or all of the notes and common stock into which the notes are convertible.

The following table sets forth information with respect to the selling holders and the principal amounts of notes beneficially owned by each selling holder that may be offered under this prospectus. The information is based on information provided by or on behalf of the selling holders to us in a selling holder questionnaire. Any or all of the notes listed below and the common stock into which the notes are convertible may be offered for sale pursuant to this prospectus by the selling holders from time to time. Accordingly, no estimate can be given as to the amounts of notes or common stock that will be held by the selling holders upon consummation of any such sales. In addition, the information relating to ownership of notes by the selling holders listed in the table below may change as a result of the acquisition, sale or transfer, in transactions exempt from the registration requirements of the Securities Act, of some or all of their notes since the date as of which the information in the table is presented.

Information about selling holders may change over time. Any changed information supplied to us will be set forth in prospectus supplements or post-effective amendments, as may be appropriate. Holders of the notes or the common stock into which the notes are convertible who are not named in the table below will be identified in a new prospectus that would be included in a post-effective amendment to the registration statement of which this prospectus forms a part.

| PRINCIPAL AMOUNT | SHARES OF    |        |
|------------------|--------------|--------|
| OF NOTES         | COMMON STOCK | SHARES |

SHA COMMC OWNE

OF

| NAME OF BENEFICIAL OWNER           | NEFICIALLY<br>D AND OFFERED | OWNED PRIOR TO<br>THE OFFERING(1)(2) | COMMON STOCK<br>OFFERED(2) | COMPL<br>THE O |
|------------------------------------|-----------------------------|--------------------------------------|----------------------------|----------------|
|                                    | <br>                        |                                      |                            |                |
| Advent Convertible Master (Cayman) |                             |                                      |                            |                |
| L.P                                | \$<br>4,252,000             | 221,458                              | 221,458                    |                |
| AFTRA Health Fund                  | \$<br>80,000                | 4,166                                | 4,166                      |                |
| Alpha US Sub Fund 4 LLC            | \$<br>140,000               | 7,291                                | 7,291                      |                |
| Associated Electric & Gas          |                             |                                      |                            |                |
| Insurance Services Limited         | \$<br>100,000               | 5,208                                | 5,208                      |                |
| BNP Paribas Equity Strategies,     |                             |                                      |                            |                |
| SNC*                               | \$<br>5,133,000             | 273,149                              | 267,343                    | 5              |
|                                    |                             |                                      |                            |                |
|                                    |                             |                                      |                            |                |

| NAME OF BENEFICIAL OWNER   | PRINCIPAL AMOUNT<br>OF NOTES<br>BENEFICIALLY<br>OWNED AND OFFERED | SHARES OF<br>COMMON STOCK<br>OWNED PRIOR TO<br>THE OFFERING(1)(2) | SHARES OF<br>COMMON STOCK<br>OFFERED(2) | SHA<br>COMMO<br>OWNE<br>COMPL<br>THE C |
|--|---|---|---|--|
| CooperNeff Convertible Strategies  | <u> </u>  |   |   |  |
| (Cayman) Master Fund, L.P<br>Daimler Chrysler Corp. Emp #1               | \$ 5,272,000  | 274,583   | 274,583                                 |  |
| Pension Plan DTD 4/1/89<br>DKR SoundShore Opportunity Holding            | \$ 1,560,000  | 81,250  | 81,250                                  |  |
| Fund Ltd<br>Fidelity Financial Trust: Fidelity<br>Convertible Securities | \$ 500,000  | 26,041  | 26,041                                  |  |
| Fund* (3)  | \$15,300,000  | 796,875   | 796,875                                 |  |
| Franklin and Marshall College  | \$ 95,000   | 4,947   | 4,947                                   |  |
| HFR Arbitrage Fund   | \$ 263,000  | 13,697  | 13,697                                  |  |
| Inc  | \$ 1,000,000  | 52,083  | 52,083                                  |  |
| Lyxor  | \$ 406,000  | 21,145  | 21,145                                  |  |
| Lyxor/Convertible Arbitrage Fund   |   |   |   |  |
| Limited  | \$ 443,000  | 23,072  | 23,072                                  |  |
| Mainstay Convertible Fund*   | \$ 1,790,000  | 93,229  | 93,229                                  |  |
| Mainstay VP Convertible Fund*<br>New York Life Separate                  | \$ 745,000  | 38,802  | 38,802                                  |  |
| Account #7*<br>New York Life Insurance Company                           | \$ 40,000   | 2,083   | 2,083                                   |  |
| (Post 82)*<br>New York Life Insurance Company                            | \$ 1,740,000  | 90,625  | 90,625                                  |  |
| (Pre 82)*<br>Pioneer U.S. High Yield Corp. Bond                          | \$ 805,000  | 41,927  | 41,927                                  |  |
| Sub Fund*(4)<br>Singlehedge U.S. Convertible                             | \$ 3,900,000  | 203,125   | 203,125                                 |  |
| Arbitrage Fund<br>State Street Bank Custodian for GE                     | \$ 1,237,000  | 64,427  | 64,427                                  |  |
| Pension Trust  | \$ 820,000  | 42,708  | 42,708                                  |  |
| Sturgeon Limited<br>Sunrise Partners Limited                             | \$ 935,000  | 48,697  | 48,697                                  |  |
| Partnership*   | \$ 3,950,000  | 206,229   | 205,729                                 |  |
| Tag Associates   | \$ 29,000   | 1,510   | 1,510                                   |  |
| TCW Group Inc  | \$ 2,100,000  | 109,375   | 109,375                                 |  |

| Zazove Convertible Arbitrage Fund, |              |         |         |
|------------------------------------|--------------|---------|---------|
| L.P                                | \$ 3,890,000 | 202,604 | 202,604 |
| All other holders of notes or      |              |         |         |
| future transferees, pledgees,      |              |         |         |
| donees, assignees or successors    |              |         |         |
| of any such holders(5)             | \$ 1,632,000 | 85,000  | 85,000  |

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- \* This selling security holder has informed us that it (1) is an affiliate of a broker-dealer, (2) purchased the securities in the ordinary course of business, and (3) at the time of purchase, had no agreements or understandings, directly or indirectly, with any person to distribute the securities.
- (1) Includes common stock into which the notes are convertible.
- (2) Assumes a conversion price of \$19.20 per share, which is equal to a conversion rate of approximately 52.0833 shares of common stock per \$1,000 principal amount of notes, subject to adjustment, and a cash payment in lieu of any fractional interest.
- (3) This entity is either an investment company or a portfolio of an investment company registered under Section 8 of the Investment Company Act of 1940, as amended, or a private investment account advised by Fidelity Management & Research Company ("FMR Co."). FMR Co. is a Massachusetts corporation and an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, as amended, and provides investment advisory services to each of such Fidelity entities identified above, and to other registered investment companies and to certain other funds which are generally offered to a limited group of investors. FMR Co. is a wholly-owned subsidiary of FMR Corp., a Delaware corporation.
- (4) Pioneer U.S. High Yield Corp. Bond Sub Fund is managed by Pioneer Investment Management Inc. Pioneer Investment Management Inc. is a subsidiary of Pioneer Global Asset Management SPA, which has owned over 5% of the Company's equity securities since August 14, 2003. As of December 31, 2003, Pioneer Global Asset Management SPA owned 7.46% of the Company's equity securities.
- (5) Assumes that any other holders of notes or any future transferee from any holder does not beneficially own any common stock other than common stock into which the notes are convertible.

Except as disclosed above in note 3 with respect to Pioneer High Yield Fund and Pioneer U.S. High Yield Corp. Bond Sub Fund, none of the selling holders nor any of their affiliates, officers, directors or principal equity holders has held any position or office or has had any material relationship with us within the past three years. The selling holders purchased the notes from the initial purchasers in private transactions on August 1, 2003.

The conversion rate, and, therefore, the number of shares of common stock issuable upon conversion of the notes is subject to adjustment under certain circumstances and may increase or decrease. To the extent that the resale of any common shares issuable as a result of a conversion rate adjustment would not be deemed registered under Rule 416 pursuant to the Securities Act, we would file a new registration statement to cover the resale of such shares.

#### PLAN OF DISTRIBUTION

The selling holders and their successors, including their transferees, pledgees or donees or their successors, may sell the notes and the common stock into which the notes are convertible directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions from the selling holders or the purchasers. These discounts, concessions or commissions as to any particular underwriter, broker-dealer or agent may be in excess of those customary in the types of transactions involved.

The notes and the common stock into which the notes are convertible may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market prices, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions:

- on any national securities exchange or quotation service on which the notes or the common stock may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;

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- through the writing of options, whether the options are listed on an options exchange or otherwise; or
- through the settlement of short sales.

In connection with the sale of the notes and the common stock into which the notes are convertible or otherwise, the selling holders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the notes or the common stock into which the notes are convertible in the course of hedging the positions they assume. The selling holders may also sell the notes or the common stock into which the notes are convertible short and deliver these securities to close out their short positions, or loan or pledge the notes or the common stock into which the notes are convertible to broker-dealers that in turn may sell these securities.

The aggregate proceeds to the selling holders from the sale of the notes or common stock into which the notes are convertible offered by them will be the purchase price of the notes or common stock less discounts and commissions, if any. Each of the selling holders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of notes or common stock to be made directly or through agents. We will not receive any of the proceeds from this offering.

Our outstanding common stock is listed on the New York Stock Exchange. We do not intend to list the notes for trading on the New York Stock Exchange, any other national securities exchange or on the Nasdaq National Market and can give no assurance about the development of any trading market for the notes.

In order to comply with the securities laws of some states, if applicable, the notes and common stock into which the notes are convertible may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the notes and common stock into which the notes are convertible may not be sold unless they have been registered or qualified for

sale or an exemption from registration or qualification requirements is available and is complied with.

The selling holders may be "underwriters" within the meaning of Section 2(11) of the Securities Act. Selling holders that are broker-dealers and underwriters, broker-dealers or other agents that participate in the sale of the notes and common stock into which the rates are convertible are "underwriters" within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling holders who are "underwriters" within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. Aristeia Trading LLC and KBC Financial Products USA Inc. have informed us that they are registered broker-dealers, and, as a result, they are "underwriters" in connection with their sale of notes and the underlying shares of common stock. The selling stockholders who are affiliates of broker-dealers have confirmed that they purchased the notes in the ordinary course of business and, at the time of purchase, had no agreement or understandings, directly or indirectly with any person to distribute the notes or the common stock into which the notes are convertible.

The selling holders have acknowledged that they understand their obligations to comply with the provisions of the Exchange Act and the rules thereunder relating to stock manipulation, particularly Regulation M, which may limit the timing of purchases and sales of any of the notes by the selling holders and any such other person. In addition, Regulation M may restrict the ability of any person engaged in the distribution of the notes to engage in market-making activities with respect to the particular notes being distributed for a period of up to five business days prior to the commencement of the distribution. This may affect the marketability of the notes and the preferred notes and the ability of any person or entity to engage in market-making activities with respect to the notes.

In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus. A selling holder may not sell any notes or common stock described in this prospectus and may not transfer, devise or gift these securities by other means not described in this prospectus.

On August 1, 2003, we issued and sold the notes to two initial purchasers in transactions exempt under Section 4(2) of the Securities Act, and the initial purchasers subsequently resold them to persons reasonably

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believed to be qualified institutional buyers in a transaction exempt from registration in reliance on Rule 144A of the Securities Act.

To the extent required, the specific notes or common stock to be sold, the names of the selling holders, the respective purchase prices and public offering prices, the names of any agent, dealer or underwriter, and any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part.

We entered into a registration rights agreement for the benefit of holders of the notes to register their notes and common stock under applicable federal and state securities laws under specific circumstances and at specific times. The registration rights agreement provides for cross-indemnification of the selling holders and Wabash and their respective directors, officers and

controlling persons against specific liabilities in connection with the offer and sale of the notes and the common stock, including liabilities under the Securities Act. We will pay substantially all of the expenses incurred by the selling holders incident to the offering and sale of the notes and the common stock.

#### DESCRIPTION OF THE NOTES

The notes were issued under an indenture between us and Wachovia Bank, National Association, as trustee, dated August 1, 2003. The terms of the notes include those provided in the indenture and this description of the notes also includes a description of certain terms provided in the registration rights agreement, which we entered into with the initial purchasers. As used in this section, the words "we," "us," "our" or "Wabash" refer to Wabash National Corporation.

While the following is a description of the material provisions of the notes it is not a complete description of all terms and should be read in conjunction with the notes, the indenture and the registration rights agreement. We will provide you with a copy of any of the foregoing documents without charge upon request.

#### GENERAL

The notes are our general unsecured and unsubordinated obligations and are convertible into our common stock as described under "-- Conversion Rights" below. The notes are limited to \$125,000,000 aggregate principal amount and mature on August 1, 2008, unless earlier repurchased by us at the option of the holder upon the occurrence of a Change of Control (as defined below). The notes are not redeemable prior to maturity.

The notes bear cash interest at a rate of 3.25% per annum from August 1, 2003, or from the most recent interest payment date to which interest has been paid or duly provided for. We will pay cash interest semi-annually in arrears on August 1 and February 1 of each year to holders of record at the close of business on the preceding July 15 and January 15, respectively, beginning February 1, 2004 and on the maturity date of August 1, 2008, to the holder to whom we pay the principal. We may pay interest on notes represented by certificated notes by check mailed to such holders. However, a holder of notes with an aggregate principal amount in excess of \$5,000,000 will be paid by wire transfer in immediately available funds at the election of such holder. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Each payment of cash interest on the notes will include interest accrued through the day before the applicable interest payment date (or purchase date or conversion date, as the case may be). Interest will cease to accrue on a note upon its maturity, conversion or purchase by us upon a Change of Control.

Principal will be payable, and the notes may be presented for conversion, registration of transfer and exchange, without service charge, at our office or agency in New York City, which shall initially be the office or agency of the trustee in New York, New York. See "-- Form, Denomination and Registration" below.

The indenture does not contain any financial covenants or any restrictions on the payment of dividends, the repurchase of our securities or the incurrence of indebtedness. The indenture also does not contain any covenants or other provisions that afford protection to holders of notes in the event of a highly leveraged

transaction or a Change of Control of Wabash except to the extent described under "-- Change of Control Permits Purchase of Notes at the Option of the Holder" below.

#### CONVERSION RIGHTS

The holders of notes may, at any time prior to the close of business on the final maturity date of the notes, convert any outstanding notes (or portions thereof) into our common stock, initially at a conversion price of \$19.20 per share of common stock, which is equal to a conversion rate of 52.0833 shares of common stock per \$1,000 principal amount of notes. The notes were initially convertible only after the occurrence of one of the conditions set forth below. The conversion rate is subject to adjustment upon the occurrence of events described below. Holders may convert notes only in denominations of \$1,000 and whole multiples of \$1,000. Except as described below, no adjustment will be made on conversion of any notes for interest accrued thereon or dividends paid on any common stock. Notwithstanding the above, if notes are converted after a record date but prior to the next succeeding interest payment date, holders of such notes at the close of business on the record date will receive the interest payable on such notes on the corresponding interest payment date notwithstanding the conversion. Such notes, upon surrender for conversion, must be accompanied by funds equal to the amount of interest payable on the principal amount of notes so converted. We are not required to issue fractional shares of common stock upon conversion of notes and instead will pay a cash adjustment based upon the market price of the common stock on the last trading day before the date of the conversion.

A holder may exercise the right of conversion by delivering the note to be converted to the specified office of a conversion agent, with a completed notice of conversion, together with any funds that may be required as described in the preceding paragraph. Beneficial owners of interests in a global note may exercise their right of conversion by delivering to the Depository Trust Company (DTC) the appropriate instruction form for conversion pursuant to DTC's conversion program. The conversion date will be the date on which the notes, the notice of conversion and any required funds have been so delivered. A holder delivering a note for conversion will not be required to pay any taxes or duties relating to the issuance or delivery of the common stock for such conversion, but will be required to pay any tax or duty which may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than the holder of the note. Certificates representing shares of common stock will be issued or delivered only after all applicable taxes and duties, if any, payable by the holder have been paid. If any note is converted prior to the expiration of the holding period applicable for sales thereof under Rule 144(k) under the Securities Act (or any successive provision), the common stock issuable upon conversion will not be issued or delivered in a name other than that of the holder of the note, unless the applicable restrictions on transfer have been satisfied.

#### CONVERSION RATE ADJUSTMENTS

The initial conversion rate will be adjusted for the following events:

- the issuance of Wabash common stock as a dividend or distribution on Wabash common stock, in which case the conversion price will be reduced by multiplying the conversion rate by a fraction the numerator of which is the number of shares of Wabash common stock outstanding prior to the date of determination of the dividend or distribution and the denominator of which is the sum of the new Wabash common stock shares issued and the shares used in calculating the numerator;
- subdivisions, combinations and certain reclassification of Wabash common stock resulting in the increase or decrease in the number of shares

outstanding, in which case the conversion rate shall be adjusted proportionately;

- the issuance to all holders of Wabash common stock of certain rights or warrants to purchase Wabash common stock (or securities convertible into Wabash common stock) at a price less than (or having a conversion price per share less than) the current market price of Wabash common stock taking into account the consideration received for such rights and warrants, in which case the conversion rate shall be adjusted by multiplying it by a fraction the numerator of which is the number of shares of Wabash common stock outstanding plus the number of shares which the aggregate offering price of the shares offered for subscription or purchase (or the aggregate conversion price of the convertible securities 15

offered, if applicable) would purchase at the current market price, and the denominator of which is the number of shares of Wabash common stock outstanding plus the number of shares offered for subscription or purchase;

- the dividend or other distribution to all holders of Wabash common stock or shares of Wabash capital stock (other than common stock) or evidences of indebtedness or assets (including securities, but excluding (A) those rights and warrants referred to above, (B) dividends and distributions in connection with a reclassification, change, consolidation, merger, combination, sale or conveyance resulting in a change in the conversion consideration pursuant to the second succeeding paragraph or (C) dividends or distributions paid exclusively in cash), in which case, unless we reserve securities for distribution to the holders of the notes upon conversion of the notes, the conversion rate will be adjusted by multiplying it by a fraction, the numerator of which shall be the current market price of Wabash common stock prior to the dividend or the distribution less the fair market value of the dividend or distribution per share of outstanding common stock, and the denominator of which shall be the current market price of Wabash Common Stock;
- a dividend or other distribution consisting exclusively of cash to all holders of Wabash common stock, in which case the conversion rate shall be adjusted by multiplying it by a fraction the numerator of which shall be equal to the current market price of Wabash common stock less an amount equal to the quotient of (x) the amount distributed and (y) the number of shares of Wabash common stock outstanding, and the denominator of which shall be equal to the current market price; and
- the purchase of Wabash common stock pursuant to a tender offer made by Wabash or any of its subsidiaries, to the extent that the same involves an aggregate consideration that, together with any cash and the fair market value of any other consideration paid in any other tender offer by Wabash or any of its subsidiaries for Wabash common stock expiring within the 12 months preceding such tender offer for which no adjustment has been made, exceeds ten percent of our market capitalization on the expiration of such tender offer, in which case the conversion rate shall be adjusted by multiplying it by a fraction the numerator of which shall be the shares of Wabash common stock outstanding at the expiration of the tender offer times the market price after the expiration of the tender offer, and the denominator of which shall be the sum of (x) the fair market value of the aggregate consideration paid in respect of the shares tendered and accepted for payment and (y) the product of the number of shares outstanding at the expiration of the tender offer and the current market price after the expiration of the tender offer.

No adjustment in the conversion rate will be required unless such adjustment would require a change of at least one percent in the conversion rate then in effect at such time. Any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment. Except as stated above, the conversion rate will not be adjusted for the issuance of our common stock or any securities convertible into or exchangeable for our common stock or carrying the right to purchase any of the foregoing.

In the case of:

- any reclassification or change of Wabash common stock (other than changes resulting from a subdivision or combination) or
- a consolidation, merger or combination involving Wabash or a sale or conveyance to another corporation of all or substantially all of Wabash's property and assets,

in each case as a result of which holders of Wabash common stock are entitled to receive stock, other securities, other property or assets (including cash or any combination thereof) with respect to or in exchange for Wabash common stock, the holders of the notes then outstanding will be entitled thereafter to convert those notes into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) which they would have owned or been entitled to receive upon such reclassification, change, consolidation, merger, combination, sale or conveyance had such notes been converted into Wabash common stock immediately prior to such reclassification, change, consolidation, merger, combination, sale or conveyance.

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We may not become a party to any such transaction unless its terms are consistent with the foregoing. If a taxable distribution to holders of Wabash common stock or other transaction occurs which results in any adjustment of the conversion price, the holders of notes may, in certain circumstances, be deemed to have received a distribution subject to U.S. income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of common stock. See the section of this prospectus entitled "Material United States Federal Income Tax Considerations."

Wabash may make additional reductions to the conversion price as the board of directors considers to be advisable to avoid or diminish any income tax to holders of common stock or rights to purchase common stock resulting from any dividend or distribution of stock.

We may from time to time, to the extent permitted by law, reduce the conversion price of the notes by any amount for any period of at least 20 days. In that case we will give at least 15 days' notice of such decrease. We may make such reductions in the conversion price, in addition to those set forth above, as the board of directors deems in our best interests, which determination will be conclusive.

### CONDITIONS TO CONVERSION

The notes were not convertible until the occurrence of one of the conditions described below. As of January 1, 2004, the condition described below under "Conversion upon Satisfaction of Sale Price Conditions" was met and the notes are now convertible, at the option of the holder, at any time prior to the close of business on the final maturity date of the notes.

- Conversion upon Satisfaction of Sale Price Conditions. Holders may surrender notes for conversion into shares of Wabash common stock in any

fiscal quarter commencing after September 30, 2003 if, as of the last day of the preceding fiscal quarter, the sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding fiscal quarter is more than 110% of the conversion price per share of common stock on the last trading day of such preceding fiscal quarter. Holders may also surrender notes for conversion into shares of Wabash common stock if the sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day prior to the final maturity date of the notes is greater than 110% of the conversion price per share of common stock on the last trading day prior to the maturity date. If either of foregoing conditions is satisfied, then the notes will be convertible at any time at the option of the holder, through the close of business on the final maturity date of the notes.

The sale price of our common stock on any trading day means the closing per share sale price (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on such date on the principal national securities exchange on which the common stock is listed, or if our common stock is not listed on a national securities exchange, as reported by the Nasdaq System or otherwise as provided in the indenture.

As noted above, this condition was satisfied in the fiscal quarter ended December 31, 2003, and, as a result, the notes are now convertible.

- Conversion upon Satisfaction of Trading Price Condition. Holders may surrender notes for conversion into shares of Wabash common stock following any ten consecutive trading-day period in which the average of the trading prices per \$1,000 principal amount of notes for that ten trading-day period was less than 95% of the average conversion value for the notes during that period; provided, however, a holder may not convert its notes if the average closing sale price of our common stock for such ten consecutive trading-day period was between the then current conversion price per share of common stock and 110% of the then applicable conversion price per share of common stock. If the foregoing condition is satisfied, then the notes will be convertible at any time at the option of the holder, through the close of business on the final maturity date of the notes.

The conversion value of a note is equal to the product of the closing sale price for shares of our common stock on a given day multiplied by the then current conversion rate, which is the number of

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shares of common stock into which each note is then convertible. The trading price of the notes on any date of determination means the average of the secondary market bid quotations per \$1,000 principal amount of notes obtained by us or the trustee for \$2,500,000 principal amount of notes at approximately 3:30 p.m., New York City time, on such determination date from two independent nationally recognized securities dealers we select, provided that if at least two such bids cannot reasonably be obtained by us or the trustee, but one such bid is obtained, then this one bid shall be used.

- Conversion upon Occurrence of Specified Corporate Transactions. If we are party to a consolidation, merger or binding share exchange or a transfer of all or substantially all of our assets and, as a result, holders of our common stock would be entitled to receive stock, other securities, other property or assets (including cash or any combination thereof) with respect to or in exchange for our common stock, a note may

be surrendered for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual effective date of such transaction, and at the effective date, the right to convert a note into common stock will be deemed to have changed into a right to convert it into the kind and amount of securities, cash or other assets of Wabash or another person which the holder would have received if the holder had converted the holder's notes immediately prior to the transaction. If such transaction also constitutes a change of control of Wabash, the holder will be able to require us to purchase all or a portion of such holder's notes as described under "-- Change in Control Permits Purchase of Notes at the Option of the Holder."

#### RANKING

The notes are our senior unsecured and unsubordinated obligations. The notes rank on a parity in right of payment with all of our existing and future senior unsecured and unsubordinated indebtedness. However, the notes are effectively subordinated to our existing and future secured indebtedness as to the assets securing such indebtedness. As of March 31, 2004, we had total indebtedness of \$232 million (of which \$102 million was secured indebtedness).

In addition, the notes are effectively subordinated to all existing and future liabilities of our subsidiaries. Our cash flow and consequent ability to meet our debt obligations depends in part on the earnings of our subsidiaries, and on dividends and other payments from our subsidiaries. Under certain circumstances, contractual and legal restrictions, as well as the financial condition and operating requirements of our subsidiaries, could limit our ability to obtain cash from its subsidiaries for the purpose of meeting debt service obligations, including the payment of principal and interest on the notes. Any rights to receive assets of any subsidiary upon its liquidation or reorganization and the consequent right of the holders of the notes to participate in those assets will be subject to the claims of that subsidiary's creditors, including trade creditors, except to the extent that Wabash is recognized as a creditor of that subsidiary, in which case its claims would still be subordinate to any security interests in the assets of that subsidiary.

# CHANGE OF CONTROL PERMITS PURCHASE OF NOTES AT THE OPTION OF THE HOLDER

If a Change of Control occurs, each holder of notes will have the right to require us to repurchase all of that holder's notes, or any portion of those notes that is equal to \$1,000 or a whole multiple of \$1,000, on the date that is 30 days after the date we give notice at a repurchase price equal to 100 percent of the aggregate principal amount of the notes to be repurchased, together with interest accrued and unpaid to, but excluding, the repurchase price in shares of our common stock if we so elect in the notice referred to below. The number of shares of common stock a holder will receive will equal the repurchase price divided by 95 percent of the average of the closing sale prices of the applicable common stock for the five trading days immediately preceding and including the third day prior to the repurchase date. However, we may not pay in common stock unless we satisfy certain conditions prior to the repurchase date as provided in the indenture.

Within 15 days after the occurrence of a Change of Control, we are required to give notice to all holders of notes, as provided in the indenture, of the occurrence of the Change of Control and of their resulting

repurchase right. We must also deliver a copy of our notice to the trustee. To

exercise the repurchase right, a holder of notes must deliver prior to or on the repurchase date irrevocable written notice to the trustee of the holder's exercise of its repurchase right, together with the notes with respect to which the right is being exercised. A "Change of Control" will be deemed to have occurred when the following has occurred:

- our common stock (or other common stock into which the notes are convertible) is no longer traded on the New York Stock Exchange or the Nasdaq National Market;
- any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), acquires the beneficial ownership (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, through a purchase, merger or other acquisition transaction, of 50% or more of the total voting power of the total outstanding voting stock of Wabash other than an acquisition by us, any of our subsidiaries or any of our employee benefit plans;
- Wabash consolidates with, or merges with or into, another person or conveys, transfers, leases or otherwise disposes in one or a series of related transactions of all or substantially all of its assets to any person, or any person consolidates with or merges with or into Wabash, other than:
- any transaction (i) that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Wabash's capital stock and (ii) pursuant to which holders of Wabash's capital stock immediately prior to the transaction have the entitlement to exercise, directly or indirectly, 50% or more of the total voting power of all shares of Wabash's capital stock entitled to vote generally in the election of directors of the continuing or surviving person immediately after the transaction; and
- any merger solely for the purpose of changing Wabash's jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity;
- during any consecutive two-year period, individuals who at the beginning of that two-year period constituted the board of directors of Wabash (together with any new directors whose election to such board of directors, or whose nomination for election by stockholders, was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the board of directors of Wabash then in office; or
- Wabash's stockholders pass a special resolution approving a plan of liquidation or dissolution and no additional approvals of stockholders are required under applicable law to cause a liquidation or dissolution.

However, a Change of Control will not be deemed to have occurred if:

- the daily market price per share of Wabash common stock for any five trading days within the period of 10 consecutive trading days immediately after the later of the Change of Control or the public announcement of the Change of Control (in the case of a Change of Control under the second bullet point above) or the period of 10 consecutive trading days

ending immediately before the Change of Control (in the case of a Change of Control under the third bullet point above) shall equal or exceed 110% of the conversion price of the notes in effect on the date prior to the Change of Control or the public announcement of the Change of Control, as applicable; or

- all of the consideration (excluding cash payments for fractional shares and cash payments made pursuant to dissenters' appraisal rights) in the transaction or transactions constituting the Change of Control under the second and third bullet points above consists of shares of common stock that are, or upon issuance will be, traded on the New York Stock Exchange or the American Stock Exchange or quoted on the Nasdaq National Market and as a result of such transaction or transactions the notes become convertible solely into such common stock.

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The definition of Change of Control includes a phrase relating to the conveyance, transfer, lease or other disposition of "all or substantially all" of Wabash's assets. There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of notes to require us to repurchase such notes as a result of a conveyance, transfer, lease or other disposition of less than all of Wabash's assets may be uncertain.

Our right to pay the repurchase price in common stock is subject to our satisfying various conditions, including:

- the registration of the common stock under the Securities Act and the Exchange Act, if required; and
- any necessary qualifications under applicable state securities law or the availability of an exemption from such qualification and registration.

If such conditions are not satisfied with respect to a holder prior to the close of business on the repurchase date, we will pay the repurchase price of the notes to the holder entirely in cash. Such cash payment currently is not permitted under our existing debt agreements. We may not change the form of consideration to be paid for the notes once we have given the notice that we are required to give to holders of notes, except as described in the first sentence of this paragraph.

We will comply with the provisions of any tender offer rules under the Exchange Act that may then be applicable, and will file any schedule required under the Exchange Act in connection with any offer by us to purchase notes at the option of the holders of notes upon a Change of Control. In some circumstances, the Change of Control purchase feature of the notes may make more difficult or discourage a takeover of us and thus the removal of incumbent management. The Change of Control purchase feature, however, is not the result of management's knowledge of any specific effort to accumulate shares of common stock or to obtain control of us by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions. Instead, the Change of Control purchasers.

We may, to the extent permitted by applicable law, at any time purchase the notes in the open market or by tender at any price or by private agreement. Any note so purchased by us may, to the extent permitted by applicable law, be reissued or resold or may be surrendered to the trustee for cancellation. Any notes surrendered to the trustee may not be reissued or resold and will be canceled promptly.

The foregoing provisions would not necessarily protect holders of the notes if highly leveraged or other transactions involving us occur that may adversely affect holders. Our ability to repurchase notes upon the occurrence of a Change of Control is subject to important limitations. Under our existing credit agreements, we would not be permitted to repurchase notes for cash unless prior to any such payment we either repay our indebtedness subject to such restrictions, refinance such debt on other terms or obtain a waiver from such lenders. In addition, the occurrence of a Change of Control would likely cause an event of default under the terms of certain of our existing debt agreements and could cause an event of default under the terms of any debt agreements we may enter into in the future. Further, we cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price for all the notes that might be delivered by holders of notes seeking to exercise the repurchase right. Any failure by us to repurchase the notes when required following a Change of Control would result in an event of default under the indenture. Any such default, in turn, would cause a default under certain of our existing debt agreements, and may cause a default under any debt agreements we may enter into in the future.

#### EVENTS OF DEFAULT

Each of the following would constitute an event of default under the indenture:

(1) our failure to pay when due the principal of or premium, if any, on any of the notes at maturity or exercise of a repurchase right or otherwise;

(2) our failure to pay an installment of interest (including liquidated damages, if any) on any of the notes for 30 days after the date when due;

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(3) failure by us to deliver shares of common stock, together with cash instead of fractional shares, when those shares of common stock, or cash instead of fractional shares, are required to be delivered following conversion of a note, and that default continues for 10 days;

(4) failure by us to give the notice regarding a Change of Control within 15 days of the occurrence of the Change of Control;

(5) our failure to perform or observe any other term, covenant or agreement contained in the notes or the indenture for a period of 60 days after written notice of such failure, requiring us to remedy the same, shall have been given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the notes then outstanding;

(6) in the event of either (a) our failure or the failure of any of our significant subsidiaries to make any payment by the end of the applicable grace period, if any, after the final scheduled payment date for such payment with respect to any indebtedness for borrowed money in an aggregate principal amount in excess of \$10 million, or (b) the acceleration of indebtedness for borrowed money of the company or any of our significant subsidiaries in an aggregate amount in excess of \$10 million because of a default with respect to such indebtedness, without such indebtedness referred to in either (a) or (b) above having been discharged, cured, waived, rescinded or annulled, for a period of 30 days after written notice to us by the trustee or to us and the trustee by holders of at least 25% in aggregate principal amount of the notes then outstanding; and

(7) certain events of our bankruptcy, insolvency or reorganization.

The term "significant subsidiary" means a subsidiary, including its subsidiaries, that meets any of the following conditions:

- Wabash's and its other subsidiaries' investments in and advances to the subsidiary exceed 10% of the total assets of Wabash and its subsidiaries consolidated as of the end of the most recently completed fiscal year;
- Wabash's and its other subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the subsidiary exceeds 10% of the total assets of Wabash and its subsidiaries consolidated as of the end of the most recently completed fiscal year; or
- Wabash's and its other subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of the subsidiary exceeds 10% of such income of Wabash and its subsidiaries consolidated for the most recently completed fiscal year.

The indenture provides that the trustee shall, within 90 days of the occurrence of a default, give to the registered holders of the notes notice of all uncured defaults known to it, but the trustee shall be protected in withholding such notice if it, in good faith, determines that the withholding of such notice is in the best interest of such registered holders, except in the case of a default in the payment of the principal of, or premium, if any, or interest on, any of the notes when due or in the payment of any repurchase obligation.

If an event of default specified in clause (7) above occurs and is continuing, then automatically the principal of all the notes and the interest thereon shall become immediately due and payable. If an event of default shall occur and be continuing, other than with respect to clause (7) above (the default not having been cured or waived as provided under "-- Modifications and Waiver" below), the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare the notes due and payable at their principal amount together with accrued interest, and thereupon the trustee may, at its discretion, proceed to protect and enforce the rights of the holders of notes by appropriate judicial proceedings. Such declaration may be rescinded or annulled with the written consent of the holders of a majority in aggregate principal amount of the notes then outstanding upon the conditions provided in the indenture. However, if an event of default is cured prior to such declaration by the trustee or holders of the notes as discussed above, the trustee and the holders of the notes will not be able to make such declaration as a result of that cured event of default.

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Overdue payments of interest, liquidated damages and premium, if any, and principal shall accrue interest at 5.25%.

The indenture contains a provision entitling the trustee, subject to the duty of the trustee during default to act with the required standard of care, to be indemnified by the holders of notes before proceeding to exercise any right or power under the indenture at the request of such holders. The indenture provides that the holders of a majority in aggregate principal amount of the notes then outstanding through their written consent may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred upon the trustee.

We are required to furnish annually to the trustee a statement as to the fulfillment of our obligations under the indenture.

CONSOLIDATION, MERGER OR ASSUMPTION

We may, without the consent of the holders of notes, consolidate with, merge into or transfer all or substantially all of our assets to any other corporation organized under the laws of the United States or any of its political subdivisions provided that:

- (i) Wabash shall be the surviving or continuing corporation or (ii) the entity or person formed by or surviving any such consolidation, merger or asset transfer shall be a corporation organized and validly existing under the laws of the United States, any State thereof or the District of Columbia;
- the surviving corporation assumes all our obligations under the indenture and the notes pursuant to a supplemental indenture in form and substance reasonably satisfactory to the trustee;
- at the time of such transaction, no event of default, and no event which, after notice or lapse of time, would become an event of default, shall have happened and be continuing; and
- certain other conditions are met.

Although such transactions are permitted under the indenture, certain of the foregoing transactions occurring could constitute a change in control of Wabash, permitting each holder to require us to purchase the notes of such holder as described above.

#### MODIFICATIONS AND WAIVER

The indenture (including the terms and conditions of the notes) may be modified or amended by us and the trustee, without the consent of the holder of any note, for the purposes of, among other things:

- adding to our covenants for the benefit of the holders of notes;
- surrendering any right or power conferred upon us;
- providing for the assumption of our obligations to the holders of notes in the circumstances required under the indenture as described under "-- Consolidation, Merger or Assumption;"
- reducing the conversion price, provided that the reduction will not adversely affect the interests of holders of notes; or
- curing any ambiguity or correcting or supplementing any defective provision contained in the indenture; provided that such modification or amendment does not adversely affect the interests of the holders of the notes.

Modifications and amendments to the indenture or to the terms and conditions of the notes may also be made, and past default by us may be waived with the written consent of the holders of at least a majority in aggregate principal amount of the notes at the time outstanding. However, no such modification, amendment or waiver may, without the written consent or the affirmative vote of the holder of each note so affected:

- change the maturity of the principal of or any installment of interest on

that note (including any payment of liquidated damages); \$22\$

- reduce the principal amount of, or any premium or interest on (including any payment of liquidated damages), any note;
- change the currency of payment of such note or interest thereon;
- impair the right to institute suit for the enforcement of any payment on or with respect to any note;
- except as otherwise permitted or contemplated by provisions concerning corporate reorganizations, adversely affect the repurchase option of holders upon a Change of Control or the conversion rights of holders of the notes;
- waive a default or event of default in the payment of principal of or interest or liquidated damages, if any, on the notes (except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the notes and a waiver of the payment default that resulted from such acceleration);
- except as permitted by the indenture, increase the conversion price or modify the provisions of the indenture relating to conversion of the notes in a manner adverse to the holders; or
- reduce the percentage in aggregate principal amount of notes outstanding necessary to modify or amend the indenture or to waive any past default.

#### FORM, DENOMINATION AND REGISTRATION

The notes are issued in fully registered form, without coupons, in denominations of 1,000 principal amount and whole multiples of 1,000.

Global Notes: Book-Entry Form. Except as provided below, the notes are evidenced by one global note deposited with the trustee as custodian for DTC, New York, New York, and registered in the name of Cede & Co. as DTC's nominee. The global note and any notes issued in exchange therefor are subject to certain restrictions on transfer set forth in the global notes and in the indenture and bear a restrictive legend. Record ownership of the global notes may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee, except as set forth below. A Noteholder may hold its interests in the global note directly through DTC if such noteholder is a participant in DTC, or indirectly through organizations which are direct DTC participants. Transfers between direct DTC participants will be effected in the ordinary way in accordance with DTC's rules and will be settled in same-day funds. Noteholders may also beneficially own interests in the global notes held by DTC through certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a direct DTC participant, either directly or indirectly. So long as Cede & Co., as nominee of DTC, is the registered owner of the global note, Cede & Co. for all purposes will be considered the sole holder of the global note. Except as provided below, owners of beneficial interests in a global note will not be entitled to have certificates registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form, and will not be considered holders thereof. The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer a beneficial interest in a global note to such persons may be limited. We will wire, through the facilities of the trustee, principal, premium, if any, and interest payments on the global note to Cede & Co., the nominee for DTC, as the registered owner of the global note. We,

the trustee and any paying agent will have no responsibility or liability for paying amounts due on the global note to owners of beneficial interests in a global note. It is DTC's current practice, upon receipt of any payment of principal of and premium, if any, and interest on the global note, to credit participants' accounts on the payment date in amounts proportionate to their respective beneficial interests in a note represented by a global note, as shown on the records of DTC, unless DTC believes that it will not receive payment on the payment date. Payments by DTC participants to owners of beneficial interests in notes represented by a global note held through DTC participants will be the responsibility of DTC participants, as is now the case with securities held for the accounts of customers registered in "street name."

If you would like to convert your notes into common stock pursuant to the terms of the notes, you should contact your broker or other direct or indirect DTC participant to obtain information on procedures, including

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proper forms and cut-off times, for submitting those requests. Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect DTC participants and other banks, your ability to pledge your interest in the notes represented by global notes to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate. Neither we nor the trustee (nor any registrar, paying agent or conversion agent under the indenture) will have any responsibility for the performance by DTC or direct or indirect DTC participants of their obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of notes, including, without limitation, the presentation of notes for conversion as described below, only at the direction of one or more direct DTC participants to whose account with DTC interests in the global notes are credited and only for the principal amount of the notes for which directions have been given.

DTC has advised us as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities for DTC participants and to facilitate the clearance and settlement of securities transactions between DTC participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations such as the initial purchasers. Certain DTC participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a participant, either directly or indirectly. Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the global notes among DTC participants, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. If DTC is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by us within 90 days, we will cause notes to be issued in definitive form in exchange for the global notes. None of us, the trustee or any of their respective agents will have any responsibility for the performance by DTC or direct or indirect DTC participants of their obligations under the rules and procedures governing their operations, including maintaining, supervising or reviewing the records relating to, or payments made on account of, beneficial ownership interests in global notes. According to DTC, the foregoing information with respect to DTC has been

provided to its participants and other members of the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Certificated notes may be issued in exchange for beneficial interests in notes represented by the global notes only when the depositary for a global note has notified the Company that it is unwilling or unable to continue as depositary for such note and the Company fails to appoint a successor depositary for such note within 90 days.

#### GOVERNING LAW

The indenture and the notes are governed by, and construed in accordance with, the law of the State of New York.

#### CONCERNING THE TRUSTEE

Wachovia Bank, National Association, as trustee under the indenture, has been appointed by us as paying agent, conversion agent, registrar and custodian with regard to the notes. National City Bank is the transfer agent and registrar for Wabash's common stock. The trustee or its affiliates may from time to time in the future provide banking and other services to us in the ordinary course of their business.

The indenture provides that, except during the continuance of an event of default, the trustee will perform only such duties as are specifically set forth in the indenture. In case an event of default shall occur (and shall not be cured) and holders of the notes have notified the trustee, the trustee will be required to exercise its

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powers with the degree of care and skill of a prudent person in the conduct of such person's own affairs. Subject to such provisions, the trustee is under no obligation to exercise any of its rights or powers under the indenture at the request of any of the holders of notes, unless they shall have offered to the trustee security and indemnity satisfactory to it.

The indenture contains certain limitations on the rights of the trustee, should it become our creditor, to obtain payment of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. The trustee is permitted to engage in other transactions, provided, however, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

#### REGISTRATION RIGHTS

We agreed, at our expense, to file with the SEC this registration statement on Form S-3 covering resales by holders of the notes and the common stock issuable upon conversion of the notes, of which this prospectus is a part. Under the terms of the registration rights agreement, we agreed to use our reasonable best efforts to:

- cause the registration statement to become effective before March 28, 2004; and
- keep the shelf registration statement continuously effective under the Securities Act until the earliest of (i) the second anniversary of the issue date; (ii) the date on which the notes or the common stock issuable upon their conversion may be sold by non-affiliates of us pursuant to paragraph (k) of Rule 144 (or any successor provision) promulgated by the

SEC under the Securities Act; (iii) the date as of which all the notes or the common stock issuable upon their conversion have been sold under Rule 144 under the Securities Act (or any similar provision then in force) and (iv) the date as of which all the notes or the common stock issuable upon their conversion have been sold pursuant to the shelf registration statement.

We also agreed to provide to each registered holder copies of the prospectus, notify each registered holder when the shelf registration statement has become effective and take certain other actions as are required to permit unrestricted resales of the notes and the common stock issuable upon conversion of the notes. A holder who sells those securities pursuant to the shelf registration statement generally will be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers and will be bound by the provisions of the registration rights agreement, which are applicable to that holder (including certain indemnification provisions).

The specific provisions relating to the registration described above are contained in the registration rights agreement which was entered into on the closing of the initial offering of the notes.

#### TRANSFER AND EXCHANGE

A holder may transfer or exchange notes in accordance with the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents, and we may require a holder to pay any taxes and fees required by law or permitted by the indenture. We are not required to transfer or exchange any note for which a holder has delivered a Change of Control repurchase notice.

The registered holder of a note will be treated as the owner of it for all purposes.

#### NO RECOURSE AGAINST OTHERS

None of our directors, officers, employees, stockholders or affiliates, as such, shall have any liability or any obligation under the notes or the indenture or for any claim based on, in respect of or by reason of such obligations or the creation of such obligations. Each holder by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for the notes. This provision does not constitute a waiver of any person's compliance with the federal securities laws or the Securities and Exchange Commission's rules and regulations.

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#### DESCRIPTION OF CAPITAL STOCK

Our certificate of incorporation authorizes 100,000,000 shares of capital stock, 75,000,000 of which are designated as common stock and 25,000,000 of which are designated as preferred stock. The following descriptions summarize the material terms and provisions of our authorized and outstanding capital stock. For the complete terms of our capital stock, please refer to our certificate of incorporation and bylaws that are filed as exhibits to our reports incorporated by reference into this prospectus. The General Corporation Law of Delaware, as amended, may also affect the terms of our capital stock.

#### COMMON STOCK

Our certificate of incorporation provides that we have authority to issue

75,000,000 shares of our common stock, par value \$.01 per share. At April 27, 2004, there were 27,095,985 shares of common stock issued and outstanding. In addition, 1,648,435 shares of common stock were issuable upon exercise of stock options outstanding on that date. The outstanding shares of common stock are fully paid and nonassessable.

#### VOTING RIGHTS

Each holder of common stock is entitled to attend all special and annual meetings of the stockholders and to vote upon any matter, including, without limitation, the election of directors. Holders of common stock are entitled to one vote per share.

#### LIQUIDATION RIGHTS

In the event of any dissolution, liquidation or winding up of Wabash, whether voluntary or involuntary, the holders of common stock and holders of any class or series of stock entitled to participate with them, will be entitled to participate in the distribution of any assets remaining after we have paid all of our debts and liabilities and have paid, or set aside for payment, to the holders of any class of stock having preference over the common stock in the event of dissolution, liquidation or winding up, the full preferential amounts, if any, to which they are entitled.

#### DIVIDENDS

Dividends may be paid on the common stock and on any class or series of stock entitled to participate therewith when and as declared by the board. Due to restrictions under existing covenants in our debt agreements, we are not permitted to pay dividends on our common stock without waiver of these restrictions by our lenders.

#### OTHER RIGHTS AND RESTRICTIONS

The holders of common stock have no preemptive or subscription rights to purchase additional securities issued by us, nor any rights to convert their common stock into other securities of Wabash or to have their shares redeemed by us. Our common stock is not subject to redemption by us. The rights, preferences and privileges of common stockholders are subject to the rights of any series of preferred stock that we may designate in the future. Our charter and bylaws do not restrict the ability of a holder of common stock to transfer his or her shares of common stock. When we issue shares of common stock upon conversion of the notes, the shares will be fully paid and non-assessable.

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#### LISTING

Our common stock is listed on the New York Stock Exchange under the symbol "WNC."

#### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is National City Bank.

#### STOCKHOLDER RIGHTS PLAN

In November 1995, our board adopted a Stockholders Rights Plan (the "Rights Plan"). The Rights Plan is designed to deter any potential 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 A Junior Participating Preferred Stock at an exercise price of \$120.00. 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 our common stock or if we enter into other business combination transactions not approved by the board of directors. In the event the rights become exercisable, the rights plan allows for our 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, 2005 and are redeemable for \$.01 per right by our board under certain circumstances.

#### LIMITATIONS OF DIRECTOR LIABILITY

Delaware law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breach of directors' fiduciary duty of care. Although Delaware law does not change directors' duty of care, it enables corporations to limit available relief to equitable remedies such as injunction or rescission. Our certificate of incorporation limits the liability of directors to us and our stockholders to the full extent permitted by Delaware law. Specifically, directors are not personally liable for monetary damages to Wabash or its stockholders for breach of the director's fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to Wabash or its stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions; and
- any transaction from which the director derived an improper personal benefit.

#### INDEMNIFICATION

To the maximum extent permitted by law, our bylaws provide for mandatory indemnification of directors and officers against any expense, liability or loss to which they may become subject, or which they may incur as a result of being or having been a director or officer. In addition, we must advance or reimburse directors and officers for expenses they incur in connection with indemnifiable claims.

We also maintain directors' and officers' liability insurance.

#### PREFERRED STOCK

Our certificate of incorporation authorizes our board from time to time and without further stockholder action, to provide for the issuance of up to 25,000,000 shares of preferred stock in one or more series, and to fix the relative rights and preferences of the shares, including voting powers, dividend rights, liquidation preferences, redemption rights and conversion privileges. As of the date of this prospectus, we have classified shares of Series A Junior Participating Preferred Stock in connection with the establishment of our stockholder rights plan, as described above, and we have issued rights that are in some cases exercisable for

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shares of Series A Junior Participat>Total gross profit

37,251

23,238

14,013

60.3

Operating expenses:

Research and development other

12,858

9,222

3,636

39.4

Selling, general and administrative non cash equity compensation

191

191

Selling, general and administrative other

6,257

2,657

42.5

Amortization of intangible assets

328

362

(34

)

In process research and development

2,230

2,230

Other costs

439

(439

)

Operating income

12,730

6,958

5,772

83.0

Interest income (expense), net

320

(20

)

2,000 1,881 119 6.3 Net income

\$

11,050



#### Revenues

The 56.9% increase in our revenues in the three months ended May 31, 2005 compared to the three months ended May 31, 2004 was attributable to increased sales of both our Storage and Network Systems and Storage Infrastructure products.

Of the \$18.0 million increase in revenues from sales of our Storage and Network Systems products, management estimates that \$5.0 million was contributed by a 55% growth in revenues from products incorporating low-cost disk drives. The remaining increase related primarily to growth of approximately 17% in sales of our storage subsystem products incorporating fibre channel disk drives. Both of these increases were driven largely by a continued growth in our sales to Network Appliance and we believe this reflects the increasing requirements for storage of digital information, particularly networked storage.

The \$43.5 million increase in revenues from sales of Storage Infrastructure products included increases of \$41.7 million and \$4.8 million in revenues from the sale of production test systems and servo track writers, respectively, and a \$3.1 million decrease in sales of automation technology. The changes in sales of these products relate to the requirements of our major disk drive customers for these products which has been affected by the growth in demand for disk drives those customers are experiencing, both in terms of volume and storage capacity. As described above, our revenues from our Storage Infrastructure products are subject to significant quarterly fluctuations resulting from our major customers capital expenditure decisions and installation schedules.

#### Cost of Revenues and Gross Profit

The increase in cost of revenues and gross profit in the three months ended May 31, 2005 compared to the three months ended May 31, 2004 was primarily related to our growth in revenues. As a percentage of revenues, excluding the non-cash equity compensation expense, our gross profit was 22.0% in the three months ended May 31, 2005 compared to 21.5% for the three months ended May 31, 2004. This reflects an increase of 2.7% resulting from an increased proportion of higher margin Storage Infrastructure revenues partially offset by decreases in the gross margin for both our Storage and Network Systems and our Storage Infrastructure products.

The gross margin for our Storage and Network Systems products decreased to 16.0% in the three months ended May 31, 2005 from 17.8% in the three months ended May 31, 2004, primarily as a result of changes in product mix, particularly the increasing proportion of lower margin products incorporating low cost disk drive technology. The timing of increases in manufacturing expenses associated with new manufacturing capacity also contributed to the decrease in gross margin.

The gross margin for Storage Infrastructure products decreased to 30.7% in the three months ended May 31, 2005 from 33.3% in the three months ended May 31, 2004, primarily as a result of the reduced proportion of higher margin automation products, partially offset by operating efficiencies associated with the higher volumes.

Research and Development - other

The \$3.6 million increase in other research and development expense in the three months ended May 31, 2005 compared to the three months ended May 31, 2004 includes increased investment of approximately \$1.5 million in a number of projects to enhance the technology content and broaden the range of our storage subsystems including \$0.5 million in connection with a new Storage Appliance product line related to the in process research and development expense described below. Of the remaining increase, \$0.7 million related to investment in new Storage Infrastructure products, including optical inspection technology following the Beyond3 acquisition, \$0.6 million related to higher annual staff performance bonuses and \$0.6 million related to changes in exchange rates.

Selling, General and Administrative - other

The \$2.7 million increase in our selling, general and administrative expense in the three months ended May 31, 2005 compared to the three months ended May 31, 2004 includes \$0.6 million related to changes in exchange rates, \$0.5 million related to higher annual staff performance bonuses and a \$0.9 million increase in insurance and other costs following our IPO. Additionally we have increased the number of employees engaged in sales activities in support of the increase in the level of business.

Amortization of Intangible Assets

The amortization of intangible assets relates primarily to the intangible assets purchased as part of the acquisition of the business of ZT Automation LLC in February 2004.

In process research and development

In April 2005 we purchased intellectual property for \$2.2 million consisting of a software suite which we intend to incorporate into a new Storage Appliance product line within our Storage and Network Systems segment. The purchase price was recorded as an operating expense because the acquired software had not reached technological feasibility and had no alternative uses.

Other Costs

In the three months ended May 31, 2004 we incurred costs of \$0.4 million in preparation for our initial public offering consisting of professional fees.

#### Interest Income, Net

We recorded net interest income of \$0.3 million in the three months ended May 31, 2005 compared to interest expense of \$20 thousand in the three months ended May 31, 2004. The recording of interest income in the three months ended May 31, 2005 resulted from an increase in cash and cash equivalents, primarily related to the net proceeds from the issuance of common shares in connection with our IPO.

#### Provision for Income Taxes

During the three months ended May 31, 2005, the provision for income taxes increased by approximately \$1.2 million compared with the three months ended May 31, 2004 primarily as a result of the increase in income before income taxes. This was partially offset by the increase in income related to our Malaysian operation which is substantially exempt from income taxes. The increase in income of our Malaysian operation results from the increased level of Storage Infrastructure revenue.

#### Net Income

The increase in net income for the three months ended May 31, 2005 compared to the three months ended May 31, 2004 resulted primarily from the factors set out above, including, in particular, the increase in our revenues and the increase in gross margins. The effects of these were offset by factors set out above, including, in particular, increases in operating expenses.

#### Six Months Ended May 31, 2005 Compared to Six Months Ended May 31, 2004

The following is a tabular presentation of our results of operations for the six months ended May 31, 2005 compared to the six months ended May 31, 2004. Following the table is a discussion and analysis of our business and results of operations for such periods. A discussion of the non-cash equity compensation expense is set out above.

| Six Months Ended            |    |   |        |                  |    |                                |        |  |  |  |
|-----------------------------|----|---|--------|------------------|----|--------------------------------|--------|--|--|--|
|                             |    | May 31, May 31,<br>2005 2004<br>US dollars in tho |        |                  |    | Increase / (Decrease<br>Amount | )<br>% |  |  |  |
| Revenues:                   |    |   | 05 don | ars in thousands |    |                                |        |  |  |  |
| Storage and Network Systems | \$ | 189,422   | \$     | 152,226          | \$ | 37,196                         | 24.4%  |  |  |  |
| Storage Infrastructure      |    | 122,705   |        | 75,181           |    | 47,524                         | 63.2   |  |  |  |
| Total revenues              |    | 312,127   |        | 227,407          |    | 84,720                         | 37.3   |  |  |  |
| Cost of revenues            |    | 245,193   |        | 175,259          |    | 69,934                         | 39.9   |  |  |  |
| Gross profit:               |    |   |        |                  |    |                                |        |  |  |  |
| Storage and Network Systems |    | 30,250  |        | 27,621           |    | 2,629                          | 9.5    |  |  |  |
| Storage Infrastructure      |    | 36,684  |        | 24,527           |    | 12,157                         | 49.6   |  |  |  |
| Total gross profit          |    | 66,934  |        | 52,148           |    | 14,786                         | 28.4   |  |  |  |
| Operating expenses:         |    |   |        |                  |    |                                |        |  |  |  |

| Research and development development        |    |        |              |               |         |
|---|----|--------|--------------|---------------|---------|
| arrangement                                 |    |        | (6,000)      | 6,000         |         |
| Research and development other              |    | 23,420 | 17,172       | 6,248         | 36.4    |
| Selling, general and administrative non cas | sh |        |              |               |         |
| equity compensation                         |    | 381    |              | 381           |         |
| Selling, general and administrative other   |    | 17,319 | 12,583       | 4,736         | 37.6    |
| Amortization of intangible assets           |    | 726    | 394          | 332           |         |
| In process research and development         |    | 2,230  |              | 2,230         |         |
| Other costs                                 |    |        | 1,863        | (1,863)       |         |
| Operating income                            |    | 22,858 | 26,136       | (3,278)       | (12.5)  |
| Interest income (expense), net              |    | 669    | 828          | (159)         | (19.2)  |
| Provision for income taxes                  |    | 3,034  | 4,036        | (1,002)       | (24.8)  |
| Net income                                  | \$ | 20,493 | \$<br>22,928 | \$<br>(2,435) | (10.6)% |

#### Revenues

The 37.3% increase in our revenues in the six months ended May 31, 2005 compared to the six months ended May 31, 2004 was attributable to increased sales of both our Storage and Network Systems and Storage Infrastructure products.

Of the \$37.2 million increase in revenues from sales of our Storage and Network Systems products, management estimates that \$18.1 million was contributed by a 75% increase in revenues from products incorporating low-cost disk drives. The remaining increase related primarily to growth of approximately 17% in sales of our storage subsystem products incorporating fibre channel disk drives. Both of these increases were driven largely by a continued growth in our sales to Network Appliance and we believe this reflects the increasing requirements for storage of digital information, particularly networked storage.

The \$47.5 million increase in revenues from sales of Storage Infrastructure products primarily resulted from an increase of \$44.2 million in revenues from the sale of production test systems. Also in comparing these periods, revenues from the sale of servo track writers increased by \$2.6 million and revenue from the sale of automation technology increased by \$0.6 million. The changes in sales of these products relate to the requirements of our major disk drive customers for these products which has been affected by the growth in demand for disk drives those customers are experiencing, both in terms of volume and individual disk drive storage capacity. As described above, our revenues from our Storage Infrastructure products are subject to significant quarterly fluctuations resulting from our major customers capital expenditure decisions and installation schedules.

Cost of Revenues and Gross Profit

The increase in cost of revenues and gross profit in the six months ended May 31, 2005 compared to the six months ended May 31, 2004 was primarily related to our growth in revenues. As a percentage of revenues, excluding the non-cash equity compensation expense, our gross profit was 21.4% in the six months ended May 31, 2005 compared to 22.9% for the six months ended May 31, 2004. This reflects decreases in the gross margin for both our Storage and Network Systems and our Storage Infrastructure products, partially offset by an increase of 0.9% resulting from an increased proportion of higher margin Storage Infrastructure revenues.

The gross margin for our Storage and Network Systems products decreased to 16.0% in the six months ended May 31, 2005 from 18.1% in the six months ended May 31, 2004, primarily as a result of changes in product mix, in particular the increasing proportion of lower margin products incorporating low cost disk drive technology and the inclusion in the six months ended May 31, 2004 of sales of a discontinued higher margin networking product. The timing of increases in manufacturing expenses associated with new capacity also contributed to the decrease in gross margin.

The gross margin for Storage Infrastructure products decreased to 29.9% in the six months ended May 31, 2005 from 32.6% in the six months ended May 31, 2004. This was the result of the inclusion in the comparative period of the one-time benefit of component cost reductions together with the reduced proportion of higher margin automation products, partially offset by operating efficiencies associated with the higher volumes.

Research and Development development arrangement

In our 2002 fiscal year, as part of a development arrangement with a supplier, Chaparral Network Storage Inc, or Chaparral, we loaned \$6.0 million to Chaparral in connection with the development of RAID controller components to be included in certain of our products. Because we believed that the repayment of these amounts was dependent on the successful efforts of the related research and development, the amounts were recorded as expense in 2002.

In February 2004, Dot Hill Systems Corp. acquired Chaparral and, based on the financial position of Dot Hill, we determined that the \$6.0 million loan plus \$0.9 million of accrued interest was collectible. Accordingly, we recorded a reduction in research and development expenses and additional interest income for these amounts in the three months ended February 29, 2004. In August 2004, Dot Hill repaid the loan and accrued interest in full.

Research and Development - other

The \$6.2 million increase in other research and development expense in the six months ended May 31, 2005 compared to the six months ended May 31, 2004 includes increased investment of approximately \$2.7 million in a number of projects to enhance the technology content and broaden the range of our storage subsystems, including \$0.5 million in connection with a new Storage Appliance product line related to the in process research and development expense described below. Of the remaining increase \$1.2 million related to investment in new Storage Infrastructure products including automation and optical inspection technologies following the ZT Auomation and Beyond3 acquisitions, \$0.8 million related to higher annual staff performance bonuses and \$1.2 million related to changes in exchange rates.

Selling, General and Administrative - other

The \$4.7 million increase in our selling, general and administrative expense in the six months ended May 31, 2005 compared to the six months ended May 31, 2004 includes \$0.5 million related to the ZT Automation acquisition, \$1.2 million related to changes in exchange rates, \$0.7 million related to higher annual staff performance bonuses and a \$1.8 million increase in insurance and other costs following our IPO. Additionally, we have increased the number of employees engaged in sales activities in support of the increase in the level of business.

In process research and development

As described above in our discussion of the quarterly operating results, we recorded in process research and development expense of \$2.2 million resulting from a purchase of intellectual property in April 2005.

Amortization of Intangible Assets

The increase in amortization of intangible assets in the six months ended May 31, 2005 relates to the acquisition of the business of ZT Automation LLC in February 2004 and the resulting inclusion in the comparative period of approximately only one quarter of amortization expense. This expense will increase further in future periods as a result of the inclusion of amortization of assets associated with the Oliver Design acquisition.

Other Costs

In the six months ended May 31, 2004 we incurred costs of \$1.9 million in preparation for our initial public offering consisting of professional fees.

Interest Income, Net

We recorded net interest income of \$0.7 million in the six months ended May 31, 2005 compared to \$0.8 million in the six months ended May 31, 2004. The interest income in the prior period includes the recognition of \$0.9 million interest received on the loan made to Chaparral as part of the development arrangement described above. Excluding this amount, the recording of interest income in the six months ended May 31, 2005 resulted from an increase in cash and cash equivalents, primarily related to the net proceeds from the issuance of common shares in connection with our IPO.

Provision for Income Taxes

During the six months ended May 31, 2005, the provision for income taxes decreased compared with

the six months ended May 31, 2004 by \$1.0 million, primarily as a result of the decrease in income from before income taxes. In addition the decrease resulted from the increase in income related to our Malaysian operation which is substantially exempt from income taxes. The increase in income of our Malaysian operation results from the increased level of Storage Infrastructure revenue.

#### Net Income

The reduction in net income for the six months ended May 31, 2005 compared to the six months ended May 31, 2004 resulted primarily from the factors set out above, including, in particular, increases in operating expenses, the reduction in gross margins and the inclusion in the prior quarter of the release of the bad debt allowance against the supplier loan. The effects of these were offset by factors set out above, including, in particular, increases in our revenues.

#### Liquidity and Capital Resources

Cash flows

Net cash provided by operating activities was \$14.9 million for the six months ended May 31, 2005 compared to \$1.7 million in the six months ended May 31, 2004.

Operating cash flows in the six months ended May 31, 2005 have been affected by underlying revenue growth. This together with the related increases in cost of sales and operating expenses has resulted in an increased requirement for working capital. In particular, as described in the discussion below, this has resulted in operating cash out flows related to increases in accounts receivable and inventories partly offset by increases in accounts payable.

Cash provided by operating activities of \$14.9 million for the six months ended May 31, 2005 resulted primarily from the positive contribution of net income after excluding non-cash charges for depreciation and amortization of \$3.9 million together with increases in accounts payable of \$21.7 million and a decrease in deferred income taxes of \$4.1 million. The increase in accounts payable results primarily from underlying sales growth. The decrease in deferred income taxes related primarily to the usage of U.K. net operating loss carryforwards. These positive effects on cash flows were partially offset by increases in accounts receivable and inventories of \$15.3 million and \$18.7 million, respectively, resulting primarily from growth in the business.

Cash provided by operating activities of \$1.7 million for the six months ended May 31, 2004 resulted primarily from net income after excluding non-cash charges of \$2.9 million for depreciation and amortization and a gain of \$6.0 million related to the recognition of a supplier note receivable. The supplier note receivable related to amounts we expected to collect in connection with a loan which had been written off in our 2002 fiscal year and which was repaid in August 2004. Increases in accounts payable and other accrued liabilities of \$2.4 million and \$1.6 million, respectively, together with a decrease in deferred income taxes of \$3.4 million also contributed to cash provided by operating activities. The increases in accounts payable and other accrued liabilities resulted primarily from growth in the business and the accrual of the costs of our IPO, respectively. The decrease in deferred income taxes resulted primarily from the usage of U.K. net operating loss carryforwards. These positive effects on cash flows were partially offset by increases in accounts receivable, inventories and prepaid expenses and other current assets of \$4.7 million, \$4.1 million and \$2.5 million, respectively, and decreases in employee compensation and benefits payable and deferred

revenue of \$4.1 million and \$9.4 million, respectively. The increases in accounts receivable and inventories resulted primarily from underlying sales growth. The increase in prepaid expenses related to the prepaid expenses of our IPO. The decrease in employee compensation and benefits payable resulted primarily from the payment of 2003 fiscal year bonuses. The decrease in deferred revenue resulted from a reduction in orders on hand from a major customer where payments are made in advance of shipment.

Net cash used in investing activities was \$9.7 million for the six months ended May 31, 2005

compared to \$9.7 million for the six months ended May 31, 2004. Net cash used in the six months ended May 31, 2005 comprised \$14.1 million initial consideration for the Oliver Design acquisition less cash acquired of \$10.1 million, \$1.2 million deferred consideration related to the ZT Automation acquisition and \$4.5 million related to capital expenditure. The cash used in the six months ended May 31, 2004 comprised \$6.0 million in respect of the initial consideration for the acquisition of the business of ZT Automation LLC and \$3.7 million related to capital expenditure.

Our capital expenditures relate primarily to purchases of equipment such as tooling, production lines, test equipment and computers. In July 2005 we commenced a new project to replace our Enterprise and Resource Planning (ERP) system. This will result in additional capital expenditure of a total of approximately \$4.0 million in our 2005 and 2006 fiscal years. With this exception, we do not anticipate any significant changes in the nature or level of our capital expenditures and we would expect these to generally increase in line with our revenues. With the exception of the new ERP system, we currently have no material commitments for capital expenditures.

Net cash used in financing activities was \$2.2 million in the six months ended May 31, 2005 compared to cash provided by financing activities of \$6.1 million in the six months ended May 31, 2004. Net cash used in financing activities in the six months ended May 31, 2005 includes the payment of a \$2.0 million acquisition note payable related to the ZT Automation acquisition and quarterly repayments totaling \$2.0 million under our HSBC term loan. These were partially offset by proceeds of \$1.8 million from the exercise of employee share options. Net cash provided by financing activities in the six months ended May 31, 2004 comprised issuances of ordinary shares of \$4.3 million primarily related to the exercise of employee share options, borrowings of \$3.8 million under our HSBC overdraft facility to fund working capital offset by quarterly repayments totaling \$2.0 million under our HSBC term loan.

#### Liquidity

As of May 31, 2005, our principal sources of liquidity consisted of cash and cash equivalents of \$66.6 million and our multi-currency credit facilities with HSBC. The HSBC credit facilities include the remaining \$13.0 million of a \$19.0 million term loan. This loan is repayable in equal quarterly installments over five years. The facilities also include a revolving line of credit which expires in September 2008, and a short-term overdraft facility. The revolving line of credit is for an aggregate principal amount of up to \$10.0 million and bears interest at a rate of 0.75% above LIBOR. The overdraft facility is for an aggregate principal amount of up to approximately \$15.0 million and bears interest at a rate of 0.75% above LIBOR. As of May 31, 2005, we had no debt outstanding under our revolving line of credit or our overdraft facility. The HSBC credit facilities provide for a security interest on substantially all of our assets.

Our future financing requirements will depend on many factors, but are particularly affected by the rate at which our revenues and associated working capital requirements grow, changes in the payment terms with our major customers and suppliers of disk drives, and quarterly fluctuations in our revenues. As part of the Oliver Design acquisition we assumed advance payments from customers totaling \$17.1 million and recorded as deferred revenue. In addition we acquired inventory valued at \$10.0 million and assumed \$4.8 million accounts payable. These were the significant contributors to the cash assumed in the acquisition of \$10.3 million. These balances were based on an historically high level of orders on hand will reduce during the remainder our 2005 fiscal year and therefore increase our requirement for working capital.

Additionally, our cash flow could be significantly affected by certain acquisitions we have made or might choose to make or alliances we have entered or might enter into. As described above, in connection with the acquisition of the business of ZT Automation LLC we will be required to make payments of deferred consideration of up to \$20.4 million, payable over approximately three years based on the revenue generated by this business. We paid \$1.2 million under this arrangement in the six months ended May 31, 2005. We may also be required to make additional payments of up to \$17.2 million related to the purchase of intellectual property from Beyond3. In August 2006 we expect to repay the \$3.0 million acquisition note payable related to the Oliver Design acquisition.

We believe that our cash and cash equivalents together with our credit facilities with HSBC will be sufficient to meet our cash requirements at least through the next 24 months. We cannot assure you that additional equity or debt financing will be available to us on acceptable terms or at all.

## Foreign Exchange Rate Fluctuations

Since November 30, 2004, there has not been a material change to our market exposure related to foreign exchange rates.

Interest Rates

We had cash and cash equivalents at May 31, 2005 totaling \$66.6 million. These are primarily held in variable interest liquidity funds, overnight deposits and short-term fixed interest deposits. In addition, at May 31, 2005 we had short and long-term bank borrowings with variable interest rates amounting to \$13.0 million. We do not hedge our exposure to interest rate fluctuations through the use of derivative instruments.

Since November 30, 2004, there has not been a material change to our market exposure related to interest rates.

#### **Recent Accounting Pronouncement**

In May 2005, the FASB issued FAS No. 154, Accounting Changes and Error Corrections (FAS 154), which replaced APB No. 20, Accounting Changes and FAS No. 3, Reporting Accounting Changes in Interim Financial Statements . FAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle by requiring voluntary changes in accounting principles to be reported using retrospective application, unless impracticable to do so. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

|  | May 31,<br>2005<br>(US dollars an<br>thous | lovember 30,<br>2004<br>its in |           |
|--|--|--------------------------------|-----------|
| ASSETS   |  |                                |           |
| Current assets:  |  |                                |           |
| Cash and cash equivalents  | \$<br>66,595                               | \$                             | 63,495    |
| Accounts receivable net of allowance for doubtful accounts of \$209 and \$273  | 65,473                                     |                                | 49,656    |
| Inventories  | 71,738                                     |                                | 43,014    |
| Prepaid expenses   | 2,499                                      |                                | 2,594     |
| Deferred income taxes  | 9,925                                      |                                | 6,774     |
| Other current assets   | 3,216                                      |                                | 2,855     |
| Total current assets   | 219,446                                    |                                | 168,388   |
| Property, plant and equipment, net   | 16,290                                     |                                | 14,495    |
| Intangible assets, net   | 27,598                                     |                                | 7,911     |
| Deferred income taxes  | 9,172                                      |                                | 14,448    |
| Total assets   | \$<br>272,506                              | \$                             | 205,242   |
| LIABILITIES AND SHAREHOLDERS EQUITY  |  |                                |           |
| Current liabilities:   |  |                                |           |
| Accounts payable   | \$<br>73,590                               | \$                             | 47,067    |
| Acquisition note payable   | 3,000                                      |                                | 2,000     |
| Short-term borrowings  | 4,000                                      |                                | 4,000     |
| Employee compensation and benefits payable                                     | 11,149                                     |                                | 10,811    |
| Deferred revenue   | 20,063                                     |                                | 1,887     |
| Income taxes payable   | 302  |                                | 462       |
| Deferred income taxes  | 788  |                                | 536       |
| Other accrued liabilities  | 10,975                                     |                                | 10,778    |
| Total current liabilities  | 123,867                                    |                                | 77,541    |
| Long-term debt   | 9,000                                      |                                | 11,000    |
| Total liabilities  | 132,867                                    |                                | 88,541    |
| Shareholders equity  |  |                                |           |
| Common shares of Xyratex Ltd (in thousands), par value \$0.01 per share 70,000 |  |                                |           |
| authorized, 28,403 and 28,043 issued and outstanding                           | 284  |                                | 280       |
| Additional paid-in capital   | 332,862                                    |                                | 329,267   |
| Accumulated other comprehensive income   | (399)                                      |                                | 755       |
| Accumulated deficit  | (193,108)                                  |                                | (213,601) |
| Total shareholders equity  | 139,639                                    |                                | 116,701   |
| Total liabilities and shareholders equity                                      | \$<br>272,506                              | \$                             | 205,242   |

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

## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Three Months Ended |           |                 |  | Six Months Ended |    |                 |  |  |
|--|--------------------|-----------|-----------------|--|------------------|----|-----------------|--|--|
|  | May 31,<br>2005    |           | May 31,<br>2004 | May 31,<br>2005<br>sands, except per share amounts |                  |    | May 31,<br>2004 |  |  |
|  |                    | ollars an |                 |  |                  |    | 2001            |  |  |
| Revenues                                       | \$<br>169,604      | \$        | 108,122         | \$   | 312,127          | \$ | 227,407         |  |  |
| Cost of revenues                               | 132,353            |           | 84,884          |  | 245,193          |    | 175,259         |  |  |
| Gross profit                                   | 37,251             |           | 23,238          |  | 66,934           |    | 52,148          |  |  |
| Operating expenses:                            |                    |           |                 |  |                  |    |                 |  |  |
| Research and development - development         |                    |           |                 |  |                  |    |                 |  |  |
| arrangement                                    |                    |           |                 |  |                  |    | (6,000)         |  |  |
| Research and development - other               | 12,858             |           | 9,222           |  | 23,420           |    | 17,172          |  |  |
| Total research and development                 | 12,858             |           | 9,222           |  | 23,420           |    | 11,172          |  |  |
| Selling, general and administrative - non cash |                    |           |                 |  |                  |    |                 |  |  |
| equity compensation                            | 191                |           |                 |  | 381              |    |                 |  |  |
| Selling, general and administrative - other    | 8,914              |           | 6,257           |  | 17,319           |    | 12,583          |  |  |
| Total selling, general and administrative      | 9,105              |           | 6,257           |  | 17,700           |    | 12,583          |  |  |
| Total sening, general and administrative       | 9,105              |           | 0,237           |  | 17,700           |    | 12,505          |  |  |
| Amortization of intangible assets              | 328                |           | 362             |  | 726              |    | 394             |  |  |
| In process research and development            | 2,230              |           | 502             |  | 2,230            |    | 574             |  |  |
| Other costs                                    | 2,230              |           | 439             |  | 2,230            |    | 1.863           |  |  |
| Total operating expenses                       | 24,521             |           | 16,280          |  | 44,076           |    | 26.012          |  |  |
| Operating income                               | 12,730             |           | 6,958           |  | 22,858           |    | 26,136          |  |  |
| Interest income (expense), net                 | 320                |           | (20)            |  | 669              |    | 828             |  |  |
| Income before income taxes                     | 13,050             |           | 6,938           |  | 23,527           |    | 26,964          |  |  |
| Provision for income taxes                     | 2,000              |           | 1,881           |  | 3,034            |    | 4,036           |  |  |
| Net income                                     | 11,050             |           | 5,057           |  | 20.493           |    | 22,928          |  |  |
| Net meome                                      | 11,050             |           | 5,057           |  | 20,495           |    | 22,920          |  |  |
| Net earnings per share:                        |                    |           |                 |  |                  |    |                 |  |  |
| Basic  | \$<br>0.39         | \$        | 0.46            | \$   | 0.73             | \$ | 2.07            |  |  |
| Diluted  | \$<br>0.38         | \$        | 0.46            | \$   | 0.71             | \$ | 2.07            |  |  |
|  |                    |           |                 |  |                  |    |                 |  |  |
| Weighted average common shares and class B     |                    |           |                 |  |                  |    |                 |  |  |
| preferred ordinary shares, respectively (in    |                    |           |                 |  |                  |    |                 |  |  |
| thousands), used in computing net earnings per |                    |           |                 |  |                  |    |                 |  |  |
| share  |                    |           |                 |  |                  |    |                 |  |  |
| Basic  | 28,372             |           | 11,099          |  | 28,246           |    | 11,099          |  |  |
| Diluted  | 29,089             |           | 11,099          |  | 28,993           |    | 11,099          |  |  |
| Pro forma net earnings per common share        |                    |           |                 |  |                  |    |                 |  |  |
| Basic  | \$<br>0.39         | \$        | 0.20            | \$   | 0.73             | \$ | 0.97            |  |  |
| Diluted  | \$<br>0.38         | \$        | 0.20            | \$   | 0.71             | \$ | 0.94            |  |  |
| Weighted-average common shares (in             |                    |           |                 |  |                  |    |                 |  |  |
| thousands), used in computing the pro forma    |                    |           |                 |  |                  |    |                 |  |  |
| net earnings per share:                        |                    |           |                 |  |                  |    |                 |  |  |
| Basic  | 28,372             |           | 25,146          |  | 28,246           |    | 23,628          |  |  |
| Diluted  | 29,089             |           | 25,822          |  | 28,993           |    | 24,421          |  |  |
|  |                    |           |                 |  |                  |    |                 |  |  |

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

## XYRATEX LTD

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

## (US dollars and amounts in thousands)

|   | Xyratex<br>Ltd<br>Number<br>of<br>Common           |            | Group Lin<br>f Ordinary |       | Xyrate:<br>Ltd             | X | Xyrat       | froup l<br>r value | ted      | Additional<br>paid in             |                | .ccumulated<br>other<br>mprehensive                  |                                       |
|---|--|------------|-------------------------|-------|----------------------------|---|-------------|--------------------|----------|-----------------------------------|----------------|--|---------------------------------------|
|   | Shares   | А          | В                       | С     | Par<br>value               |   | А           | В                  | С        | aanital                           | deficit        | incomo   | Total                                 |
| Balances as of<br>November 30,<br>2003  | Shares   | A<br>8,845 | ы<br>11,099             | t     |                            |   | A<br>\$ 133 | \$                 | \$<br>0  | capital<br>\$ 95,025              |                | income<br>2,106                                      | 10tai<br>\$ 19,001                    |
| Issuance of<br>ordinary shares<br>Components of<br>comprehensive<br>income, net of                    |  | 1,412      |                         | 2,576 |                            |   | 26          |                    | 47       | 4,182                             |                |  | 4,255                                 |
| tax:<br>Net income<br>Unrealized gain<br>on forward<br>foreign<br>currency<br>contracts net of        |  |            |                         |       |                            |   |             |                    |          |                                   | 22,928         |  |                                       |
| reclassification<br>adjustment:<br>Total<br>comprehensive<br>income<br>Balances as of<br>May 31, 2004 |  | 10,257     | 11,099                  | 2,576 | \$                         | 0 | \$ 159      | \$<br>169          | \$<br>47 | \$ 99,207                         | \$ (55,504) \$ | (91)<br><b>2,015</b>                                 | 22,83 <sup>-</sup><br>\$ <b>46,09</b> |
|   | Xyratex<br>Ltd<br>Number<br>of<br>Common<br>Shares |            |                         |       | Kyratex<br>Ltd<br>ar value |   |             |                    | p        | lditional<br>paid in Ac<br>apital | cumulated com  | umulated<br>other<br>prehensive<br>1come /<br>(loss) | Total                                 |
| Balances as of<br>November 30,<br>2004  | 28,043   |            |                         | \$    | 280                        |   |             |                    | \$       | 329,267 \$                        | (213,601) \$   | 755 \$   | 5 116,70                              |
| Issuance of<br>common shares<br>Non-cash<br>equity<br>compensation<br>Employee                        | 360  |            |                         |       | 4                          |   |             |                    |          | 1,838<br>1,613                    |                |  | 1,842<br>1,613                        |
| Employee<br>bonus paid by<br>trust  |  |            |                         |       |                            |   |             |                    |          | 144                               |                |  | 144                                   |

| Components of comprehensive income, net of tax:   |        |    |     |  |                  |              |         |               |
|---|--------|----|-----|--|------------------|--------------|---------|---------------|
| Net income  |        |    |     |  |                  | 20,493       |         |               |
| Unrealized loss<br>on foreign<br>currency<br>derivatives net<br>of<br>reclassification<br>adjustment: |        |    |     |  |                  |              | (1,154) |               |
| Total   |        |    |     |  |                  |              | (1,101) |               |
| comprehensive<br>income   |        |    |     |  |                  |              |         | 19,339        |
| Balances as of<br>May 31, 2005  | 28,403 | \$ | 284 |  | \$<br>332,862 \$ | (193,108) \$ | (399)   | \$<br>139,639 |

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

## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Six Month       |        |                     |  |
|---|-----------------|--------|---------------------|--|
|   | May 31,<br>2005 |        | May 31,<br>2004 (a) |  |
|   | (US dollars in  | thousa |                     |  |
| Cash flows from operating activities:   | (12.11.1.1.1    |        |                     |  |
| Net income  | \$<br>20,493    | \$     | 22,928              |  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |        |                     |  |
| Depreciation  | 3,166           |        | 2,516               |  |
| Amortization of intangible assets   | 726             |        | 394                 |  |
| Non-cash equity compensation  | 381             |        |                     |  |
| Bonus paid by trust   | 144             |        |                     |  |
| Gain on sale of assets  |                 |        | (36)                |  |
| Supplier note receivable  |                 |        | (6,000)             |  |
| Changes in assets and liabilities, net of impact of acquisitions and divestitures |                 |        |                     |  |
| Accounts receivable   | (15,291)        |        | (4,728)             |  |
| Inventories   | (18,696)        |        | (4,083)             |  |
| Prepaid expenses and other current assets   | (1,658)         |        | (2,506)             |  |
| Accounts payable  | 21,715          |        | 2,416               |  |
| Customer advance  |                 |        | (920)               |  |
| Employee compensation and benefits payable  | 284             |        | (4,137)             |  |
| Deferred revenue  | 1,069           |        | (9,362)             |  |
| Income taxes payable  | (160)           |        | 234                 |  |
| Deferred income taxes   | 4,104           |        | 3,400               |  |
| Other accrued liabilities   | (1,364)         |        | 1,602               |  |
| Net cash provided by operating activities   | 14,913          |        | 1,718               |  |
| Cash flows from investing activities:   |                 |        |                     |  |
| Investments in property, plant and equipment                                      | (4,524)         |        | (3,766)             |  |
| Dispositions of property, plant and equipment                                     |                 |        | 36                  |  |
| Acquisition of business, net of cash received                                     | (5,131)         |        | (6,015)             |  |
| Net cash used in investing activities   | (9,655)         |        | (9,745)             |  |
| Cash flows from financing activities:   |                 |        |                     |  |
| Net proceeds from short-term borrowings   |                 |        | 3,841               |  |
| Payment of acquisition note payable   | (2,000)         |        |                     |  |
| Payments of long-term borrowings  | (2,000)         |        | (2,000)             |  |
| Proceeds from issuance of shares  | 1,842           |        | 4,255               |  |
| Net cash provided by (used in) financing activities                               | (2,158)         |        | 6,096               |  |
| Change in cash and cash equivalents   | 3,100           |        | (1,931)             |  |
| Cash and cash equivalents at beginning of period                                  | 63,495          |        | 2,008               |  |
| Cash and cash equivalents at end of period  | \$<br>66,595    | \$     | 77                  |  |

(a) Certain balances have been reclassified to be consistent with the current year.

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

## XYRATEX LTD

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(US dollars and amounts in thousands, except per share data, unless otherwise stated)

## 1. The Company and its Operations

*Operations.* Xyratex Ltd together with its subsidiaries ( the Company ) is a leading provider of enterprise-class data storage subsystems and storage process technology with principal operations in the United Kingdom ( U.K. ), the United States of America ( U.S. ) and Malaysia. We design, develop and manufacture enabling technology in support of high-performance storage and data communication networks.

*Initial Public Offering and new parent company.* On June 29, 2004, in connection with an initial public offering (IPO) on the NASDAQ National Market which completed on this date, Xyratex Ltd, a Bermuda company, became our parent company. On this date shareholders in Xyratex Group Limited, the previous parent company, exchanged the outstanding class A and class B preferred ordinary shares and class C ordinary shares for common shares of Xyratex Ltd in the ratios 1.036378, 0.945 and 1.071671 respectively. These ratios were agreed by the shareholders as part of a scheme of arrangement under Section 425 of the Companies Act in the United Kingdom. Following this exchange Xyratex Ltd became the owner of the entire share capital of Xyratex Group Limited. On completion of the IPO Xyratex Ltd issued 4,000 common shares at \$14.00 per share. The total proceeds were \$56,000 and net proceeds received by the Company after deducting underwriting discounts and other offering expenses was \$48,150. Xyratex Ltd was formed in April 2002 and prior to this offering had no operations.

For the periods prior to June 29, 2004 these financial statements represent the results of operations and cash flows of Xyratex Group Limited and its subsidiaries and subsequent to this date represent the results of operations and cash flows of Xyratex Ltd and its subsidiaries.

## 2. Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

These condensed consolidated financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which the Company s management considers necessary for a fair presentation of the financial position as of such dates and the operating results and cash flows for those periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the US have been condensed or omitted. In addition, the results of operations for the interim periods may not necessarily be indicative of the operating results that may be incurred for the entire year.

The November 30, 2004 balance sheet was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the US. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements included in the Company s form 20-F as filed with the Securities and Exchange Commission.

Stock-based compensation. The Company has elected to follow the accounting provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations for stock-based compensation granted to employees. The Company has complied with the disclosure requirements of FAS 123, Accounting for Stock-Based Compensation . Had the Company recognized compensation expense in accordance with FAS 123, pro forma net income and basic and diluted net earnings per share would have been as follows for the three and six month periods ended May 31, 2005. The pro-forma recognition of compensation expense in accordance with FAS 123 would have had no effect on the Company s reported net income or basic or diluted net earnings per share for the three and six month periods ended May 31, 2004.

|  | Т  | hree months<br>ended<br>May 31,<br>2005 | Six months<br>ended<br>May 31,<br>2005 |
|--|----|---|--|
| Net income as reported   | \$ | 11,050                                  | \$<br>20,493                           |
| Add: Total equity related employee compensation expense determined under intrinsic value based method for all awards, net of related tax effects |    | 191                                     | 381                                    |
| Deduct: Total equity related employee compensation expense determined under fair   |    | (4.000)                                 |  |
| value based method for all awards, net of related tax effects  |    | (1,322)                                 | (2,144)                                |
| Pro forma net income   | \$ | 9,919                                   | \$<br>18,730                           |
|  |    |   |  |
| Earnings per share   |    |   |  |
| Basic as reported  | \$ | 0.39                                    | \$<br>0.73                             |
| Diluted as reported  | \$ | 0.38                                    | \$<br>0.71                             |
| Basic pro forma  | \$ | 0.35                                    | \$<br>0.66                             |
| Diluted pro forma  | \$ | 0.34                                    | \$<br>0.65                             |

In December 2004, the Financial Accounting Standards Board issued FAS 123 (revised 2004), Share-Based Payment (FAS 123R) which will be effective for annual periods commencing after June 15, 2005 and will require that the Company use a fair value method to calculate the expense related to its employee share based awards similar to that used in the calculation of pro forma earnings per share above.

#### 3. Net earnings per share

Basic net earnings per share for the three and six month periods ended May 31, 2005 is computed by dividing net income by the weighted-average number of Xyratex Ltd common shares. Diluted net earnings per share gives effect to all potentially dilutive ordinary share equivalents outstanding during the period.

|                                      |         | Common sha                         | ares                             |
|--------------------------------------|---------|------------------------------------|----------------------------------|
|                                      |         | Three months ended<br>May 31, 2005 | Six months ended<br>May 31, 2005 |
| Total weighted average common shares | basic   | 28,372                             | 28,246                           |
| Dilutive effect of stock options     |         | 717                                | 747                              |
| Total weighted average common shares | diluted | 29,089                             | 28,993                           |

For the three and six month periods ended May 31, 2004 basic net earnings per share is computed by dividing net income by the weighted-average number of Xyratex Group Limited class B preferred ordinary shares outstanding, during the period. Class A ordinary and preferred ordinary and class C ordinary shares and options to purchase class A ordinary and preferred ordinary and class C ordinary shares are not included in the computation of basic or diluted net earnings per share since these classes of shares were subject to transferability restrictions. These transferability restrictions lapsed on the completion of the IPO and scheme of arrangement described above.

#### 4. Pro forma net earnings per share of Xyratex Ltd

As described above, upon completion of its IPO, the shareholders of Xyratex Group Limited exchanged the outstanding class A and class B preferred ordinary shares and class C ordinary shares for common shares of Xyratex Ltd in the ratios 1.036378, 0.945 and 1.071671,

respectively. The pro forma effects of this exchange have been reflected in the pro forma net earnings per common share for the three and six month periods ended May 31, 2004.

The computations for the weighted average shares outstanding used in the calculation of basic and diluted earnings per common share are as follows:

|   | Three              | months ended May 31, 2004 |               |
|---|--------------------|---------------------------|---------------|
|   | Weighted average   | Conversion                |               |
|   | shares outstanding | ratio                     | Common shares |
| Xyratex Group Limited class A preferred ordinary shares | 10,295             | 1.036378                  | 10,669        |
| Xyratex Group Limited class B preferred ordinary shares | 11,099             | 0.945000                  | 10,488        |
| Xyratex Group Limited class C ordinary shares           | 2,576              | 1.071671                  | 2,761         |
| Weighted average common shares                          |                    |                           | 23,918        |
| Common shares whose proceeds may be used to retire debt |                    |                           | 1,228         |
| Total weighted average common shares basic              |                    |                           | 25,146        |
| Dilutive effect of stock options                        |                    |                           | 676           |
| Total weighted average common shares diluted            |                    |                           | 25,822        |

|   |                    | nonths ended May 31, 2004 |               |
|---|--------------------|---------------------------|---------------|
|   | Weighted average   | Conversion                |               |
|   | shares outstanding | ratio                     | Common shares |
| Xyratex Group Limited class A preferred ordinary shares | 9,712              | 1.036378                  | 10,065        |
| Xyratex Group Limited class B preferred ordinary shares | 11,099             | 0.945000                  | 10,488        |
| Xyratex Group Limited class C ordinary shares           | 1,691              | 1.071671                  | 1,812         |
| Weighted average common shares                          |                    |                           | 22,365        |
| Common shares whose proceeds may be used to retire debt |                    |                           | 1,263         |
| Total weighted average common shares basic              |                    |                           | 23,628        |
| Dilutive effect of stock options                        |                    |                           | 793           |
| Total weighted average common shares diluted            |                    |                           | 24,421        |

### 5. Derivative financial instruments

The Company manages its exposure to foreign currency exchange rate risk between the U.K. pound and the U.S. dollar through entering into forward exchange contracts and options. The Company designated all of its forward foreign currency contracts as qualifying for hedge accounting. Changes in the fair value of these instruments are deferred and recorded as a component of accumulated other comprehensive income (AOCI) until the hedged transactions affect earnings, at which time the deferred gains and losses on the forward foreign currency contracts are recognized in the income statement.

The Company reclassified a gain of \$378 and \$943, net of tax of \$162 and \$404, from AOCI to earnings during the six months ended May 31, 2005 and May 31, 2004, respectively due to the realization of the underlying transactions. The Company recorded the increase (decrease) in fair market value of derivatives related to its cash flow hedges of \$(776) and \$852, net of tax of \$(333) and \$365, to AOCI for the six months ended May 31, 2005 and May 31, 2004, respectively. Any remaining unrealized amounts are expected to be reclassified to earnings during the next six months. The fair value of these foreign currency contracts represents the amount the Company would receive or pay to terminate the contracts, considering first, quoted market prices of comparable agreements, or in the absence of quoted market prices, such factors as interest rates, currency exchange rates and remaining maturity.

The following table shows derivatives existing as of May 31, 2005 and November 30, 2004:

|  | May 31,<br>2005 | November 30,<br>2004 |
|--|-----------------|----------------------|
| Forward exchange contracts and options | \$<br>40,555 \$ | 21,127               |
| Fair value of contracts                | \$<br>(199) \$  | 1,348                |

| Carrying value of contracts          | \$<br>(199) \$ | 1,348 |
|--------------------------------------|----------------|-------|
| Average rate of contract             | \$<br>1.84 \$  | 1.76  |
| Period end rate                      | \$<br>1.82 \$  | 1.89  |
| Maximum period of contracts (months) | 12             | 12    |

### 6. Concentration of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents, short-term investments and accounts receivable. The Company places its cash and cash equivalents and short-term investments with high-credit quality financial institutions. Cash deposits are generally placed with either one or two institutions and such deposits may, at times, exceed governmentally insured limits. Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Two customers, each with balances greater than 10% of total accounts receivable, represented 79% of the total accounts receivable balance at May 31, 2005 and represented 78% of the total accounts receivable balance at November 30, 2004. Generally, the Company does not require collateral or other security to support customer receivables. The Company performs periodic credit evaluations of its customers and maintains an allowance for potential credit losses based on historical experience and other information available to management. Losses to date have been within management s expectations.

During the six months ended May 31, 2005 and May 31, 2004, revenues from two customers, represented 84% and 78% of total revenues, respectively. No other customer accounted for more than 10% of revenues.

### 7. Acquisitions and intangible assets

On May 23, 2005, the company acquired the business and assets of Oliver Design Inc (Oliver Design), based in Scotts Valley, California. The structure of the transaction involves a total cash consideration of \$17,203 including estimated acquisition costs of \$100 with \$3,000 of the acquisition price being deferred for fifteen months. Oliver Design was a privately run business engaged in development and manufacturing of disk drive cleaning technology. The Company s primary reason for the acquisition was to broaden its expertise and product range within its Storage Infrastructure segment.

Using the purchase method of accounting, the Company has obtained preliminary independent appraisals of the fair values of the acquired assets and liabilities as detailed below. Since the appraisals are not yet finalized the allocation of the purchase consideration is subject to revision, which is not expected to be material. Allocation of the purchase price to tangible and intangible assets is as follows:

| Cash                            | \$<br>10,322 |
|---------------------------------|--------------|
| Accounts receivable             | 527          |
| Inventory                       | 10,028       |
| Other current assets            | 43           |
| Property, plant and equipment   | 437          |
| Accounts payable                | (4,808)      |
| Deferred revenue                | (17,072)     |
| Other accrued liabilities       | (326)        |
| Net tangible liabilities        | (849)        |
| Indentifiable intangible assets |              |
| Existing technology             | 4,300        |
| Core technology                 | 2,700        |
| Order backlog                   | 1,200        |
| Existing customer relationships | 3,300        |
| Goodwill                        | 6,552        |
| Initial purchase price          | \$<br>17,203 |
|                                 |              |

There is no value attributable to In-Process Research and Development.

Intangible assets with identifiable lives for this acquisition are being amortized on a straight line basis for their remaining lives as follows:

### 23

| Existing technology             | 3 to 7 years |
|---------------------------------|--------------|
| Core technology                 | 7 years      |
| Order backlog                   | 2 years      |
| Existing customer relationships | 7 years      |

The intangible assets are expected to be deductible for tax purposes.

The results of the acquired business have been included in the Consolidated Statement of Operations with effect from May 23, 2005.

The following unaudited pro-forma summary presents information as if the acquisition of the business and assets of Oliver Design had occurred as of December 1, 2003. The pro-forma data gives effect to actual operating results prior to the acquisition, adjusted to include certain pro-forma adjustments including the amortization of intangible assets, reduced interest income and an additional income tax provision. The pro-forma amounts do not purport to be indicative of the results that would have been actually reported if the acquisition had actually occurred at the beginning of the periods presented or that may be reported in the future.

|  | Unaudited Pro<br>Months |         |  |  |
|--|-------------------------|---------|--|--|
|  | May 31, 2005 May 31     |         |  |  |
| Revenue  | 313,686                 | 239,752 |  |  |
| Net income   | 17,094                  | 23,072  |  |  |
| Net earnings per common share and class B preferred ordinary share, respectively | 0.61                    | 2.08    |  |  |

On April 7, 2005 the Company purchased intellectual property for \$2,230 consisting of a software suite which the Company intends to incorporate into a new product line within its Storage and Network Systems segment. The purchase price was recorded as In-Process Research and Development expense because the acquired software had not reached technological feasibility and had no alternative uses. In connection with the purchase the Company agreed to grant restricted stock to six employees who were recruited to develop this intellectual property, which will vest based on the achievement of certain revenue targets over the three years ended August 31, 2008.

On September 2, 2004 the Company acquired the intellectual property of Beyond3, a developer of advanced optical inspection systems based in San Jose, California. The structure of the transaction involves an initial cash consideration of \$1,402, including acquisition costs of \$102, plus future payments of which \$1,200 is based on the achievement of certain product delivery milestones and further amounts up to \$16,000 are based on forty to sixty percent of operating profit for the four years ending November 30, 2008. No additional payments had been made at May 31, 2005. Beyond3 was a privately run business engaged in the business of providing test solution products to manufacturers of disk drives. The Company s primary reason for the acquisition was to broaden its expertise and product range within its Storage Infrastructure segment.

On February 23, 2004, the Company acquired the business and assets of ZT Automation LLC (ZT Automation), for consideration of \$9,005, including acquisition costs of \$430. The initial cash purchase price for this company based in Fremont, California was \$8,575 of which the acquisition note payable of \$2,000 was paid during the six months ended May 31, 2005. Further amounts of up to \$20,400 are payable based principally on a percentage of revenue generated by the acquired business for the three years ended December 31, 2006 calculated as 21.5% of cumulative revenue in excess of \$19,600. At May 31, 2005, goodwill includes \$2,611 additional cost of acquisition based on cumulative revenue at that date. Of the \$2,611 additional cost of acquisition \$1,351 was paid during the six months ended May 31, 2005, and a further \$1,260 is included in other accrued liabilities. Once further amounts are determined to be payable they will be recorded in the same way. ZT Automation

was a privately held company engaged in the business of providing production automation products to manufacturers of disk drives and disk drive components. The Company s primary reason for the acquisition was to broaden its expertise and product range within its Storage Infrastructure segment.

Intangible assets

Intangible assets with identifiable lives are being amortized on a straight line basis for their remaining lives as follows:

| Existing technology             | 3 to 7 years |
|---------------------------------|--------------|
| Patents and core technology     | 4 to 7 years |
| Non-competition agreements      | 3 years      |
| Order backlog                   | 1 to 2 years |
| Supplier contracts              | 3 years      |
| Assembled workforce             | 4 years      |
| Existing customer relationships | 7 years      |

The intangible assets are expected to be deductible for tax purposes.

Identified intangible assets balances are summarized as follows:

|                                 | Gross Assets | May 31, 2005<br>Accumulated<br>Amortization | Net Assets   |
|---------------------------------|--------------|---|--------------|
| Identified intangible assets:   |              |   |              |
| Existing technology             | \$<br>7,400  | \$<br>993                                   | \$<br>6,407  |
| Core technology                 | 3,400        | 227   | 3,173        |
| Non-competition agreements      | 400          | 169   | 231          |
| Order backlog                   | 1,600        | 409   | 1,191        |
| Patents and core technology     | 387          | 48  | 339          |
| Supplier contracts              | 39           | 10  | 29           |
| Assembled workforce             | 124          | 24  | 100          |
| Existing customer relationships | 3,300        | 7   | 3,293        |
| Total                           | \$<br>16,650 | \$<br>1,887                                 | \$<br>14,763 |

#### 8. Development Arrangement

In the year ended November 30, 2002, the Company entered into an alliance arrangement with one of its suppliers under which the Company loaned \$6,000 and paid \$1,800 in connection with the development of components to be included in certain of the Company s products. The loan accrued interest at 8% per annum and was repayable to the Company by one installment of \$3,000 plus accrued interest on May 15, 2005, with the balance due on May 15, 2008. A total charge of \$7,800 was recorded as research and development expense in the year ended November 30, 2002 since the Company believed that the repayment of the loan and the ability to offset other amounts against future royalty payments was dependent on the successful efforts of the research and development. In February 2004, a NASDAQ listed company acquired the supplier with which the Company had the development arrangement. Based on the financial position of the NASDAQ listed company the Company believed that the \$6,000 loan and interest accrued to February 29, 2004 of \$933 was collectible. Accordingly, the Company eliminated the bad debt allowance on the loan and accrued interest and has recorded a reduction in operating expenses and interest income of these amounts in the three months ended February 29, 2004. On August 9, 2004 the \$6,000 loan was repaid along with accrued interest of \$1,166.

### 9. Inventories

May 31, 2005

November 30, 2004

| Finished goods   | \$<br>15,798 \$ | 9,955  |
|------------------|-----------------|--------|
| Work in progress | 17,721          | 10,459 |
| Raw materials    | 38,219          | 22,600 |
|                  | \$<br>71,738 \$ | 43,014 |

### 10. Income Taxes

The provision for income tax for the three months ended May 31, 2005 comprises current tax of \$360 and deferred tax of \$1,640. The deferred tax amount includes an exchange loss of \$339 relating to the revaluation of the deferred tax asset, which is primarily denominated in U.K. pounds.

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The provision for income tax for the six months ended May 31, 2005 comprises current tax of \$675 and deferred tax of \$2,359. The deferred tax amount includes an exchange gain of \$200 relating to the revaluation of the deferred tax asset, which is primarily denominated in U.K. pounds.

The difference between the provision for income taxes recorded in the financial statements and income tax based upon the UK statutory rate of 30% for both the three and six month periods ended May 31, 2005 is primarily related to income tax exemptions for our Malaysian operations and research and development tax credits.

The provision for income tax for the three months ended May 31, 2004 comprises current tax of \$141 and deferred tax of \$1,740. The deferred tax amount includes an exchange loss of \$264 relating to the revaluation of the deferred tax asset, which is primarily denominated in U.K. pounds. The difference between the provision for income taxes recorded in the financial statements and income tax based upon the UK statutory rate of 30% is primarily related to this exchange loss, income tax exemptions for our Malaysian operations, research and development tax credits and the fact that no income tax arises on the other costs of \$439.

The provision for income tax for the six months ended May 31, 2004 comprises current tax of \$615 and deferred tax of \$3,421. The deferred tax amount includes an exchange gain of \$838 relating to the revaluation of the deferred tax asset, which is primarily denominated in U.K. pounds. The difference between the provision for income taxes recorded in the financial statements and income tax based upon the UK statutory rate of 30% is primarily related to this exchange gain, income tax exemptions for our Malaysian operations, research and development tax credits and the fact that no income tax arises on the elimination of the bad debt allowance on the \$6,000 loan made as part of the development arrangement or the other costs of \$1,863.

#### 11. Other Costs

In the three and six month periods ended May 31, 2004 the Company recorded an expense of \$439 and \$1,863, respectively, in connection with the preparation for its IPO. These costs were primarily professional fees relating to accounting advice and the formation of a new parent company in Bermuda.

#### 12. Ordinary Shares and Stock Option plans

As described above on June 29, 2004, as part of the scheme of arrangement and in connection with the IPO, the Company s shareholders exchanged 10,257 class A preferred ordinary shares, 11,099 class B preferred ordinary shares and 2,576 class C ordinary shares in Xyratex Group Limited in the ratios 1.036378, 0.945 and 1.071671 respectively, for 23,880 common shares in Xyratex Ltd.

The previously existing Xyratex Group Limited class A preferred ordinary shares and class C ordinary shares had been issued to employees and ex-employees and were not transferable except to a defined list of parties such as family members. These transferability restrictions would have lapsed on the earlier of the effectiveness of an IPO or the sale or liquidation of the Company. The common shares in Xyratex Ltd for which these shares were exchanged are not subject to transferability restrictions. Class A preferred ordinary shares and class C ordinary shares which were subject to these transferability restrictions have been accounted for as variable awards of junior stock. The Company has a number of plans under which employees have been granted options to purchase class A preferred ordinary shares. All options granted under these plans are also accounted for as variable awards of junior stock. As part of the scheme of arrangement 3,916 share options over ordinary shares in Xyratex

Group Limited outstanding at June 29, 2004, were converted to 4,059 share options over common shares in Xyratex Ltd. Following the exchange for Xyratex Ltd shares discussed above and as a result of the lapsing of the transferability restrictions the Company has recorded non cash equity compensation expense of \$181,073 in its consolidated statement of operations for the year ended November 30, 2004, of which \$1,049 related to the vesting of share and option awards subsequent to the IPO. During the three and six month periods ended May 31, 2005, the Company recorded a further \$191 and \$381, respectively, of non cash equity compensation expense, of which \$16 and \$32, respectively, related to the issue of shares under an employee share purchase plan.

During the six months ended May 31, 2005, 348 common shares were issued to employees to satisfy share options and a further 12 common shares were issued to employees to satisfy an employee share purchase plan.

On January 10, 2005 the Company granted 953 options over common shares to its employees at an exercise price of \$14.31, being the market price on that date.

In connection with the Oliver Design acquisition on May 24, 2005 the Company agreed to grant 90 options over common shares to employees of that business at an exercise price of \$15.57, being the market price on that date. In addition 5 restricted shares were awarded to one employee at no cost.

As described above the Company granted rights to restricted shares to new employees in connection with the purchase of intellectual property in April 2005. The Company granted rights to 195 shares at no cost and which will vest based on the achievement of certain revenue targets over the three years ended August 31, 2008.

#### Employee benefit trusts

The Company has a variable interest in an employee benefit trust. Shares of the Company held by the trust are used to compensate the Company s current and former employees. The Company is not the primary beneficiary of the trust because it does not absorb expected losses of the trust, nor does it receive expected residual returns of the trust. As of May 31, 2005 this trust held 1,743 of the Company s common shares.

Transactions between the Trust and employees of the Company, such as the granting of shares, options over shares, or cash

bonuses paid to employees, have been accounted for in accordance with APB 25, and any resulting compensation expense has been pushed down into these financial statements with an offsetting entry to additional paid in capital.

The Company set up a further employee benefit trust in June 2004. This trust holds 148 common shares in Xyratex Ltd, included in unissued shares at May 31, 2005. These shares have been allocated to options granted in the six months ended May 31, 2005.

### 13. Segment Information

*Description of segments.* The Company designs, develops and manufactures enabling technology in support of high-performance storage and data communication networks. The Company organizes its business operations into two product groups Storage & Network Systems and Storage Infrastructure, each of which comprises a reportable segment.

Description of the Company s segments:

*Storage & Network Systems.* Provision of high performance, high density, network storage subsystem technology to OEMs supplying the network storage and data networking market places.

*Storage Infrastructure*. Provision of high-performance, high density disk drive, process & test technology to the major disk drive companies and their component suppliers for the development and production of highly reliable disk drives.

*Segment revenue and profit.* The following tables reflect the results of the Company s reportable segments under the Company s management reporting system. These results are not necessarily a depiction that is in conformity with accounting principles generally accepted in the United States. The performance of each segment is generally measured based on gross profit.

|                           |    | Three Months Ended |    | Six Month       | ths Ended       |    |                 |
|---------------------------|----|--------------------|----|-----------------|-----------------|----|-----------------|
|                           | I  | May 31,<br>2005    |    | May 31,<br>2004 | May 31,<br>2005 |    | May 31,<br>2004 |
| Revenues:                 |    |                    |    |                 |                 |    |                 |
| Storage & Network Systems | \$ | 100,591            | \$ | 82,634          | \$<br>189,422   | \$ | 152,226         |
| Storage Infrastructure    | \$ | 69,013             | \$ | 25,488          | \$<br>122,705   | \$ | 75,181          |
|                           |    |                    |    |                 |                 |    |                 |
| Total Segments            | \$ | 169,604            | \$ | 108,122         | \$<br>312,127   | \$ | 227,407         |
|                           |    |                    |    |                 |                 |    |                 |
| Gross profit:             |    |                    |    |                 |                 |    |                 |
| Storage & Network Systems | \$ | 16,081             | \$ | 14,738          | \$<br>30,250    | \$ | 27,621          |
| Storage Infrastructure    | \$ | 21,170             | \$ | 8,500           | \$<br>36,684    | \$ | 24,527          |

| Total Segments                 | \$<br>37,251 | \$<br>23,238 | \$<br>66,934 | \$<br>52,148 |
|--------------------------------|--------------|--------------|--------------|--------------|
| Depreciation and amortization: |              |              |              |              |
| Storage & Network Systems      | \$<br>967    | \$<br>752    | \$<br>1,948  | \$<br>1,452  |
| Storage Infrastructure         | \$<br>852    | \$<br>816    | \$<br>1,750  | \$<br>1,127  |
|                                |              |              |              |              |
| Total Segments                 | \$<br>1,819  | \$<br>1,568  | \$<br>3,698  | \$<br>2,579  |
| Corporate                      | \$<br>88     | \$<br>178    | \$<br>194    | \$<br>331    |
|                                |              |              |              |              |
| Total                          | \$<br>1,907  | \$<br>1,746  | \$<br>3,892  | \$<br>2,910  |

Total segments revenue and gross profit represents revenue and gross profit as reported by the Company for all periods presented. The chief operating decision maker does not review asset information by segment and therefore no asset information is presented.

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