

**ARCTIC CAT®**



**INNOVATION IN ACTION**

Corporate Profile Fiscal Year 2004

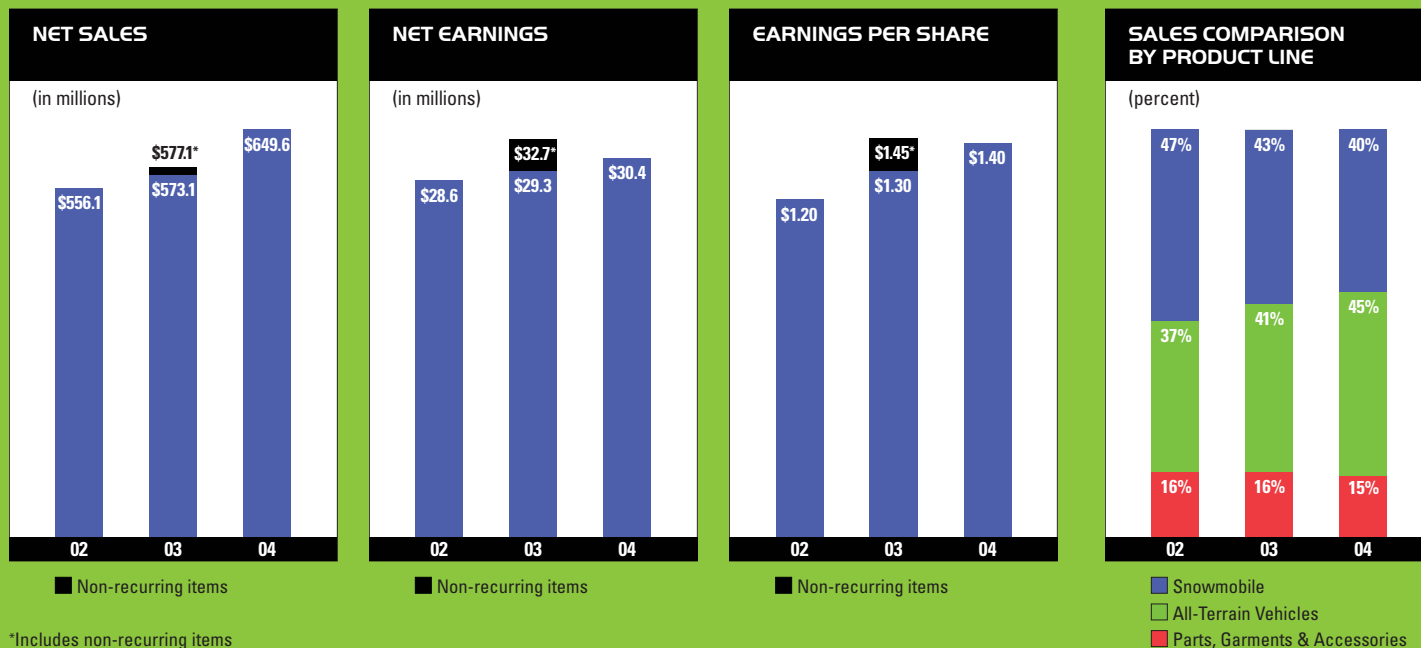
## CORPORATE PROFILE

**Arctic Cat Inc.**, based in Thief River Falls, Minnesota, designs, engineers, manufactures and markets snowmobiles and all-terrain vehicles (ATVs) under the Arctic Cat® brand name, as well as related parts, garments and accessories. Arctic Cat markets its products through a network of independent dealers located throughout the contiguous United States and Canada, and through distributors representing dealers in Alaska, Europe, the Middle East, Asia and other international markets. The company trades on the Nasdaq National Market under the symbol ACAT. For more information, please visit Arctic Cat's Web site at [www.arcticcat.com](http://www.arcticcat.com).

## FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)

Arctic Cat Inc. Years ended March 31,	2004	2003	2002
<b>Income Statement Data:</b>			
Net Sales	\$649,617	\$577,070	\$556,079
Operating Profit	\$ 43,661	\$ 47,047	\$ 39,554
Net Earnings	\$ 30,365	\$ 32,703	\$ 28,626
Earnings Per Diluted Share	\$ 1.40	\$ 1.45	\$ 1.20
Average Diluted Shares Outstanding	21,730	22,615	23,925
Net Margin	4.7%	5.7%	5.1%
Total Assets	\$285,562	\$278,291	\$268,595
Long-Term Debt	\$ 0	\$ 0	\$ 0
Shareholders' Equity	\$185,953	\$187,286	\$181,638
Shareholders' Equity Per Share	\$ 8.85	\$ 8.49	\$ 7.81
Year-End Market Price Per Share	\$25.38	\$15.61	\$20.15





**Christopher A. Twomey** Chairman and Chief Executive Officer

**TO OUR SHAREHOLDERS** – We achieved new levels of performance in fiscal 2004, making this an exciting year. Among the highlights, we posted our fourth consecutive year of record sales, with gains across all of our product lines. For the first time, our revenues from all-terrain vehicles (ATVs), a market we entered just eight years ago, surpassed revenues from snowmobile sales. We doubled the number of ATVs that we offer and received several industry awards for new products. We also raised our dividend by 17 percent, due to the company's strong financial position, and ended the year with \$106.4 million in cash and no long-term debt.

**Another Year of Record Sales** – For the fiscal year ended March 31, 2004, Arctic Cat's net sales totaled \$649.6 million, up 13 percent versus \$577.1 million last fiscal year. Net earnings totaled \$30.4 million, or \$1.40 per diluted share, compared to net earnings of \$32.7 million, or \$1.45 per diluted share, for fiscal 2003. Fiscal 2003 results included a non-recurring net reduction of restructuring accruals related to Arctic Cat's exit from the personal watercraft (PWC) business in September 1999. Excluding fiscal 2003 non-recurring items, the company's fiscal 2004 net earnings of \$30.4 million rose 4 percent compared to 2003 net earnings of \$29.3 million, and 2004 full-year diluted earnings per share of \$1.40 increased 8 percent versus \$1.30 per diluted share in the prior year.

Gross profits grew 8 percent to \$139.2 million versus \$128.8 million last year, and free-cash flow in fiscal 2004 totaled \$26 million. In addition, we continued to repurchase shares of the company's stock, buying back 1.7 million shares in fiscal 2004. We believe that investing in Arctic Cat's stock is currently the best use of our excess cash in order to increase shareholder value. The company has repurchased more than 9 million shares since 1996.

**Innovation Driving ATV Market Share Gains** – We achieved our goal to further increase our share of the all-terrain vehicle (ATV) market. Retail sales of Arctic Cat's ATVs again outpaced the industry's growth, as we have every year since entering the market in 1996. For fiscal 2004, our ATV wholesale sales increased 25 percent to \$294.4 million, surpassing our revenue from snowmobile sales.

Our continued, rapid ATV growth is due to our expanded product line-up that now fills nearly every market niche. Arctic Cat offers a comprehensive line of 28 ATV models, ranging from 50cc to 650cc engines. In fiscal 2004, we introduced eight new models, four new engines and 14 major technology enhancements. In addition, we increased our popular MRP Speedrack™ accessory attachments to more than 40. These attachments benefit riders by enabling them to customize ATVs to suit their needs. They also benefit Arctic Cat and our dealers by increasing profitable accessory sales.

Among the exciting, new products we introduced during the year was our most powerful ATV yet, the 650cc 4x4 Automatic. The 650 marked our first entry into the growing "big bore" market, for engines over 500cc. It made an impression, earning recognition as "ATV of the Year" from several industry publications.

We also successfully entered the sport performance segment of the ATV market with our DVX 400. This segment gives us access to a whole new group of customers and enhances Arctic Cat's strong performance heritage. Before entering this market, we learned from customer research that many racers who buy sport performance ATVs cut off the fenders, in order to improve aerodynamics. We took this into consideration and came up with the industry's first ATV with removable fenders for racing.

We devised another industry first – a two-rider vehicle dubbed the TRV – which we began selling in March 2003. We designed our 500 Automatic 4x4 TRV in response to the unsafe practice of riding conventional ATVs with two people on board. The TRV accommodates two riders in tandem with the same stability characteristics as conventional ATVs, which are designed to be ridden by only one person. With the TRV, we created an entirely new market niche that gives our customers a product they want.

These are just a few examples of Arctic Cat's innovation in action over the past year. Many more exciting developments are on the horizon, such as the first ATV engine ever to be designed and built by Arctic Cat.

In the year ahead, we will begin manufacturing our own engines for use in select Arctic Cat ATVs. This important strategic step will enhance our long-term, competitive position and give us greater flexibility to quickly meet changing market needs. While we have excellent relationships with our existing suppliers, this move gives us greater control over our future.

In the past four years, we have assembled a highly specialized team of professionals to form our all new ATV engine division. Initially, we plan to produce engines for our 650 4x4 Automatic ATV. The new engine, called the 650 H1, was designed by Arctic Cat and will be assembled in our new state-of-the-art, 24,000-square-foot facility in Thief River Falls, Minn. Our first 650 ATV with the H1 engine will become available in late fiscal 2005.

### **Leading Advances in Snowmobile Recreation –**

Arctic Cat's wholesale snowmobile sales increased 5 percent to \$258.4 million in fiscal 2004, performing much better than the anticipated decline in this segment following several consecutive years of scant snowfall.

As I've stated before, we only need the snow to appear for our customers to renew their enthusiasm for the sport. Although it happened late last year, we finally saw decent snow accumulations across most of the United States, which led to the highest number of U.S. snowmobile registrations in 27 years, totaling more than 1.7 million units in 2003. And snowmobilers again rewarded our technology leadership by purchasing the most exciting snowmobile around – Arctic Cat. As a result, snowmobile carryover inventories at our dealers entered the 2005 model year slightly lower than last year.

I am pleased with our increased share in the touring and utility segments, which are areas that we targeted. Demand for our 4-stroke 660 and new 4-stroke 660 Turbo models boosted our sales in these segments. In fact, we now have a significant 63 percent share of the North American 4-stroke touring market. Arctic Cat is the first snowmobile manufacturer to offer a turbo-charged engine on a 4-stroke sled with the T660 Turbo. Its 110-horsepower engine is cleaner, quieter *and* fast.

Arctic Cat pioneered the development of 4-stroke snowmobile engines, which produce lower emissions and are quieter than the traditional 2-stroke models. Today, we remain the undisputed fuel-management leader, with 4-stroke and electronic fuel injection (EFI) technology. Our 4-stroke engines already surpass the stringent U.S. Environmental Protection Agency's 2012 exhaust emissions requirements.

We also are excited with our completely new 2005 model mountain sleds. Using our Firecat chassis as a base, we've enhanced our mountain sleds in virtually every area. The 2005 mountain machines weigh 40 lbs. less than last year's model, making Arctic Cat the lightest snowmobile in this segment. Our sleds provide an unparalleled power-to-weight ratio, which is critically important for mountain snowmobiling. They're also equipped with Arctic Cat's revolutionary, lightweight ACT™ drive system and our industry-leading EFI technology that enables easier starts, lowers emissions and improves gas mileage.

With an exceptionally strong line-up of 2005 snowmobiles, we look forward to continued market share gains throughout North America in the year ahead.

**PG&A Sales Benefit From ATV Growth –** Sales of parts, garments and accessories increased 5 percent to \$96.8 million, contributing strongly to Arctic Cat's and our dealers' bottom lines.

A return to more normal snowfall in key regions led to greater demand for snow-related gear. Additionally, parts, garments and accessories sales benefited from the many new ATV products that were introduced last year, including the more than 40 MRP Speedrack accessories now available, and other optional equipment such as the DVX ATV's removable fenders. Our increasing penetration of the ATV market has helped fuel year-round accessory sales.

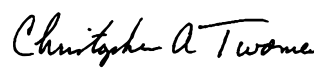
**Improvement Initiatives Paying Off –** We made further progress in our efforts to achieve continuous quality improvements, boost productivity and lower costs. It's worth noting that, over the past three years, Arctic Cat has saved \$3.4 million as a result of our employee continuous improvement program. I commend our dedicated colleagues for their participation and outstanding results.

By expanding our use of robotics and automation, we have increased our manufacturing flexibility and ensured our quality is second to none. In the past year alone, our initiatives reduced ATV assembly time by 6.5 percent. And ATV welding that used to take more than two hours to complete now takes less than an hour on much more complex ATV designs. Our production is faster and our quality is better than ever before.

We also vastly improved our service to our dealers and customers through a state-of-the-art Call Center that began operating in February 2003. This center consolidates our resources for sales, service, warranty, and ordering parts, garments and accessories, into one function with established teams serving separate geographic regions. In addition, we recently began rolling out to our dealers an online ordering system, Cat Tracker Online, that should further speed our response to dealers. We plan to continue leveraging these productivity-enhancing tools in the future.

We're pleased with our performance in fiscal 2004 and expect another year of record sales in the year ahead, driven by our continued innovation in action.

Sincerely,



**Christopher A. Twomey**

Chairman and Chief Executive Officer

# TECHNOLOGY DESIGNED TO MEET INDIVIDUAL NEEDS

Some riders prefer digital, others like analog. Our combination speedometer/tachometer display is designed for both. At the touch of a button, our new LCD readout switches from digital to analog, meeting individual riders' preferences on the trail. It now comes standard on all of

our 2005 high-performance Firecat sleds, trail performance Sabercats, mountain series and 4-stroke touring models.

We are turning our passion for enhancing the snowmobiling experience into technology that meets customers' needs.





We widened our technology lead with the introduction of the exciting, new ACT™ Diamond Drive.

Weighing 11 lbs. less than conventional chain and sprocket drives, and with a lower center of gravity, the ACT drive produces an unparalleled power-to-weight ratio for improved snowmobile acceleration and handling. It also increases drivetrain efficiency by virtue of lower gear and wider clutch ratios. With no drive chain to adjust, the ACT is virtually maintenance free.

All Firecats, ZRs and M series mountain sleds are equipped with the ACT drive.

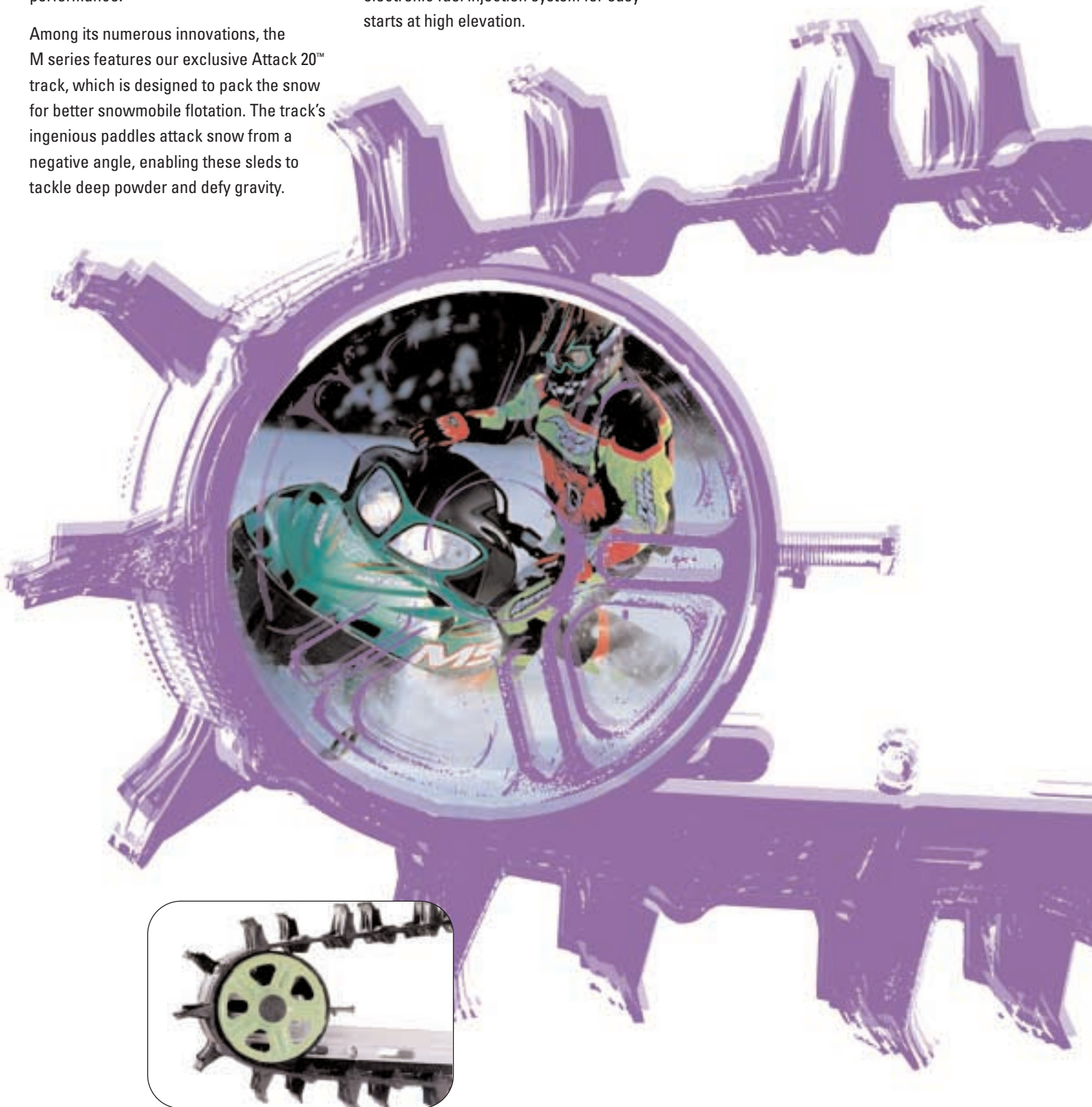
**DIAMOND DRIVE  
PERFORMANCE LEADS THE PACK**

# ATTACKING SNOW FROM EVERY ANGLE

Our all-new M series mountain sleds offer substantially more power, lower weight and more responsive handling for best-in-class performance.

Among its numerous innovations, the M series features our exclusive Attack 20™ track, which is designed to pack the snow for better snowmobile flotation. The track's ingenious paddles attack snow from a negative angle, enabling these sleds to tackle deep powder and defy gravity.

The M series also offer an all-new chassis, adjustable ski stance, laydown engine for a lower center of gravity and batteryless electronic fuel injection system for easy starts at high elevation.



# THE CLEAR LEADER IN PERFORMANCE AND DURABILITY

Arctic Cat has always been a technology and performance leader. Now, we're breaking new ground by offering an industry-leading 13" ground clearance on our 650 ATV.

Our ATVs also are more durable than ever. Maintenance-free suspension components don't require the constant lubrication of

rival grease fittings. A high-density plastic skid plate provides complete undercarriage protection that won't rust like steel. And a sealed gear box keeps moisture out for extended use and reduced maintenance.





We've raised the bar on ATV fun and comfort. Arctic Cat is the only ATV manufacturer to offer fully independent suspension standard across our product line for a smoother, more balanced ride. Riders also may easily adjust our ATVs' suspension to suit the terrain.

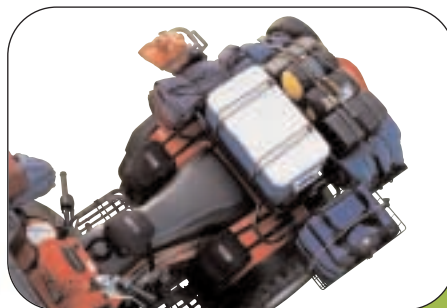
And when it comes to style, we're breaking new ground. Sleek "Cat-Eye" headlights offer a distinctive, next-generation look, while offering the latest in multiple-reflector technology. Our new body styling also includes extra-wide textured fenders and built-in floorboards.

## OVERCOMING OBSTACLES IN COMFORT AND STYLE

# ARGUABLY THE BEST THING THAT EVER HAPPENED TO AN ATV

We call it the MRP Speedrack™. Named "Innovation of the Year" by *ATV Magazine*, we're making our quick and versatile rack system standard on nearly every 2005 model Arctic Cat ATV. New MRP Speedracks offer the largest rack capacity available, in terms of weight and volume. They also feature built-in entry points below the main rack to enable even easier attachments.

Arctic Cat's customers can easily adapt their ATVs with a growing assortment of Speedrack accessories for ranching, landscaping, construction, camping, hunting and many other applications.



## CORPORATE INFORMATION

### Board of Directors

**Robert J. Dondelinger**<sup>+,\*</sup>  
Chairman,  
Northern Motors  
Thief River Falls, MN

**William I. Hagen**<sup>\*,+</sup>  
Retired owner of Nationwide  
Trucking Company,  
Part owner of Border Bancshares, Inc.  
and Farmer, Warroad, MN

**Motoo Murakami**  
Senior General Manager of  
North America/Europe/Oceania  
of Motorcycle Marketing Division  
Suzuki Motor Corporation  
Hamamatsu, Japan

**William G. Ness**<sup>+,\*</sup>  
Vice Chairman,  
Arctic Cat Inc.  
Thief River Falls, MN

**Gregg A. Ostrander**<sup>\*,+✓</sup>  
Chairman, President and  
Chief Executive Officer,  
Michael Foods, Inc.  
Minneapolis, MN

**Kenneth J. Roering**<sup>\*,\*✓</sup>  
Professor, Carlson School  
of Management,  
University of Minnesota  
Minneapolis, MN

**Christopher A. Twomey**  
Chairman, President and  
Chief Executive Officer,  
Arctic Cat Inc.  
Thief River Falls, MN

\* Audit Committee Member  
+ Compensation Committee Member  
▪ Governance Committee Member  
✓ Stock Grant Subcommittee Member

### Officers

**Christopher A. Twomey**  
Chairman, President, and  
Chief Executive Officer

**Timothy C. Delmore**  
Chief Financial Officer and Secretary

**Terry J. Blount**  
Vice President – Human Resources

**Robert Bonev**  
Vice President – Sales and Marketing

**Ronald G. Ray**  
Vice President – Operations

**Roger H. Skime**  
Vice President –  
Research & Development

**Ole E. Tweet**  
Vice President –  
New Product Development

### Corporate Headquarters

601 Brooks Avenue South  
Thief River Falls, MN 56701  
218-681-8558

### Legal Counsel

Robins, Kaplan, Miller  
& Ciresi L.L.P.  
Minneapolis, MN

Ihle & Sparby, P.A.  
Thief River Falls, MN

### Auditor

Grant Thornton LLP  
Minneapolis, MN

### Common Stock

Arctic Cat's common stock is  
traded on the National Market  
System of Nasdaq under the  
symbol "ACAT."

### Shareholder Assistance

If you change your address,  
or if you have questions about  
payment of dividends, combining  
two or more accounts, duplicate  
mailings, changes in registration  
or lost stock certificates, please  
contact our Transfer Agent  
and Registrar.

Wells Fargo Bank, N.A.  
61 North Concord Exchange Street  
South St. Paul, MN 55075-0738  
1-800-468-9716 or 651-450-4064  
[www.wellsfargo.com/com/shareowner\\_services](http://www.wellsfargo.com/com/shareowner_services)

### Further Information

Shareholders may obtain a copy  
of the 2004 Form 10-K report,  
including the financial state-  
ments, without charge upon  
written request to:

Timothy C. Delmore, Secretary  
Arctic Cat Inc.  
601 Brooks Avenue South  
Thief River Falls, MN 56701

### Internet Access

To view the Company's financial  
information, products and  
specifications and dealer  
locations, access Arctic Cat  
on the Internet at:  
[www.arcticcat.com](http://www.arcticcat.com)



601 Brooks Avenue South Thief River Falls, MN 56701 [www.arcticcat.com](http://www.arcticcat.com)