

MONACO COACH CORPORATION



2006 ANNUAL REPORT



· JOIN THE FAMILY ·



TO OUR FELLOW STOCKHOLDERS:

While we were pleased to report year-over-year revenue growth, 2006 proved to be a challenging year for our Company and for our industry overall. In our primary business segment of motorized recreational vehicles, wholesale shipments and retail sales fell for the second consecutive year and overshadowed gains made in the towable segment of our business. We reported revenue of \$1.3 billion in 2006, including \$208.6 million in R-Vision revenue, an overall increase of 5 percent compared to 2005.

As we look back on 2006, despite the challenging motorized markets, we accomplished a great deal that is benefiting us now and will continue to reward us for years to come.

PLANT RECONFIGURATIONS AND CONSOLIDATIONS

During 2006, we made a decision to manufacture all of our high-end motorized products in Oregon, and our mid- to low-priced products in Indiana. By shifting some models between our two manufacturing locations, we have been able to gain efficiencies in production, purchasing and engineering. These changes have also made it easier for us to adjust our production run rates and mix of similarly priced models to meet wholesale and retail demand. This, in turn, helps to keep our inventories, as well as our dealer partners' inventories, in check. We are confident that the long-term benefits from this reorganization will far outweigh our investment.

We also examined all of our sub-assembly operations to uncover areas that could be consolidated and improved in response to our lower production run rates. The Company combined its two Oregon fiberglass operations into one unit, and the two wood shops into one. We also moved our solid surface production to our main complex in Coburg, Oregon. These moves allow us to better utilize our remaining facilities yielding significant benefits in efficiency and product quality.

PRODUCT DEVELOPMENT AND INNOVATION

Product development and innovation have been the primary drivers of our Company's growth and success throughout the years. In 2006, we renewed our commitment to leading the industry in this area and to that end, we recently introduced new value-priced models in all our product segments, Class A, B, and C vehicles, as well as towables. These new products received excellent reviews by our dealers at our industry trade show in late 2006, and we are confident that these less expensive models will help us gain additional shelf space throughout our dealer network, as well as attract customers earlier in the RV buying cycle. We believe this will result in increased market share for the Company not only in the short-term, but also in the long-term as these new customers work their way up the Monaco Coach Corporation product line.



PICTURED ON LEFT:
Kay L. Toolson
Chairman of the Board and CEO

PICTURED ON RIGHT:
John W. Nepute
President

HEAR WHAT OUR OWNERS HAVE TO SAY:



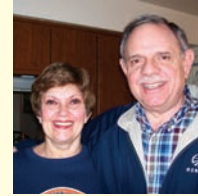
Gary, Cleone &
Buster Crooks
Golden, CO

*"It is difficult to
adequately convey*

*how grateful I feel to have chosen a
Monaco Coach Corporation product."*

*"The Monaco Coach Corp. people are
excellent, stand behind their product...
and I don't think*

*every manufacturer
can say that."*



Jim Kussy
Via email



PICTURED ABOVE:

A convenient entertainment center with built-in desk is available in several of our towable floorplans and takes advantage of the interior layout to increase spaciousness inside the unit.

PICTURED AT RIGHT:

The comfortable captain's chairs help you relax and take in the scenery wherever your journey takes you. Overhead there is even more to like thanks to a 32" LCD TV and home theater system.

PICTURED AT BOTTOM:

A luxurious and contemporary new interior. Natural cherry flat panel cabinetry, tile floors, designer fabrics and frosted glass all add to the elegance.





Jan Williams
Midwest City, OK

"We've had great success with our

motorhome. If you like to travel and see the country, a Monaco motorhome makes it easy—you've got your pet, your food, your own bed."

"We decided on Monaco Coach Corporation for three reasons: the product, the company's employees and the family of Monaco owners."



France Betten, NJ

TOWABLES

With the R-Vision acquisition in late 2005 and the increased importance towables are having on our results, we decided to run this segment as a totally separate business unit. With management, product development and engineering teams exclusively devoted to towables, we are seeing a lot of new and innovative ideas coming from this group. Our new Dodge-branded fifth wheel and travel trailers are a good example. We also introduced new lightweight and low cost models for the Holiday Rambler, McKenzie and R-Vision lineups. And we are improving our West Coast distribution of these towable products through the utilization of a new assembly line in our Oregon plant.

STRENGTHENING DEALER PARTNER RELATIONSHIPS

In 2006, we fine-tuned our dealer franchising program making it more flexible and dealer friendly. When our Company launched its *Franchise for the Future* program in 2005, it was the first in the industry. It was designed to help our dealers sell more Monaco Coach Corporation motorhomes more profitably, by capitalizing on customer admiration and recognition of our brands in the marketplace.

We also launched Monaco Financial Services (MFS) in combination with GE Capital Solutions and GE Consumer Finance. MFS allows us to work closely with our dealers to provide wholesale financing for their inventory, make retail financing to their customers more affordable and create a revenue stream for our Company.

MOTORHOME RESORTS PROPERTIES

Offering luxury resort properties to owners of upscale recreational vehicles is another way we are expanding our market opportunities. The resorts feature amenities comparable to other five-star properties, including clubhouses, swimming pools, tennis courts, golf courses and restaurants.

Our two luxury motorhome resorts, Outdoor Resorts of Las Vegas and Outdoor Resorts Motorcoach Country Club located in Indio, California, are now fully developed and will be substantially sold out by the end of the second quarter of 2007. The Company currently has two additional properties in the early stages of development near La Quinta, California, and in Naples, Florida. We expect to be able to offer lots for sale in the first quarter of 2008. And as opportunities present themselves, we hope to expand this segment of our business even further.

CHASSIS JOINT VENTURE

In early 2007, we entered into a joint venture with International Truck and Engine Corporation, the principal operating unit of Navistar International. This manufacturing venture brings significant



MONACO®

"DRIVING YOUR DREAM"

Monaco motorhomes have long been associated with exceptional performance and luxury. This sense of style and performance has been incorporated throughout our diesel product lineup and leads the way for our gas products. Recognized as a premium brand, Monaco is driven to provide the highest quality, most elegant motorhomes on the road.



HOLIDAY RAMBLER®

"THIS IS LIVING"

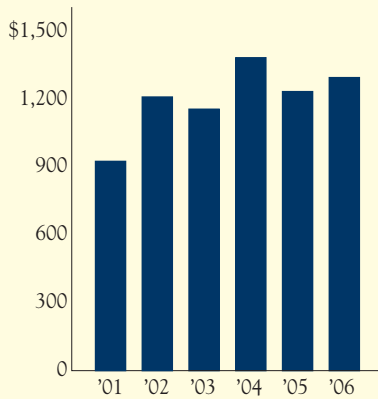
For over 50 years, Holiday Rambler has been an RV industry innovator, from the use of aluminum framing to the introduction of kitchen slide-out rooms. The brand's broad range of products, from value-priced to high-end towables and from modestly priced gas through beautiful diesel motorhomes, Holiday Rambler has always appealed to a wide range of owners, from families to retirees.



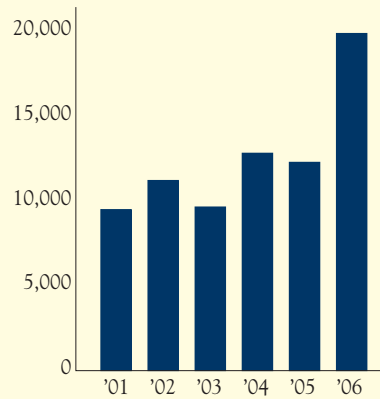
"DIFFERENT BY DESIGN"

The Beaver brand has become synonymous with magnificent interiors, boasting some of the RV industry's most lavish features and plush materials. World-renowned for its handcrafted woodwork and cabinetry, Beaver motorhomes appeal to the senses. Beaver focuses and delivers in the high end of the diesel motorhome market.

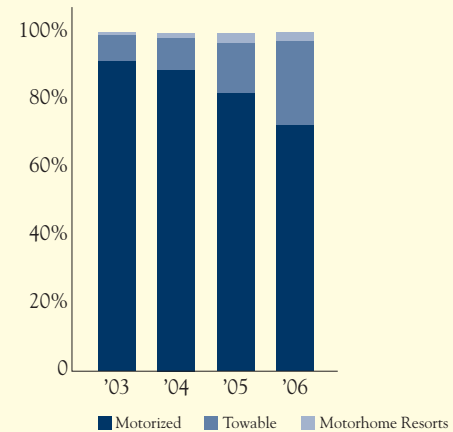
REVENUES
(\$ in millions)



TOTAL RV UNIT SALES



PERCENTAGE SALES PER SEGMENT



"LIVE OUT LOUD"

Unique and individual describes Safari coaches. The brand has several innovative and truly one-of-a-kind models. Safari is committed to building on its uniqueness and broadening the product lineup to include entry-level diesel, low-end gas, motorized toy haulers, Class C and Class B units.



"BEHIND EVERY ADVENTURE"

McKenzie towables are known for quality and selection. The brand is broadly positioned from the lower priced travel trailer segment to the high end of the fifth-wheel market. McKenzie features industry-leading construction methods and materials at every price point. As one of the newest editions to the Monaco family of brands McKenzie is poised for growth.

R-VISION

R-Vision is an industry leader in the lightweight towable market. Towables manufactured by R-Vision are accessible to the vast majority of RV enthusiasts. The Trail-Lite name is recognized as one of the best values in the towable market. R-Vision's passion for lightweight products has carried over to its introduction of several successful Class B and Class C models.

benefits and opportunities to our Company. The agreement consolidates all of our diesel chassis production into the joint venture, which will improve operations and efficiencies and significantly enhance our buying and cost structure. It also provides opportunities to grow our chassis manufacturing business beyond the RV market, expanding into areas such as school bus and other commercial fleets. However, our proprietary Roadmaster motorhome chassis will continue to be exclusively available to Monaco Coach Corporation's family of diesel motorhomes. We will continue to manufacture the best motorhome chassis in the RV industry.

FOCUS ON QUALITY AND SERVICE

Reflecting our commitment and dedication to manufacturing quality, customer service and innovation, Monaco Coach Corporation received the prestigious 2006 RVDA Quality Circle Award. We are extremely pleased to have been selected for this highly coveted industry award recognizing top performing manufacturers according to RVDA's annual Dealer Satisfaction Index survey.

We will strive to continue to deliver an outstanding level of service and quality of products to our dealer partners and our mutual customers and are confident that the steps we have taken to strengthen the Company in 2006 will show continuing benefits and growth throughout 2007 and beyond.

DISCIPLINE

Our focus on production levels assisted the Company in keeping our balance sheet and liquidity strong. Cash flows generated by operating activities allowed us to reinvest in our business, pay dividends to our stockholders and reduce debt by almost \$30 million.

In the face of these challenges, our accomplishments have taken an enormous amount of effort and hard work by everyone connected with Monaco Coach Corporation. We are very proud of our management team and every one of our 5,400 employees. We also are indebted to our entire Board of Directors for their valuable insight and guidance; to our suppliers and dealer partners for our ongoing positive relationships; and most of all, we thank you, our stockholders, for your continued support.

Sincerely,

Kay L. Toolson
Chairman of the Board and Chief Executive Officer

John W. Nepute
President

TABLE OF CONTENTS

Five-Year Selected Financial Data	6
Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	28
Performance Graph	29
Consolidated Balance Sheets	30
Consolidated Statements of Income	31
Consolidated Statements of Stockholders' Equity	32
Consolidated Statements of Cash Flows	33
Notes to Consolidated Financial Statements	34
Report of Independent Registered Public Accounting Firm	56
Management's Report on Internal Control Over Financial Reporting	58

FIVE-YEAR SELECTED FINANCIAL DATA

The following table sets forth financial data of Monaco Coach Corporation for the years indicated (in thousands of dollars, except share and per share data and consolidated operating data):

	Fiscal Year				
	2002	2003	2004	2005	2006
Consolidated Statements of Income Data:					
Net sales	\$1,212,385	\$1,158,083	\$1,386,269	\$1,236,238	\$1,297,986
Cost of sales	1,050,270	1,019,423	1,217,457	1,111,468	1,173,443
Gross profit	162,115	138,660	168,812	124,770	124,543
Selling, general, and administrative expenses	86,115	100,709	109,145	113,179	120,465
Plant relocation costs	0	0	0	4,370	269
Operating income	76,000	37,951	59,667	7,221	3,809
Other income, net	105	260	343	255	615
Interest expense	(2,752)	(2,968)	(1,547)	(1,820)	(4,430)
Income (loss) before income taxes and discontinued operations	73,353	35,243	58,463	5,656	(6)
Provision for (benefit from) income taxes, continuing operations	28,794	13,220	21,914	1,687	(992)
Income from continuing operations	44,559	22,023	36,549	3,969	986
Income (loss) from discontinued operations, net of tax provision	(44)	177	156	(1,321)	18
Net income	\$ 44,515	\$ 22,200	\$ 36,705	\$ 2,648	\$ 1,004
Earnings (loss) per common share:					
Basic from continuing operations	\$ 1.55	\$ 0.75	\$ 1.24	\$ 0.13	\$ 0.03
Basic from discontinued operations	0.00	0.01	0.01	(0.04)	0.00
Basic	\$ 1.55	\$ 0.76	\$ 1.25	\$ 0.09	\$ 0.03
Diluted from continuing operations	\$ 1.51	\$ 0.74	\$ 1.22	\$ 0.13	\$ 0.03
Diluted from discontinued operations	0.00	0.01	0.01	(0.04)	0.00
Diluted	\$ 1.51	\$ 0.75	\$ 1.23	\$ 0.09	\$ 0.03
Weighted average common shares outstanding:					
Basic	28,812,473	29,062,649	29,370,455	29,516,794	29,712,957
Diluted	29,573,420	29,567,012	29,958,646	29,858,036	29,902,830
Cash dividends per common share	\$ 0.00	\$ 0.00	\$ 0.20	\$ 0.24	\$ 0.24
Consolidated Operating Data:					
Units sold (includes discontinued operations):					
Motor coaches	8,005	7,051	8,199	6,221	5,762
Towables	3,206	2,593	4,621	9,337	19,861
	December 28, 2002	January 3, 2004	January 1, 2005	December 31, 2005	December 30, 2006
Consolidated Balance Sheet Data:					
Working capital	\$ 114,241	\$ 121,231	\$ 141,907	\$ 127,191	\$ 109,806
Total assets	547,417	478,669	540,238	587,467	558,150
Long-term borrowings, less current portion	30,333	15,000	0	34,786	29,071
Total stockholders' equity	260,627	286,248	319,616	316,732	315,321

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended. These statements include without limitation those below marked with an asterisk (*). In addition the Company may from time to time make oral forward-looking statements through statements that include the words "believes," "expects," "anticipates," or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to differ materially from those expressed or implied by such forward-looking statements, including those set forth below under "Risk Factors" within Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company cautions the reader; however, that these factors may not be exhaustive.

Background

Monaco Coach Corporation (the "Company") is a leading manufacturer of premium recreational vehicles including Class A, B, and C motor coaches, as well as towable recreational vehicles. The Company also develops and sells luxury motorcoach resort facilities. These three operations, while closely tied into the recreational lifestyle, are segmented for reporting purposes as the Motorized Recreational Vehicle (MRV) segment, the Towable Recreational Vehicle (TRV) segment, and the Motorhome Resort (MR) segment.

Motorized and Towable Recreational Vehicle Segment Products

Our products range in suggested retail price from \$45,000 to \$600,000 for motor coaches and from \$11,000 to \$80,000 for towables. Based upon retail registrations in 2006, we believe we had a 23.8% share of the market for diesel Class A motor coaches, a 7.7% share of the market for gas Class A motor coaches, a 16.0% share of the market for all Class A motor coaches, a 2.6% share of the market for all Class C motor coaches, a 4.2% share of the market for fifth wheel towables and a 4.6% share of the market for travel trailers.

Motorhome Resort Segment

In addition to the manufacturing of premium recreational vehicles, the Company also owns and operates two motorhome resort properties (the "Resorts"), located in Las Vegas, Nevada, and Indio, California. In addition, the Company has acquired a piece of property in La Quinta, California, and has a second piece of property in Naples, Florida under contract for future developments. The Resorts offer sales of individual lots to owners, and also offer a common interest in the amenities at the resort. Lot prices at the two resorts range from \$79,900 to \$339,900. Amenities at the Resorts include clubhouse facilities, tennis, swimming, and golf. The Resorts provide destination locations for premium Class A recreational vehicle owners, and help to promote the recreational vehicle lifestyle.

Business Changes

We have conducted a series of acquisitions during our history. Beginning in March 1993, we commenced operations by acquiring substantially all of the assets and liabilities of a predecessor company that had been formed in 1968. In March 1996, we acquired the Holiday Rambler Division of Harley-Davidson, Inc., a manufacturer of a full line of Class A motor coaches and towables. In August 2001, we acquired SMC Corporation, manufacturer of the Beaver and Safari brand Class A motorhomes. In November 2002, we acquired from Outdoor Resorts of America ("ORA") three luxury motorcoach resort properties being developed by ORA in Las Vegas, Nevada, Indio, California, and Naples, Florida. In September 2003, we sold the property in Naples, Florida. In November of 2005, we acquired R-Vision, Inc., R-Vision Motorized, LLC, Bison Manufacturing, LLC, and Roadmaster, LLC, (referred to as "R-Vision"), manufacturers of R-Vision, Bison, and Roadmaster motorized and towable products. The R-Vision acquisition was accounted for using the purchase method of accounting, through a cash offer on November 18, 2005. All operations of R-Vision have been incorporated for the period of November 18, 2005 through December 30, 2006 in the consolidated annual financial statements of the Company.

During the third quarter of 2005, the Company announced the closure of its Royale Coach operations in Elkhart, Indiana. Royale Coach produced Prevost bus conversion motor coaches with price points in excess of \$1.4 million. Royale Coach sold approximately 20 coaches per year and was not a significant portion of the Company's overall business. As of the end of 2006, the Company had sold all remaining assets of Royale Coach. In accordance with Statements of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets" ("SFAS 142"), no goodwill amortization has been recorded for any of the Company's acquisitions for the years of 2004, 2005, or 2006. Instead, SFAS 142 requires annual testing of goodwill for impairment at the reporting unit level. We completed our annual testing of goodwill during the third quarter of 2006 as required by SFAS 142 and determined that there has been no impairment requiring a write-down. See Note 1 of Notes to the Company's Consolidated Financial Statements.

RESULTS OF OPERATIONS

The following table sets forth our results of continuing operations for the fiscal years ended December 31, 2005, and December 30, 2006 (dollars in thousands):

	2005	% of Sales	2006	% of Sales	\$ Change	% Change
Net sales	\$1,236,238	100.0%	\$1,297,986	100.0%	\$ 61,748	5.0%
Cost of sales	1,111,468	89.9%	1,173,443	90.4%	(61,975)	(5.6)%
Gross profit	124,770	10.1%	124,543	9.6%	(227)	(0.2)%
Selling, general, and administrative expenses	113,179	9.2%	120,465	9.3%	(7,286)	(6.4)%
Plant relocation costs	4,370	0.3%	269	0.0%	4,101	93.8%
Operating income	\$ 7,221	0.6%	\$ 3,809	0.3%	\$ (3,412)	(47.3)%

Performance in 2006

Motorized and Towable Recreational Vehicle Segments

The beginning of 2006 began with a temporary upswing in the motorized wholesale markets. Our dealer partners were optimistic that the slowdowns in the industry that occurred in 2005 were behind them and, accordingly, they increased their orders. However, as the first quarter came to a close and headed into the second quarter, which is usually the most robust for motorhome sales, it became evident that the retail markets were still lagging wholesale shipments. As a result, the second half of the year, and particularly the third quarter, were below expectations. Similar to the motorized segment, the towable segment, which had been very strong in 2005, began to show signs of slowing. The heated pace that was in part fueled by the hurricane season of 2005, which resulted in a huge demand for travel trailers, slowed at the beginning of the second quarter. Due to these market constraints, we used this opportunity to focus on aligning our plants and component facilities to meet lower demands, while still optimizing manufacturing facility utilization.

While 2006 was challenging on several fronts, we worked aggressively to introduce new and innovative products such as our full slide options on several models, and a new lower priced front-end diesel motorized coach. We also worked with the R-Vision management team to leverage their expertise in low cost manufacturing processes, and introduced these processes into our legacy towable plants.

The recreational vehicle industry is extremely competitive, and retail customers have many choices available to them. To distinguish ourselves within the industry, we introduced our Franchise For The Future (FFTF) program in June of 2005. This program is designed to introduce the concept to our dealer partners that our specific brands have intrinsic values as a selling tool. To support this, and to encourage our dealers to participate in FFTF, we worked with outside marketing consultants to develop brand signage, informational computer kiosks, and brand specific displays that are placed within our various independent dealer locations. In 2006, we followed this up with Monaco Financial Services (MFS). MFS is a branded financing program from General Electric Commercial Distribution Finance (GECDF) and General Electric Consumer Finance (GECF). Through MFS, our dealer partners earn rebates from GECDF and GECF for wholesale floor planning, and retail financing for customers. We believe that these concepts, along with other features designed to encourage our dealers to focus selling efforts on our various product offerings, will assist them in their sales efforts through the strength of improved brand identity.

Motorhome Resorts Segment

While 2006 was difficult for the recreational vehicle industry, our motorhome resort properties sales and profits were strong contributors to our operations. Both our properties in Las Vegas, Nevada and Indio, California continued to attract new owners, and we anticipate selling through most of the remaining lots in the first half of 2007.* In addition, we expect to develop two new projects, one in southern California and the other in southern Florida during 2007, with lots available at these new resorts sometime late in the fourth quarter of 2007, or early 2008.*

2006 Compared With 2005

Net sales increased 5.0% from \$1.236 billion in 2005 to \$1.298 billion in 2006. Gross diesel motorized revenues were down 4.8%, gas motorized revenues were down 25.3%, and towable revenues were up 79.5%. For 2006, gross diesel motorized sales accounted for 65.3% of sales, gas motorized sales accounted for 8.2% of sales, and towables accounted for 26.6% of sales. For 2005, gross diesel motorized sales accounted for 72.7% of sales, gas motorized sales accounted for 11.6% of sales, and towables accounted for 15.7% of sales. The Company's overall average unit selling price decreased from \$78,000 in 2005, to \$50,000 in 2006. The reduction in average selling price resulted from a combination of increased sales of the Company's towable products, the acquisition of R-Vision (which sells predominantly lower priced towables) and the sale of 874 lower priced towable products to the Federal Emergency Management Association (FEMA) in the first half of 2006.

Gross profit decreased by \$227,000 from \$124.8 million in 2005 to \$124.5 million in 2006 and gross margin decreased from 10.1% in 2005 to 9.6% in 2006. Changes in the components of cost of sales are set forth in the following table (dollars in thousands):

	2005	% of Sales	2006	% of Sales	Change in % of Sales
Direct materials	\$ 769,823	62.3%	\$ 802,631	61.8%	(0.5)%
Direct labor	125,943	10.2%	134,654	10.4%	0.2%
Warranty	28,861	2.3%	38,884	3.0%	0.7%
Other direct	71,525	5.8%	77,154	5.9%	0.1%
Indirect	115,316	9.3%	120,120	9.3%	0.0%
Total cost of sales	\$ 1,111,468	89.9%	\$ 1,173,443	90.4%	0.5%

- Direct material decreases in 2006, as a percent of sales, were \$6.5 million. This decrease was a result of the Company's purchasing initiatives associated with motorized and towable production. The overall total dollar increase in direct materials of \$32.8 million was related to sales volume increases.
- Direct labor increases in 2006, as a percent of sales, were \$2.6 million. This increase was the result of inefficiencies in our plants as we realigned production facilities to meet demand. The remaining portion of the overall total dollar increase of \$8.7 million in direct labor was the result of sales volume increases.
- Increases in warranty expense in 2006, as a percent of sales, were \$9.0 million. These increases were the result of higher warranty costs associated with some of our current model year motorized products. The remaining portion of the overall total dollar increase in warranty costs of \$10.2 million was the result of sales volume increases.
- Increases in other direct costs in 2006, as a percent of sales, were \$1.3 million. This increase was the result of increased fuel prices which raised delivery costs. The remaining portion of the overall total dollar increase in other direct costs of \$4.3 million was the result of sales volume increases.
- Indirect costs in 2006, as a percent of sales, were essentially unchanged. The overall total dollar increase of \$4.8 million was the result of sales volume increases.

Selling, general, and administrative expenses (S,G,&A) increased by \$7.3 million from \$113.2 million in 2005 to \$120.5 million in 2006 and increased as a percentage of sales from 9.2% in 2005 to 9.4% in 2006. Increases in spending over the prior year, as a percentage of sales, are set forth in the following table (dollars in thousands):

	2005	% of Sales	2006	% of Sales	Change in % of Sales
Salaries, bonus, and benefit expenses	\$ 18,521	1.5%	\$ 24,416	1.9%	0.4%
Selling expenses	42,849	3.4%	41,072	3.2%	(0.2)%
Settlement expense	9,635	0.8%	10,000	0.8%	0.0%
Marketing expenses	11,679	1.0%	9,795	0.8%	(0.2)%
Other	30,495	2.5%	35,182	2.7%	0.2%
Total S,G,&A expenses	\$113,179	9.2%	\$120,465	9.4%	0.2%

- Increases in salaries, bonus and benefit expenses in 2006 were \$5.9 million. This increase was due to the addition of \$3.1 million in wages and salaries associated with the acquisition of R-Vision, as well as to the addition of approximately \$2.6 million in stock-based compensation expense. The remaining portion of the overall total dollar increase was related to increases in management bonus expense.
- Decreases in selling expenses in 2006 were \$1.8 million. This decrease was due to lower costs for selling programs at our dealers' facilities of \$5.1 million, that were offset by higher compensation to our sales staff of \$3.3 million.
- Settlement expense (litigation settlement expense) in 2006 increased by \$365,000. The total dollar increase was the result of slight increases in the number of litigation cases in 2006 versus 2005.
- Decreases in marketing costs in 2006 were \$2.6 million. These reductions were the result of savings due to lower expenses associated with shows and rallies of \$1.0 million, and lower expenses for printing and advertising of \$823,000.
- Increases in other expenses in 2006 were \$4.7 million. This increase was due to \$2.6 million in costs associated with the implementation of our ERP system. The remaining portion of the overall total dollar increase was related to variable expenses associated with sales volume increases.

Operating income decreased \$3.4 million from \$7.2 million in 2005 to \$3.8 million in 2006. The Company's higher level of selling, general, and administrative expense as a percentage of sales combined with the decreases in the Company's gross margin, resulted in a decrease in operating margin from 0.6% in 2005 to 0.3% in 2006.

Net interest expense increased from \$1.8 million in 2005 to \$4.4 million in 2006. This increase was related to higher debt levels during 2006. Increases in debt were mostly due to debt incurred with the acquisition of R-Vision. The Company's interest expense included \$173,000 in 2005 and \$203,000 in 2006 related to the amortization of debt issuance costs recorded in conjunction with the Company's credit facilities.

The Company reported a benefit for income taxes from continuing operations of \$992,000, on a pre-tax loss of \$6,000, for 2006 compared to a provision for income taxes from continuing operations of \$1.7 million, on pre-tax income of \$5.7 million, for 2005. The 2006 tax benefit includes a deferred tax benefit of \$367,000 attributable to a change in state income tax laws and a tax benefit of \$445,000 associated with the reversal of federal and state tax reserves no longer required. The 2005 provision included a tax benefit associated with the reversal of federal and state tax reserves no longer required of \$277,000.

Net income for 2006 was \$1.0 million (including income from discontinued operations of \$18,000, net of taxes, related to the closure of the Royale Coach facility, and pre-tax charges of \$269,000 for the relocation of the Beaver facility) compared to net income of \$2.6 million in 2005 due to a lower gross margin, and increases in S,G,&A expenses. This was partially offset by a decrease in the effective tax rate. The Company did not expense stock options granted in 2005 and earlier periods, however, if option expensing had been required, the effect on net income for 2005 for all previously granted options would have been a decrease of \$3.2 million. See Note 16 of the Company's consolidated financial statements for information regarding the calculation of the impact of expensing stock options. The Company has reflected the cost of stock-based awards in its results of operations beginning in 2006.

2006 Versus 2005 for the Motorized Recreational Vehicle Segment

The following table sets forth the results of the MRV segment for the fiscal years ended December 31, 2005, and December 30, 2006 (dollars in thousands):

	2005	% of Sales	2006	% of Sales	\$ Change	% Change
Net sales	\$1,017,766	100.0%	\$941,657	100.0%	\$(76,109)	(7.5)%
Cost of sales	925,014	90.9%	869,110	92.3%	55,904	6.0%
Gross profit	92,752	9.1%	72,547	7.7%	(20,205)	(21.8)%
Selling, general, and administrative expenses	46,331	4.6%	44,306	4.7%	2,025	4.4%
Corporate overhead allocation	43,148	4.2%	34,172	3.6%	8,976	20.8%
Plant relocation costs	4,370	0.4%	269	0.0%	4,101	93.8%
Operating loss	\$ (1,097)	(0.1)%	\$ (6,200)	(0.6)%	\$ (5,103)	(465.2)%

Total net sales for the MRV segment were down from \$1.0 billion in 2005, to \$941.7 million in 2006. Gross diesel motorized revenues were down 4.8% and gas motorized revenues were down 25.3%. Diesel products accounted for 88.9% of the MRV segment's 2006 gross revenues while gas products were 11.1%. The overall decrease in revenues reflected continuing challenges in the marketplace as dealers sought to lower their current inventories because of softened retail demand and higher interest costs associated with their floorplan borrowings. Our MRV segment unit sales were down 7.3% year over year from 6,211 units in 2005 to 5,756 units in 2006. Diesel motorized unit sales were down 3.9% to 4,297 units and gas motorized unit sales were down 16.2% to 1,459 units. Total average MRV segment unit selling prices remained at \$165,000 for 2005 and 2006.

Gross profit for 2006 decreased to \$72.5 million, down from \$92.8 million in 2005, and gross margin decreased from 9.1% in 2005 to 7.7% in 2006. Changes in the components of cost of sales are set forth in the following table (dollars in thousands):

	2005	% of Sales	2006	% of Sales	Change in % of Sales
Direct materials	\$ 638,188	62.7%	\$ 591,365	62.8%	0.1%
Direct labor	102,903	10.1%	97,206	10.3%	0.2%
Warranty	24,737	2.4%	29,603	3.1%	0.7%
Other direct	53,944	5.3%	50,278	5.4%	0.1%
Indirect	105,242	10.4%	100,658	10.7%	0.3%
Total cost of sales	\$925,014	90.9%	\$869,110	92.3%	1.4%

- Direct material increases in 2006, as a percent of sales, were \$942,000. This increase was due to changes in the mix of products produced in 2006 versus 2005. The overall decrease in total dollars associated with direct materials of \$46.8 million was due to lower sales volumes in 2006 as compared to 2005.
- Direct labor increases in 2006, as a percent of sales, were \$1.9 million. This increase was the result of inefficiencies in our plants as we realigned production facilities to meet demand. The overall decrease in total dollars associated with direct labor of \$5.7 million was due to lower sales volumes in 2006 as compared to 2005.
- Increases in warranty costs in 2006, as a percent of sales, were \$6.6 million. These increases were the result of combining production lines and shifting the plant locations where units were built. The remaining impact to warranty expense is a result of lower sales volumes in 2006 as compared to 2005.
- Increases in other direct costs in 2006, as a percent of sales, were \$942,000. This increase was due to increases for fuel costs associated with the delivery of our products to our dealers. The overall decrease in total dollars associated with other direct costs of \$3.7 million was due to lower sales volumes in 2006 as compared to 2005.
- Increases in indirect costs in 2006, as a percent of sales, were \$2.8 million. The increase in indirect costs are related to inefficiencies in our plants as we ran lower production rates in 2006 versus 2005. The overall decrease in total dollars associated with indirect costs of \$4.6 million was due to lower sales volumes in 2006 as compared to 2005.

S,G,&A expenses for the MRV segment increased as a percent of sales due to lower sales levels and increases in selling expenses. In addition, in the fourth quarter of 2006 we completed a study on the allocation of corporate overhead, and allocated certain costs on an activity basis. These costs are now classified in S,G,&A expense versus corporate overhead allocation. Prior periods are shown as previously reported as reclassification is impractical. Corporate overhead allocation is comprised of certain shared services such as executive, financial, information systems, legal, and investor relations expenses.

Plant relocation costs reflect the costs incurred to relocate the Bend, Oregon manufacturing operations to the Coburg, Oregon plant. We believe this relocation will ultimately result in improved margins for the Oregon operations.*

Operating loss increased as both a percent of sales and in total dollars due to lower gross margins, which was offset by a decrease in S,G,&A and corporate overhead allocation as a percent of sales.

2006 Versus 2005 for the Towable Recreational Vehicle Segment

The following table sets forth the results of the TRV segment for the fiscal years ended December 31, 2005, and December 30, 2006 (dollars in thousands):

	2005	% of Sales	2006	% of Sales	\$ Change	% Change
Net sales	\$185,433	100.0%	\$324,342	100.0%	\$ 138,909	74.9%
Cost of sales	174,242	94.0%	292,876	90.3%	(118,634)	(68.1)%
Gross profit	11,191	6.0%	31,466	9.7%	20,275	181.2%
Selling, general, and administrative expenses	5,603	3.0%	15,323	4.7%	(9,720)	(173.5)%
Corporate overhead allocation	7,588	4.1%	14,737	4.5%	(7,149)	(94.2)%
Operating income (loss)	\$ (2,000)	(1.1)%	\$ 1,406	0.5%	\$ 3,406	170.3%

Total net sales for the TRV segment were up from \$185.4 million in 2005, to \$324.3 million in 2006. The overall increase in revenues reflected the impact of the R-Vision acquisition in November 2005. Our unit sales were up 112.7% in 2006 to 19,861 units. Average unit selling prices declined from \$20,000 in 2005 to \$17,000 in 2006. The decrease in average selling price was mostly due to the full year of sales from R-Vision. Sales of these units are not expected to continue in the future.

Gross profit for 2006 increased to \$31.5 million, up from \$11.2 million in 2005, and gross margin increased to 9.7% in 2006, up from 6.0% in 2005. Changes in the components of cost of sales are set forth in the following table (dollars in thousands):

	2005	% of Sales	2006	% of Sales	Change in % of Sales
Direct materials	\$ 119,424	64.4%	\$ 200,846	61.9%	(2.5)%
Direct labor	23,039	12.4%	36,912	11.4%	(1.0)%
Warranty	4,124	2.2%	9,281	2.8%	0.6%
Other direct	17,581	9.5%	26,814	8.3%	(1.2)%
Indirect	10,074	5.5%	19,023	5.9%	0.4%
Total cost of sales	\$174,242	94.0%	\$292,876	90.3%	(3.7)%

- Direct material decreases in 2006, as a percent of sales, were \$8.1 million. This decrease was due to the impact of a full year of R-Vision products which have a lower material cost as a percentage of sales. The overall increase in total dollars associated with direct materials of \$81.4 million is the result of the increase of sales volumes in 2006 compared to 2005.
- Direct labor decreases in 2006, as a percent of sales, were \$3.2 million. The decrease in labor was the result of the improvements in our facilities from integrating the R-Vision acquisition, and using some of their production processes in our legacy plants. The overall increase in total dollars associated with direct labor of \$13.9 million is the result of the increase of sales volumes in 2006 compared to 2005.
- Increases in warranty expense in 2006, as a percent of sales, were \$1.9 million. This increase was due to a shift in the mix of towables produced. In 2005, there was a large amount of FEMA travel trailer production that carried very little warranty cost associated with their sales. The overall increase in total dollars associated with warranty costs of \$5.2 million is the result of the increase of sales volumes in 2006 compared to 2005.
- Decreases in other direct costs in 2006, as a percent of sales, were \$3.9 million. This decrease was the result of the inclusion of a full year's sales of R-Vision products, which have a lower direct cost structure than our legacy products. The overall increase in total dollars associated with other direct costs of \$9.2 million is the result of the increase of sales volumes in 2006 compared to 2005.
- Increases in indirect costs in 2006, as a percent of sales, were \$1.3 million. These increases relate to inefficiencies in some of our plants as we reduced output in the second half of 2006. The overall increase in total dollars associated with indirect costs of \$8.9 million is the result of the increase of sales volumes in 2006 compared to 2005.

S,G,&A expenses for the TRV segment increased as both a percent of sales and in total dollars due to increases in selling expenses. In addition, in the fourth quarter of 2006 we completed a study on the allocation of corporate overhead, and allocated certain costs on an activity basis. These costs are now classified in S,G,&A expense versus corporate overhead allocation. Prior periods are shown as previously reported as reclassification is impractical. Corporate overhead allocation is comprised of certain shared services such as executive, financial, information systems, legal, and investor relations expenses.

Operating income changed from a loss in 2005 to a profit in 2006 due to higher revenues coupled with improved gross margins that were only partially offset by increases in S,G,&A expenses as a percentage of sales.

2006 Versus 2005 for the Motorhome Resorts Segment

The following table sets forth the results of the MR segment for the fiscal years ended December 31, 2005, and December 30, 2006 (dollars in thousands):

	2005	% of Sales	2006	% of Sales	\$ Change	% Change
Net sales	\$ 33,039	100.0%	\$ 31,987	100.0%	\$ (1,052)	(3.2)%
Cost of sales	12,212	37.0%	11,457	35.8%	755	6.2%
Gross profit	20,827	63.0%	20,530	64.2%	(297)	(1.4)%
Selling, general, and administrative expenses	7,606	23.0%	8,236	25.8%	(630)	(8.3)%
Corporate overhead allocation	2,903	8.8%	3,691	11.5%	(788)	(27.1)%
Operating income	\$ 10,318	31.2%	\$ 8,603	26.9%	\$ (1,715)	(16.6)%

Net sales decreased 3.2% to \$32.0 million compared to \$33.0 million for 2005. Sales of lots in 2006 were impacted by newly developed lots not being available until the second half of the year as well as access issues at our Las Vegas location due to nearby construction.

Gross profit for the MR segment increased to 64.2% of sales in 2006, compared to 63.0% of sales in 2005. This was the result of the sales of higher margined lots in the final phases of the development.

S,G,&A expenses increased due to increases in spending associated with marketing costs. In addition, in the fourth quarter of 2006 we completed a study on the allocation of corporate overhead, and allocated certain costs on an activity basis. These costs are now located in S,G,&A expense. Prior periods are shown as previously reported as reclassification is impractical. Corporate overhead allocation is comprised of certain shared services such as executive, financial, information systems, legal and investor relations expenses.

Operating income decreased due to lower sales levels and higher S,G,&A and corporate overhead costs.

2005 Compared with 2004

The following table sets forth our results of operations for the fiscal years ended January 1, 2005, and December 31, 2005 (dollars in thousands):

	2004	% of Sales	2005	% of Sales	\$ Change	% Change
Net sales	\$1,386,269	100.0%	\$1,236,238	100.0%	\$ (150,031)	(10.8)%
Cost of sales	1,217,457	87.8%	1,111,468	89.9%	105,989	8.7%
Gross profit	168,812	12.2%	124,770	10.1%	(44,042)	(26.1)%
Selling, general, and administrative expenses	109,145	7.9%	113,179	9.2%	(4,034)	(3.7)%
Plant relocation costs	0	0.0%	4,370	0.3%	(4,370)	0.0%
Operating income	\$ 59,667	4.3%	\$ 7,221	0.6%	\$ (52,446)	(87.9)%

Net sales decreased 10.8% from \$1.386 billion in 2004 to \$1.236 billion in 2005. Gross diesel motorized revenues were down 12.7%, gas motorized revenues were down 36.3%, and towable revenues were up 38.5%. For 2005, gross diesel motorized sales accounted for 72.7% of sales, gas motorized sales accounted for 11.6% of sales, and towables accounted for 15.7% of sales. For 2004, gross diesel motorized sales accounted for 73.8% of sales, gas motorized sales accounted for 16.1% of sales, and towables accounted for 10.0% of sales. The Company's overall average unit selling price decreased from \$107,000 in 2004, to \$78,000 in 2005. The reduction in average selling price resulted from a combination of increased sales of the Company's towable products, the acquisition of R-Vision (which sells predominantly lower priced towables), and the sale of lower priced towable products to the Federal Emergency Management Association (orders added approximately 3,275 sales of units to our towable production in the third and fourth quarters of 2005 combined).

Gross profit decreased by \$44.0 million from \$168.8 million in 2004 to \$124.8 million in 2005 and gross margin decreased from 12.2% in 2004 to 10.1% in 2005. Changes in the components of cost of sales are set forth in the following table (dollars in thousands):

	2004	% of Sales	2005	% of Sales	Change in % of Sales
Direct materials	\$ 865,822	62.4%	\$ 769,823	62.3%	(0.1)%
Direct labor	139,205	10.0%	125,943	10.2%	0.2%
Warranty	34,126	2.5%	28,861	2.3%	(0.2)%
Other direct	66,456	4.8%	71,525	5.8%	1.0%
Indirect	111,848	8.1%	115,316	9.3%	1.2%
Total cost of sales	\$ 1,217,457	87.8%	\$ 1,111,468	89.9%	2.1%

- Direct material decreases in 2005, as a percent of sales, were due in part to purchasing initiatives, increases in products that have a lower material cost as a percentage of sales (such as for FEMA travel trailers, and our resort property lots), as well as increases in the sale of motorcoach resort properties, which have a lower cost of sale related to direct materials.
- Direct labor increases in 2005, as a percent of sales, were predominantly due to plant inefficiencies caused by lower production run rates in 2005 versus 2004.
- Decreases in warranty expense in 2005, as a percent of sales, were due mostly to quality improvement projects, and improvements in recoveries from vendors for warranty claims.
- Increases in combined other direct and indirect costs in 2005, as a percent of sales, were due mostly to inefficiencies within the plants as a result of reduced plant utilization. In addition, due to higher fuel costs, delivery expense for recreational vehicles also increased.

Selling, general, and administrative expenses (S,G,&A) increased by \$4.1 million from \$109.1 million in 2004 to \$113.2 million in 2005 and increased as a percentage of sales from 7.9% in 2004 to 9.2% in 2005. Increases in spending over the prior year, as a percentage of sales, are set forth in the following table (dollars in thousands):

	2004	% of Sales	2005	% of Sales	Change in % of Sales
Salaries, bonus, and benefit expenses	\$ 24,348	1.8%	\$ 18,521	1.5%	(0.3)%
Selling expenses	35,896	2.6%	42,849	3.4%	0.8%
Settlement expense	11,045	0.8%	9,635	0.8%	0.0%
Marketing expenses	12,447	0.9%	11,679	1.0%	0.1%
Other	25,409	1.8%	30,495	2.5%	0.7%
Total S,G,&A expenses	\$ 109,145	7.9%	\$ 113,179	9.2%	1.3%

- Decreases in salaries, bonus, and benefit expenses in 2005 were mostly the result of lower management bonus due to reduced profitability of the Company.
- Increases in selling expenses in 2005, as a percent of sales, were due to a weaker market in 2005 versus 2004, and the implementation of the Company's "Franchise For The Future" (FFTF) program. As a result, the Company increased spending to maintain market share, and to maximize available sales.
- Decreases in settlement expense (litigation settlement expense) in 2005 was due to a slight decrease in the amount of new cases added, as well as favorable resolutions of cases during the 2005 year.
- Decreases in marketing expenses in 2005 were the result of management reducing spending in this area to contain costs.
- Increases in other expenses were a combination of expenses related to the implementation of the Company's enterprise resource planning (ERP) system, as well as certain fees for consulting services related to the launch of the FFTF program.

Operating income decreased \$52.4 million from \$59.7 million in 2004 to \$7.2 million in 2005. The Company's higher level of S,G,&A expense as a percentage of sales combined with the decreases in the Company's gross margin, partially offset by improved results from our motorhome resort property segment, resulted in a decrease in operating margin from 4.3% in 2004 to 0.6% in 2005.

Net interest expense increased from \$1.5 million in 2004 to \$1.8 million in 2005. This increase was related to higher debt levels during 2005. Increases in debt were mostly due to debt incurred with the acquisition of R-Vision in the fourth quarter of 2005. The Company's interest expense included \$430,000 in 2004 and \$173,000 in 2005 related to the amortization of debt issuance costs recorded in conjunction with the Company's credit facilities.

The Company reported a provision for income taxes from continuing operations of \$1.7 million, or an effective tax rate of 29.8%, for 2005, compared to \$22.0 million, or an effective tax rate of 37.5% for 2004. The decrease in the effective tax rate was primarily attributable to the impact of lower income levels in 2005, including lower federal and state statutory rates and a larger percentage impact from state income tax credits and other tax benefit items. The provision also includes a tax benefit of \$277,000 associated with the reversal of federal and state tax reserves no longer required.

Net income for 2005 was \$2.6 million (including losses from discontinued operations of \$1.3 million, net of taxes, related to the closure of the Royale Coach facility, and pre-tax charges of \$4.4 million for the relocation of the Beaver facility) compared to net income of \$36.7 million in 2004, due to a decrease in sales combined with a lower operating margin, and increases in S,G,&A expenses. This was partially offset by a decrease in the effective tax rate. The Company did not expense stock option grants in 2005 and earlier periods, however, if option expensing had been required, the effect on net income for 2005 for all previously granted options would have been a decrease of \$3.2 million. *See Note 16 of the Company's consolidated financial statements for information regarding the calculation of the impact of expensing stock options. The Company has reflected the cost of stock-based awards in its results of operations beginning in 2006.*

2005 Versus 2004 for the Motorized Recreational Vehicle Segment

The following table sets forth the results of the MRV segment for the fiscal years ended January 1, 2005, and December 31, 2005 (dollars in thousands):

	2004	% of Sales	2005	% of Sales	\$ Change	% Change
Net sales	\$1,234,233	100.0%	\$1,017,766	100.0%	\$(216,467)	(17.5)%
Cost of sales	1,080,972	87.6%	925,014	90.9%	155,958	14.4%
Gross profit	153,261	12.4%	92,752	9.1%	(60,509)	(39.5)%
Selling, general, and administrative expenses	38,566	3.1%	46,331	4.6%	(7,765)	(20.1)%
Corporate overhead allocation	51,470	4.2%	43,148	4.2%	8,322	16.2%
Plant relocation costs	0	0.0%	4,370	0.4%	(4,370)	0.0%
Operating income (loss)	\$ 63,225	5.1%	\$ (1,097)	(0.1)%	\$(64,322)	(101.7)%

Total net sales for the MRV segment were down from \$1.234 billion in 2004, to \$1.018 billion in 2005. Gross diesel motorized revenues were down 12.7% and gas motorized revenues were down 36.3%. Diesel products accounted for 86.2% of the MRV segment's 2005 gross revenues while gas products were 13.8%. The overall decrease in revenues reflected continuing challenges in the marketplace as dealers sought to lower their current inventories because of softened retail demand and higher interest costs associated with their floorplan borrowings. Our MRV segment unit sales were down 24.1% year over year from 8,178 units in 2004 to 6,211 units in 2005. Diesel motorized unit sales were down 16.9% to 4,470 units and gas motorized unit sales were down 37.9% to 1,741 units. Total average MRV segment unit selling prices increased to \$165,000 for 2005, up from \$151,000 in 2004. Increases in average selling prices are mostly the result of changes in product mix between diesel and gas motorized coaches.

Gross profit for 2005 decreased to \$92.8 million, down from \$153.3 million in 2004, and gross margin decreased from 12.4% in 2004 to 9.1% in 2005. Changes in the components of cost of sales are set forth in the following table (dollars in thousands):

	2004	% of Sales	2005	% of Sales	Change in % of Sales
Direct materials	\$ 766,924	62.1%	\$ 638,188	62.7%	0.6%
Direct labor	122,298	9.9%	102,903	10.1%	0.2%
Warranty	30,058	2.4%	24,737	2.4%	0.0%
Other direct	56,232	4.6%	53,944	5.3%	0.7%
Indirect	105,460	8.6%	105,242	10.4%	1.8%
Total cost of sales	\$1,080,972	87.6%	\$925,014	90.9%	3.3%

- Direct material increases in 2005, as a percent of sales, were mostly due to increases in commodities pricing during 2005 for key items such as metals, petroleum products, and lumber materials.
- Direct labor increases in 2005, as a percent of sales, were predominantly due to inefficiencies in the production lines related to plant consolidations and lower production run rates.
- Increases in other direct costs in 2005, as a percent of sales, were due mostly to increases in employee health benefits, and delivery expense for the Company's products.
- Increases in indirect costs, as a percent of sales, were due mostly to increased overhead costs per unit within the production facilities due to lower run rates in 2005 versus 2004. In addition, employee benefits (related to workers' compensation) and factory supplies increased, causing an overall increase in total dollars spent.

S,G,&A expenses for the MRV segment increased both as a percent of sales and in total dollars due in part to lower sales levels and increases in selling expenses. Corporate overhead allocation decreased due to lower management bonus levels allocated to the MRV segment as a result of lower profits. Corporate overhead allocation is comprised of certain shared services such as executive, financial, information systems, legal, and investor relations expenses.

Plant relocation costs reflect the costs incurred to relocate the Bend, Oregon manufacturing operations to the Coburg, Oregon plant. We believe this relocation will ultimately result in improved margins for the Oregon operations.*

Operating income (loss) decreased as both a percent of sales and in total dollars due to lower gross margins, increases in S,G,&A expenses and costs of the relocation of the Bend, Oregon operations to the Coburg, Oregon facility.

2005 Versus 2004 for the Towable Recreational Vehicle Segment

The following table sets forth the results of the TRV segment for the fiscal years ended January 1, 2005, and December 31, 2005 (dollars in thousands):

	2004	% of Sales	2005	% of Sales	\$ Change	% Change
Net sales	\$129,331	100.0%	\$185,433	100.0%	\$ 56,102	43.4%
Cost of sales	123,314	95.4%	174,242	94.0%	(50,928)	(41.3)%
Gross profit	6,017	4.6%	11,191	6.0%	5,174	86.0%
Selling, general, and administrative expenses	4,827	3.7%	5,603	3.0%	(776)	(16.1)%
Corporate overhead allocation	5,393	4.2%	7,588	4.1%	(2,195)	(40.7)%
Operating loss	\$ (4,203)	(3.3)%	\$ (2,000)	(1.1)%	\$ 2,203	52.4%

Total net sales for the TRV segment were up from \$129.3 million in 2004, to \$185.4 million in 2005. The overall increase in revenues reflected both the impact of the R-Vision acquisition in November 2005 as well as strong sales to FEMA related to hurricane Katrina. Our unit sales were up 102.1% in 2005 to 9,337 units. Average unit selling prices declined from \$30,000 in 2004 to \$20,000 in 2005. The decrease in average selling price was mostly due to sales of lower priced products to FEMA.

Gross profit for 2005 increased to \$11.2 million, up from \$6.0 million in 2004, and gross margin increased to 6.0% in 2005, up from 4.6% in 2004. Changes in the components of cost of sales are set forth in the following table (dollars in thousands):

	2004	% of Sales	2005	% of Sales	Change in % of Sales
Direct materials	\$ 85,727	66.3%	\$ 119,424	64.4%	(1.9)%
Direct labor	16,908	13.1%	23,039	12.4%	(0.7)%
Warranty	4,067	3.2%	4,124	2.2%	(1.0)%
Other direct	10,225	7.9%	17,581	9.5%	1.6%
Indirect	6,387	4.9%	10,074	5.5%	0.6%
Total cost of sales	\$123,314	95.4%	\$174,242	94.0%	(1.4)%

- Direct material decreases in 2005, as a percent of sales, were mostly due to increased sales of products with lower material cost as a percentage of sales (such as for FEMA travel trailers). This improvement was offset by higher commodity pricing for metals, petroleum products, and lumber materials.
- Direct labor decreases in 2005, as a percent of sales, were predominantly due to higher production run rates in our plants in part due to FEMA orders.
- Decreases in warranty expense in 2005, as a percent of sales, were due mostly to an improvement in the warranty experience on current year models.
- Increases in other direct costs in 2005, as a percent of sales, were due mostly to increases in employee health benefits and delivery expense for the Company's products.
- Increases in indirect costs in 2005, as a percent of sales, were due mostly to increased overhead costs per unit related to FEMA production. In addition, costs of employee benefits (related to workers' compensation) and factory supplies increased, causing an overall increase in total dollars spent.

S,G,&A expenses for the TRV segment decreased as a percent of sales due in part to higher sales levels for which additional administrative costs were not incurred. Corporate overhead allocation increased slightly due to higher levels allocated to the TRV segment as a result of the growth in this segment. Corporate overhead allocation is comprised of certain shared services such as executive, financial, information systems, legal, and investor relations expenses.

Operating loss decreased as both a percent of sales and in total dollars due to improved gross margins and decreases in S,G,&A expenses as a percentage of sales.

2005 Versus 2004 for the Motorhome Resorts Segment

The following table sets forth the results of the MR segment for the fiscal years ended January 1, 2005, and December 31, 2005 (dollars in thousands):

	2004	% of Sales	2005	% of Sales	\$ Change	% Change
Net sales	\$22,705	100.0%	\$ 33,039	100.0%	\$10,334	45.5%
Cost of sales	13,171	58.0%	12,212	37.0%	959	7.3%
Gross profit	9,534	42.0%	20,827	63.0%	11,293	118.4%
Selling, general, and administrative expenses	4,194	18.5%	7,606	23.0%	(3,412)	(81.4)%
Corporate overhead allocation	4,695	20.7%	2,903	8.8%	1,792	38.2%
Operating income	\$ 645	2.8%	\$10,318	31.2%	\$ 9,673	1,499.7%

Net sales increased 45.5% to \$33.0 million compared to \$22.7 million for 2004. This increase was mostly the result of continued strong demand for our resort properties and the need within the industry for quality destination locations for RV owners.

Gross profit for the MR segment increased to 63.0% of sales in 2005, compared to 42.0% of sales in 2004. This was due to a heavier absorption of infrastructure costs in earlier phases sold in 2004. These costs were expensed in earlier phases due to uncertainties as to the ultimate completion and sale of the entire projects. The result was an improvement in the gross margins in the later phases of the developments, and most particularly in 2005.

S,G,&A expenses increased due to real estate commissions paid on the sales of lots. Additional increases were due to accruals for profit-sharing payments which will be made to Outdoor Resorts of America upon completion of the project. Corporate overhead allocation is comprised of certain shared services such as executive, financial, information systems, legal and investor relations expenses.

Operating income increased due to improvements in sales and gross margins that were only slightly offset by higher S,G,&A costs.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are internally generated cash from operations and available borrowings under its credit facilities. During 2006, the Company generated cash of \$45.3 million from operating activities and had a net cash balance of \$5.0 million at December 30, 2006. The Company recognized \$17.9 million from net income and non-cash expenses such as depreciation, amortization, and stock-based compensation. Major sources of cash flows from operating activities include a decrease in accounts receivable of \$21.1 million, a decrease in inventories of \$27.4 million, a decrease in resort lot inventories of \$1.1 million, an increase in the warranty reserve of \$902,000, an increase in deferred revenue of \$883,000, an increase in accrued expenses and other liabilities of \$7.2 million, and a decrease in assets from discontinued operations of \$4.9 million. The uses of cash in 2006 included an increase of \$1.9 million in net deferred income tax assets, an increase of \$16.3 million in land held for development, an increase of \$1.3 million in prepaid expenses, a decrease of \$5.7 million in trade accounts payable, a decrease of \$3.7 million in product liability reserves, and an increase in income tax receivables of \$6.7 million. Decreases in accounts receivable are mostly the result of lower shipments of products near the end of 2006 versus the same period in 2005. Decreases in inventory levels were the result of the Company reducing production output in the fourth quarter of 2006, and actively seeking to draw down finished goods inventories. Decreases in resort lot inventories are the result of the continued sell through of the Company's resort properties. Increases in warranty reserves were the result of increases in experience for warranty costs on some of our current model year products. Increases in deferred revenues are related to revenue associated with Monaco Financial Services that the Company accrued during the year and will amortize over the length of the contract with GECDF and GECF. Increases in accrued expenses and other liabilities are associated with increases for accruals for promotions and advertising. Decreases in assets related to discontinued operations are for the sales of all remaining Royale Coach discontinued products. Increases in net deferred tax assets are due to the reversal of certain tax reserves. Increases in land held for sale are related to the purchase of a piece of property in La Quinta, California for a future resort property development. Increases in prepaid expenses include increases in prepaid insurance as well as deposits on properties under contract related to the resort property projects. Decreases in trade accounts payable relate to the reductions in purchases for raw materials near the end of 2006 versus 2005. In 2006, material was brought into the plants prior to the regularly scheduled shutdown and was paid for before the end of the year.

On November 18, 2005, the Company amended its credit facilities to borrow \$40.0 million of term debt (the "Term Debt") to complete the acquisition of R-Vision. The revolving line of credit remains at \$105.0 million. At the end of the 2006 year, borrowings outstanding on the revolving line of credit (the "Revolving Loan") were \$2.0 million, and Term Debt borrowings were \$34.8 million. At the election of the Company, the Revolving Loan and the Term Debt bear interest at varying rates that fluctuate based on the Prime rate or LIBOR, and are determined based on the Company's leverage ratio. The Company also pays interest quarterly on the unused available portion of the Revolving Loan at varying rates, determined by the Company's leverage ratio. The Revolving Loan is due and payable in full on November 17, 2009 and requires interest payments quarterly. The Term Debt requires quarterly interest payments and quarterly principal payments of \$1.4 million, with a final balloon payment of \$12.9 million due on November 18, 2010.

Both the Revolving Loan and Term Debt are collateralized by all the assets of the Company and the credit facilities include various restrictions and financial covenants. The Company was in compliance with these covenants at December 30, 2006. The Company utilizes "zero balance" bank disbursement accounts in which an advance on the line of credit is automatically made for checks clearing each day. Since the balance of the disbursement account at the bank returns to zero at the end of each day, the outstanding checks of the Company are reflected as a liability. The outstanding check liability is combined with the Company's positive cash balance accounts to reflect a net book overdraft or a net cash balance for financial reporting. The cash balance at December 30, 2006 is the cash maintained in the R-Vision bank accounts held with a different financial institution and thus not combined with the Company's net book overdraft balance.

In November 2005, the Company obtained a term loan of \$500,000 from the State of Oregon in connection with the relocation of jobs to the Coburg, Oregon production facilities from the Bend, Oregon facility. The principal and interest is due on April 30, 2009. The loan bears a 5% annual interest rate.

The Company's principal working capital requirements are for purchases of inventory and financing of trade receivables. Many of the Company's dealers finance product purchases under wholesale floorplan arrangements with third parties, as described below. At December 30, 2006, the Company had working capital of approximately \$109.8 million, a decrease of \$17.4 million from working capital of \$127.2 million at December 31, 2005. The Company has been using short-term credit facilities and operating cash flow to finance its capital expenditures.

The Company believes that cash flow from operations and funds available under its anticipated credit facilities will be sufficient to meet the Company's liquidity requirements for the next 12 months.* The Company's capital expenditures were \$9.3 million in 2006, which included costs related to additions of automated machinery in many of its production facilities, upgrades to its information systems infrastructure, and other various capitalized upgrades to existing facilities. The Company anticipates that capital expenditures for all of 2007 will be approximately \$10 to \$12 million, which includes expenditures to purchase additional machinery and equipment in both the Company's Coburg, Oregon and Wakarusa, Indiana facilities, as well as upgrades to existing information systems infrastructures.* The Company may require additional equity or debt financing to address working capital and facilities expansion needs, particularly if the Company significantly increases the level of working capital assets such as inventory and accounts receivable. The Company may also from time to time seek to acquire businesses that would complement the Company's current business, and any such acquisition could require additional financing. There can be no assurance that additional financing will be available if required or on terms deemed favorable by the Company.

As is typical in the recreational vehicle industry, many of the Company's retail dealers utilize wholesale floorplan financing arrangements with third party lending institutions to finance their purchases of the Company's products. Under the terms of these floorplan arrangements, institutional lenders customarily require the recreational vehicle manufacturer to agree to repurchase any unsold units if the dealer defaults on its credit facility from the lender, subject to certain conditions. The Company has agreements with several institutional lenders under which the Company currently has repurchase obligations. The Company's contingent obligations under these repurchase agreements are reduced by the proceeds received upon the sale of any repurchased units. The Company's obligations under these repurchase agreements vary from period to period up to 15 months. At December 30, 2006, approximately \$566.7 million of products sold by the Company to independent dealers were subject to potential repurchase under existing floorplan financing agreements with approximately 6.6% concentrated with one dealer. Historically, the Company has been successful in mitigating losses associated with repurchase obligations. During 2006, the losses associated with the exercise of repurchase agreements were approximately \$232,000 (\$79,000 and \$600,000 in 2005 and 2004, respectively). Gross repurchase amounts for 2006, 2005, and 2004, were \$4.5 million, \$2.7 million, and \$6.5 million, respectively. Dealers for the Company undergo credit review prior to becoming a dealer and periodically thereafter. Financial institutions that provide floorplan financing also perform credit reviews and floor checks on an ongoing basis. We closely monitor sales to dealers that are a higher credit risk. The repurchase period is limited, usually to a maximum of 15 months. We believe these activities help to minimize the number of required repurchases. Additionally, the repurchase agreement

specifies that the dealer is required to make principal payments during the repurchase period. Since the Company repurchases the units based on the schedule of principal payments, the repurchase amount is typically less than the original invoice amount. This lower repurchase amount helps mitigate our loss when we offer the inventory to another dealer at an amount lower than the original invoice as incentive for the dealer to take the repurchased inventory. This helps minimize the losses we incur on repurchased inventory.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 30, 2006, the Company did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS

As part of the normal course of business, the Company incurs certain contractual obligations and commitments which will require future cash payments. The following tables summarize the significant obligations and commitments.

PAYMENTS DUE BY PERIOD

Contractual Obligations	1 year or less	1 to 3 years	4 to 5 years	Thereafter	Total
	<i>(in thousands)</i>				
Lines of credit ⁽¹⁾	\$ 0	\$ 2,036	\$ 0	\$ 0	\$ 2,036
Long-term debt ⁽²⁾	5,714	11,928	17,143	0	34,785
Operating leases ⁽³⁾	1,839	1,629	1,402	1,768	6,638
Total contractual cash obligations	\$ 7,553	\$ 15,593	\$ 18,545	\$ 1,768	\$ 43,459

AMOUNT OF COMMITMENT EXPIRATION BY PERIOD

Other commitments	1 year or less	1 to 3 years	4 to 5 years	Thereafter	Total
	<i>(in thousands)</i>				
Lines of credit ⁽⁴⁾	\$ 0	\$ 102,964	\$ 0	\$ 0	\$ 102,964
Guarantees ⁽³⁾	14,302	0	0	0	14,302
Repurchase obligations ⁽⁵⁾	0	566,749	0	0	566,749
Purchase commitment ⁽⁶⁾	0	19,945	0	0	19,945
Total commitments	\$ 14,302	\$ 689,658	\$ 0	\$ 0	\$ 703,960

(1) See Note 8 of Notes to the Consolidated Financial Statements. The amount listed represents the outstanding balance at December 30, 2006.

(2) See Note 9 of Notes to the Consolidated Financial Statements.

(3) See Note 14 of Notes to the Consolidated Financial Statements.

(4) See Note 8 of Notes to the Consolidated Financial Statements. The amount listed represents available borrowings on the line of credit at December 30, 2006.

(5) Reflects obligations under manufacturer repurchase commitments. See Note 19 of Notes to the Consolidated Financial Statements.

(6) See Note 20 of Notes to the Consolidated Financial Statements.

INFLATION

During 2005 and to a lesser extent in 2006, we experienced increases in the prices of certain commodity items that we use in the manufacturing of our products. These include, but are not limited to, steel, copper, aluminum, petroleum, and wood. While these raw materials are not necessarily indicative of widespread inflationary trends, they had an impact on our production costs. Accordingly, in the second half of 2006, we adjusted selling prices to compensate for increases in commodity pricing. Also, due to increases in fuel prices, particularly in 2006, our cost of delivering coaches

to our dealers has risen. Accordingly, we have increased our delivery charges subsequent to the end of 2006 to offset these rising costs. While we do not anticipate additional price increases, we may from time to time increase our prices to maintain gross profit margins. If we should continue to experience adverse trends in these prices it could have a material adverse impact on our business going forward. See "Results of Operations 2006 Compared with 2005."

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to warranty costs, product liability, and impairment of goodwill. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies and related judgments and estimates affect the preparation of our consolidated financial statements.

Warranty Costs

Estimated warranty costs are provided for at the time of sale of products with warranties covering the products for up to one year from the date of retail sale (five years for the front and sidewall frame structure, and three years on the Roadmaster chassis). These estimates are based on historical average repair costs, as well as other reasonable assumptions as have been deemed appropriate by management.

Product Liability

The Company provides an estimate for accrued product liability based on current pending cases, as well as for those cases which are incurred but not reported. This estimate is developed by legal counsel based on professional judgment, as well as historical experience.

Impairment of Goodwill

The Company assesses the potential impairment of goodwill in accordance with Financial Accounting Standards Board (FASB) Statement No. 142. This annual test involves management comparing the fair value of each of the Company's reporting units, to the respective carrying amounts, including goodwill, of the net book value of the reporting unit, to determine if goodwill has been impaired. The Company uses an estimate of discounted future cash flows to determine fair value for each reporting unit.

Inventory Allowance

The Company writes down its inventory for obsolescence, and the difference between the cost of inventory and its estimated fair market value. These write-downs are based on assumptions about future sales demand and market conditions. If actual sales demand or market conditions change from those projected by management, additional inventory write-downs may be required.

Income Taxes

In conjunction with preparing its consolidated financial statements, the Company must estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. The Company must then assess the likelihood that the deferred tax assets will be recovered from future taxable income, and to the extent management believes that recovery is not likely, a valuation allowance must be established. Significant management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against net deferred tax assets. A discussion of the income tax provision and the components of the deferred tax assets and liabilities can be found in Note 12 to the Company's consolidated financial statements.

Repurchase Obligations

Upon request of a lending institution financing a dealer's purchases of the Company's product, the Company will execute a repurchase agreement. The Company has recorded a liability associated with the disposition of repurchased inventory. To determine the appropriate liability, the Company calculates a reserve, based on an estimate of potential net losses, along with qualitative and quantitative factors, including dealer inventory turn rates, and the financial strength of individual dealers.

RISK FACTORS

We have listed below various risks and uncertainties relating to our businesses. This list is not inclusive of all the risks and uncertainties we face, but any of these could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report or that we may issue from time to time in the future.

The Expected Benefits of Our Recent Acquisition of R-Vision and Affiliates May Not Be Realized

On November 18, 2005, we acquired Indiana-based towable and motorhome manufacturer R-Vision, Inc., R-Vision Motorized, LLC, Bison Manufacturing, LLC, and Roadmaster, LLC (collectively "R-Vision"). The process of integrating R-Vision into our company operations may result in unforeseen operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for the ongoing development of our business. This may cause an interruption or a loss of momentum in our operating activities, which in turn, could have a material adverse affect on our operating results and financial condition. Moreover, the acquisition involves a number of additional risks, such as the loss of key employees of R-Vision as a result of the acquisition, the incorporation of acquired products into our existing product line, and the difficulty of integrating disparate corporate cultures. Accordingly, the anticipated benefits may not be realized or the acquisition may have a material adverse affect on our operating results and financial condition.

We May Experience Unanticipated Fluctuations in Our Operating Results for a Variety of Reasons

Our net sales, gross margin, and operating results may fluctuate significantly from period to period due to a number of factors, many of which are not readily predictable. These factors include the following:

- The varying margins associated with the mix of products we sell in any particular period.
- The fact that we typically ship a large amount of products near quarter end.
- Our ability to utilize and expand our manufacturing resources efficiently.
- Shortages of materials used in our products.
- The effects of inflation on the costs of materials used in our products.
- A determination by us that goodwill or other intangible assets are impaired and have to be written down to their fair values, resulting in a charge to our results of operations.
- Our ability to introduce new models that achieve consumer acceptance.
- The introduction, marketing and sale of competing products by others, including significant discounting offered by our competitors.
- The addition or loss of our dealers.
- The timing of trade shows and rallies, which we use to market and sell our products.
- Factors affecting the recreational vehicle industry as a whole, including economic and seasonal factors.
- Our inability to acquire and develop key pieces of property for ongoing resort activity.
- Fluctuations in demand for our resort lots due to changing economic and other conditions.

Our overall gross margin may decline in future periods to the extent that we increase the percentage of sales of lower gross margin towable products or if the mix of motor coaches we sell shifts to lower gross margin units. In addition, a relatively small variation in the number of recreational vehicles we sell in any quarter can have a significant impact on total sales and operating results for that quarter.

Demand in the recreational vehicle industry generally declines during the winter months, while sales are generally higher during the spring and summer months. With the broader range of products we now offer, seasonal factors could have a significant impact on our operating results in the future. Additionally, unusually severe weather conditions in certain markets could delay the timing of shipments from one quarter to another.

We attempt to forecast orders for our products accurately and commence purchasing and manufacturing prior to receipt of such orders. However, it is highly unlikely that we will consistently be able to accurately forecast the timing, rate, and mix of orders. This aspect of our business makes our planning inexact and, in turn, affects our shipments, costs, inventories, operating results, and cash flow for any given quarter.

The Recreational Vehicle Industry Is Cyclical and Susceptible to Slowdowns in the General Economy

The recreational vehicle industry has been characterized by cycles of growth and contraction in consumer demand, reflecting prevailing economic, demographic, and political conditions that affect disposable income for leisure-time activities. Our business is particularly influenced by cycle swings in the Class A market. While there has been strong secular demand for recreational vehicles since the early '90s it has been driven by demand for towable recreational products. Since 2004 there has been a notable divergence in growth rates between towable and motorized recreational vehicles.

Class A unit shipments peaked at approximately 37,300 units in 1994 and declined to approximately 33,000 units in 1995. The Class A segment then went on a steady climb and in 1999 recorded the highest year, in recent history, of Class A shipments, approximately 49,400. Over the next 2 years motorhome shipments declined to 33,400 in 2001. Class A shipments then rose for the next 3 years and in 2004 reached 46,300. Over the last 2 years however shipments of Class A motorhomes have dropped reaching a pre-1994 level of 32,700 in 2006.

The towable segment moved through many of the same cyclical peaks and troughs historically. The shipment level peaked in 1994 at 201,100 dropping-off to 192,200 in 1996 and then growing to 249,600 in 1999. Towable unit shipments suffered a two-year drop-off like Class A motorhomes in 2000 and 2001, dropping to 207,600. Since then the market has expanded significantly reaching 334,600 in 2006. Unlike the Class A market, the towables segment did not experience a slowdown over the last 2 years because manufacturers have successfully introduced popular new models and the segment was significantly aided by units sold to support the hurricane relief efforts in the Gulf Coast.

Our business is subject to the cyclical nature of this industry and principally the Class A segment. Some of the factors that contribute to this cyclicity include fuel availability and costs, interest rate levels, the level of discretionary spending, and availability of credit and overall consumer confidence. Increasing interest rates and fuel prices over the last 2 years have adversely affected the Class A recreational vehicle market. An extended continuation of these conditions would materially affect our business, results of operations, and financial condition.

We Rely on a Relatively Small Number of Dealers for a Significant Percentage of Our Sales

Although our products were offered by over 700 dealerships located primarily in the United States and Canada as of December 30, 2006, a significant percentage of our sales are concentrated among a relatively small number of independent dealers. For fiscal years 2005 and 2006, sales to one dealer, Lazy Days RV Center, accounted for 10.9% and 8.5%, respectively, of total sales. For fiscal years 2005 and 2006, sales to our 10 largest dealers, including Lazy Days RV Center, accounted for a total of 38.7% and 33.2% of total sales, respectively. The loss of a significant dealer or a substantial decrease in sales by any of these dealers could have a material impact on our business, results of operations, and financial condition.

We May Have to Repurchase a Dealer's Inventory of Our Products in the Event that the Dealer Does Not Repay Its Lender

As is common in the recreational vehicle industry, we enter into repurchase agreements with the financing institutions used by our dealers to finance their purchases of our products. These agreements require us to repurchase the dealer's inventory in the event that the dealer defaults on its credit facility with its lender. Obligations under these agreements

vary from period to period, but totaled approximately \$566.7 million as of December 30, 2006, with approximately 6.6% concentrated with one dealer. If we were obligated to repurchase a significant number of units under any repurchase agreement, our business, operating results, and financial condition could be adversely affected.

Our Accounts Receivable Balance Is Subject to Risk

We sell our product to dealers who are predominantly located in the United States and Canada. The terms and conditions of payment are a combination of open trade receivables and commitments from dealer floorplan lending institutions. For our RV dealers, terms are net 30 days for units that are financed by a third party lender. Terms of open trade receivables are granted by us, on a very limited basis, to dealers who have been subjected to evaluative credit processes conducted by us. For open receivables, terms vary from net 30 days to net 180 days, depending on the specific agreement. Agreements for payment terms beyond 30 days generally require additional collateral, as well as security interest in the inventory sold. As of December 30, 2006, total trade receivables were \$81.6 million, with approximately \$49.5 million, or 60.7% of the outstanding accounts receivable balance concentrated among floorplan lenders. The remaining \$32.1 million of trade receivables were concentrated substantially all with one dealer. For resort lot customers, funds are required at the time of closing.

We May Experience a Decrease in Sales of Our Products Due to an Increase in the Price or a Decrease in the Supply of Fuel

An interruption in the supply, or a significant increase in the price or tax on the sale, of diesel fuel or gasoline on a regional or national basis could significantly affect our business. Diesel fuel and gasoline have, at various times in the past, been either expensive or difficult to obtain.

We Depend on Single or Limited Sources to Provide Us With Certain Important Components that We Use in the Production of Our Products

A number of important components for our products are purchased from a single or a limited number of sources. These include turbo diesel engines (Cummins and Caterpillar), substantially all of our transmissions (Allison), axles (Dana) for all diesel motor coaches, and chassis (Workhorse and Ford) for gas motor coaches. We have no long-term supply contracts with these suppliers or their distributors, and we cannot be certain that these suppliers will be able to meet our future requirements. Consequently, the Company has periodically been placed on allocation of these and other key components. The last significant allocation occurred in 1997 from Allison, and in 1999 from Ford. An extended delay or interruption in the supply of any components that we obtain from a single supplier or from a limited number of suppliers could adversely affect our business, results of operations, and financial condition.

Our Industry Is Very Competitive. We Must Continue to Introduce New Models and New Features to Remain Competitive

The market for our products is very competitive. We currently compete with a number of manufacturers of motor coaches, fifth wheel trailers, and travel trailers. Some of these companies have greater financial resources than we have and extensive distribution networks. These companies, or new competitors in the industry, may develop products that customers in the industry prefer over our products.

We believe that the introduction of new products and new features is critical to our success. Delays in the introduction of new models or product features, quality problems associated with these introductions, or a lack of market acceptance of new models or features could affect us adversely. For example, unexpected costs associated with model changes have affected our gross margin in the past. Further, new product introductions can divert revenues from existing models and result in fewer sales of existing products.

Our Products Could Fail to Perform According to Specifications or Prove to Be Unreliable, Causing Damage to Our Customer Relationships and Our Reputation and Resulting in Loss of Sales

Our customers require demanding specifications for product performance and reliability. Because our products are complex and often use advanced components, processes and techniques, undetected errors and design flaws may occur. Product defects result in higher product service, warranty and replacement costs and may cause serious damage to our customer relationships and industry reputation, all of which would negatively affect our sales and business.

Our Business Is Subject to Various Types of Litigation, Including Product Liability and Warranty Claims

We are subject to litigation arising in the ordinary course of our business, typically for product liability and warranty claims that are common in the recreational vehicle industry. While we do not believe that the outcome of any pending litigation, net of insurance coverage, will materially adversely affect our business, results of operations, or financial condition, we cannot provide assurances in this regard because litigation is an inherently uncertain process.*

To date, we have been successful in obtaining product liability insurance on terms that we consider acceptable. The terms of the policy contain a self-insured retention amount of \$500,000 per occurrence, with a maximum annual aggregate self-insured retention of \$3.0 million. Overall product liability insurance, including umbrella coverage, is available to a maximum amount of \$100.0 million for each occurrence, as well as in the aggregate. We cannot be certain we will be able to obtain insurance coverage in the future at acceptable levels or that the costs of such insurance will be reasonable. Further, successful assertion against us of one or a series of large uninsured claims, or of a series of claims exceeding our insurance coverage, could have a material adverse effect on our business, results of operations, and financial condition.

In Order to Be Successful, We Must Attract, Retain and Motivate Management Personnel and Other Key Employees, and Our Failure to Do So Could Have an Adverse Effect on Our Results of Operations

The Company's future prospects depend upon retaining and motivating key management personnel, including Kay L. Toolson, the Company's Chairman and Chief Executive Officer, and John W. Nepute, the Company's President. The loss of one or more of these key management personnel could adversely affect the Company's business. The prospects of the Company also depend in part on its ability to attract and retain highly skilled engineers and other qualified technical, manufacturing, financial, managerial, and marketing personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be successful in attracting and retaining such personnel.

Our Recent Growth Has Put Pressure on the Capabilities of Our Operating, Financial, and Management Information Systems

In the past few years, we have significantly expanded the size and scope of our business, which has required us to hire additional employees. Some of these new employees include new management personnel. In addition, our current management personnel have assumed additional responsibilities. The increase in our size over a relatively short period of time has put pressure on our operating, financial, and management information systems. If we continue to expand, such growth would put additional pressure on these systems and may cause such systems to malfunction or to experience significant delays.

We May Experience Unexpected Problems and Expenses Associated With Our Manufacturing Equipment Automation Plan

As we continue to work towards involving automated machinery and equipment to improve efficiencies and quality, we will be subject to certain risks involving implementing new technologies into our facilities.

The expansion into new machinery and equipment technologies involves risks, including the following:

- We must rely on timely performance by contractors, subcontractors, and government agencies, whose performance we may be unable to control.
- The development of new processes involves costs associated with new machinery, training of employees, and compliance with environmental, health, and other government regulations.
- The newly developed products may not be successful in the marketplace.
- We may be unable to complete a planned machinery and equipment implementation in a timely manner, which could result in lower production levels and an inability to satisfy customer demand for our products.

We May Experience Unexpected Problems and Expenses Associated With Our Enterprise Resource Planning System (ERP) Implementation

During 2006, we began to implement a new ERP system and will be subject to certain risks including the following:

- We must rely on timely performance by contractors whose performance we may be unable to control.
- The implementation could result in significant and unexpected increases in our operating expenses and capital expenditures, particularly if the project takes longer than we expect.
- The project could complicate and prolong our internal data gathering and analysis processes.
- We may need to restructure or develop our internal processes to adapt to the new system.
- We could require extended work hours from our employees and use temporary outside resources, resulting in increased expenses, to resolve any software configuration issues or to process transactions manually until issues are resolved.
- As management focuses attention on the implementation, they could be diverted from other issues.
- The project could disrupt our operations if the transition to the ERP system creates new or unexpected difficulties or if the system does not perform as expected.

Our Stock Price Has Historically Fluctuated and May Continue to Fluctuate

The market price of our Common Stock is subject to wide fluctuations in response to quarter-to-quarter variations in operating results, changes in earnings estimates by analysts, announcements of new products by us or our competitors, general conditions in the recreational vehicle market, and other events or factors. In addition, the stocks of many recreational vehicle companies have experienced price and volume fluctuations which have not necessarily been directly related to the companies' operating performance, and the market price of our Common Stock could experience similar fluctuations.

NEW ACCOUNTING PRONOUNCEMENTS

See "New Accounting Pronouncements" in Note 1 of Notes to the Company's Consolidated Financial Statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks related to fluctuations in interest rates on our borrowings. We do not currently use rate swaps, futures contracts or options on futures, or other types of derivative financial instruments. Our line of credit permits a combination of fixed and variable interest rate options which allows us to minimize the effect of rising interest rates by locking in fixed rates for periods of up to 6 months. We believe these features of our credit facilities help us reduce the risk associated with interest rate fluctuations.

GOVERNANCE CERTIFICATIONS

The most recent certifications by our Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 are included as exhibits to the Company's 2006 annual report on Form 10-K filed with the SEC on March 15, 2007. In addition, on June 13, 2006, the Company filed with the NYSE the most recent Annual CEO certification as required by Section 303A.12(1) of the New York Stock Exchange Listed Company Manual.

MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is traded on the New York Stock Exchange under the symbol "MNC." The following table sets forth for the periods indicated the high and low sale prices for the Common Stock (rounded to the nearest \$.01 per share).

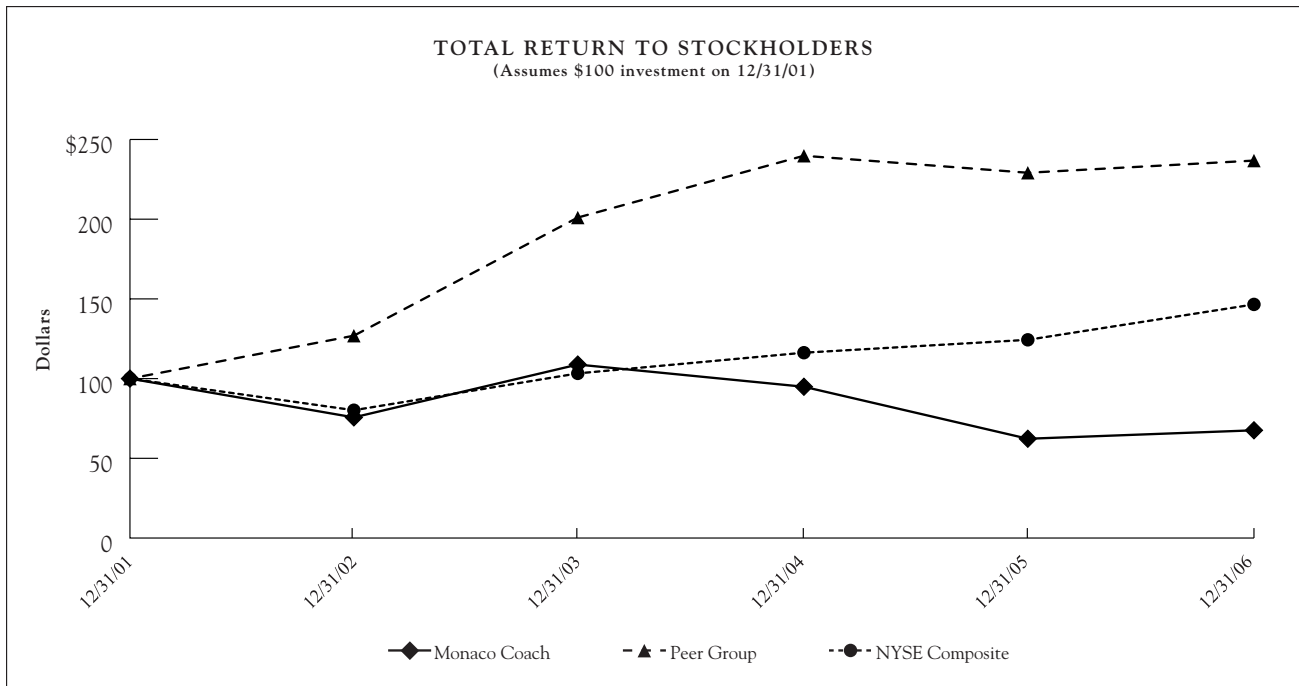
	High	Low
2006		
First Quarter	\$14.84	\$12.50
Second Quarter	\$14.53	\$11.62
Third Quarter	\$13.22	\$10.02
Fourth Quarter	\$15.28	\$10.87
2005		
First Quarter	\$20.80	\$15.70
Second Quarter	\$17.24	\$12.90
Third Quarter	\$18.52	\$14.01
Fourth Quarter	\$15.51	\$11.85

As of March 13, 2007, there were approximately 855 holders of record of the Company's Common Stock.

The Company began paying quarterly dividends at the rate of \$.05 per share on its Common Stock in March 2004. In February 2005, the Company declared an increased dividend of \$.06 per share on all Common Stock owned by holders of record as of March 1, 2005. The Company has paid quarterly cash dividends at this rate since March 2005 and currently expects that comparable cash dividends will be paid on a quarterly basis going forward, however, the Company reserves the right to alter or discontinue this practice at any time depending on its economic performance and financial condition.*

PERFORMANCE GRAPH

The following line graph shows a comparison of cumulative total stockholder return for our Common Stock, the New York Stock Exchange Composite Index and a peer group of companies selected by the Company (the “Peer Group”), whose primary business is recreational vehicles. The Peer Group consists of Coachmen Industries, Inc., National RV Holdings, Inc., Fleetwood Enterprises, Inc., Thor Industries, Inc., and Winnebago Industries, Inc. The graph assumes that \$100 was invested on December 31, 2001 at the closing price for our Common Stock on such date, and that all dividends are reinvested. In accordance with the guidelines of the SEC, the stockholder return for each entity in the Peer Group has been weighted on the basis of market capitalization as of each measurement date set forth in the graph. Historic stock price performance should not be considered indicative of future stock price performance.



CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except share and per share data)

	December 31, 2005	December 30, 2006
ASSETS		
Current assets:		
Cash	\$ 586	\$ 4,984
Trade receivables, net	102,666	81,588
Inventories, net	183,292	155,871
Resort lot inventory	9,135	7,997
Prepaid expenses	4,364	5,624
Income taxes receivable	206	6,901
Deferred income taxes	36,345	38,038
Discontinued operations	4,922	0
Total current assets	341,516	301,003
Property, plant, and equipment, net	159,304	153,895
Land held for development	0	16,300
Debt issuance costs net of accumulated amortization of \$678 and \$912, respectively	695	540
Goodwill	85,952	86,412
Total assets	\$587,467	\$558,150
LIABILITIES		
Current liabilities:		
Book overdraft	\$ 14,550	\$ 16,626
Current portion of long-term debt	5,714	5,714
Line of credit	25,000	2,036
Accounts payable	78,299	72,591
Product liability reserve	19,275	15,764
Product warranty reserve	32,902	33,804
Accrued expenses and other liabilities	37,732	44,364
Discontinued operations	853	298
Total current liabilities	214,325	191,197
Long-term debt, less current portion	34,786	29,071
Deferred income taxes	21,624	21,678
Other long-term liabilities	0	883
Total liabilities	270,735	242,829
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 1,934,783 shares authorized, no shares outstanding		
Common stock, \$.01 par value; 50,000,000 shares authorized, 29,561,766 and 29,769,356 issued and outstanding, respectively		
	296	298
Additional paid-in capital	59,005	63,722
Retained earnings	257,431	251,301
Total stockholders' equity	316,732	315,321
Total liabilities and stockholders' equity	\$587,467	\$558,150

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

CONSOLIDATED STATEMENTS OF INCOME

for the years ended January 1, 2005, December 31, 2005, and December 30, 2006

(in thousands of dollars, except share and per share data)

	2004	2005	2006
Net sales	\$1,386,269	\$1,236,238	\$1,297,986
Cost of sales	1,217,457	1,111,468	1,173,443
Gross profit	168,812	124,770	124,543
Selling, general, and administrative expenses	109,145	113,179	120,465
Plant relocation costs	0	4,370	269
Operating income	59,667	7,221	3,809
Other income, net	343	255	615
Interest expense	(1,547)	(1,820)	(4,430)
Income (loss) before income taxes and discontinued operations	58,463	5,656	(6)
Provision for (benefit from) income taxes from continuing operations	21,914	1,687	(992)
Income from continuing operations	36,549	3,969	986
Income (loss) from discontinued operations, net of tax provision (benefit)	156	(1,321)	18
Net income	\$ 36,705	\$ 2,648	\$ 1,004
Earnings (loss) per common share:			
Basic from continuing operations	\$ 1.24	\$ 0.13	\$ 0.03
Basic from discontinued operations	0.01	(0.04)	0.00
Basic	\$ 1.25	\$ 0.09	\$ 0.03
Diluted from continuing operations	\$ 1.22	\$ 0.13	\$ 0.03
Diluted from discontinued operations	0.01	(0.04)	0.00
Diluted	\$ 1.23	\$ 0.09	\$ 0.03
Weighted average common shares outstanding:			
Basic	29,370,455	29,516,794	29,712,957
Diluted	29,958,646	29,858,036	29,902,830

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

for the years ended January 1, 2005, December 31, 2005, and December 30, 2006

(in thousands of dollars, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balances, January 3, 2004	29,246,143	\$292	\$54,919	\$231,037	\$286,248
Issuance of common stock	179,644	2	2,045		2,047
Tax benefit of stock options exercised			490		490
Dividends paid				(5,874)	(5,874)
Net income				36,705	36,705
Balances, January 1, 2005	29,425,787	294	57,454	261,868	319,616
Issuance of common stock	135,979	2	1,420		1,422
Stock-based compensation expense			16		16
Tax benefit of stock options exercised			115		115
Dividends paid				(7,085)	(7,085)
Net income				2,648	2,648
Balances, December 31, 2005	29,561,766	296	59,005	257,431	316,732
Issuance of common stock	207,590	2	1,797		1,799
Stock-based compensation expense			2,759		2,759
Tax benefit of stock options exercised			161		161
Dividends paid				(7,134)	(7,134)
Net income				1,004	1,004
Balances, December 30, 2006	29,769,356	\$298	\$63,722	\$251,301	\$315,321

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended January 1, 2005, December 31, 2005, and December 30, 2006
(in thousands of dollars)

	2004	2005	2006
Increase (Decrease) in Cash:			
Cash flows from operating activities:			
Net income	\$ 36,705	\$ 2,648	\$ 1,004
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,670	10,678	14,177
Loss on disposal of assets	229	276	14
Deferred income taxes	2,833	(2,943)	(1,900)
Stock-based compensation expense		16	2,759
Change in assets and liabilities:			
Trade receivables, net	(38,231)	39,203	21,078
Inventories	(42,743)	(2,916)	27,421
Resort lot inventory	6,663	145	1,138
Land held for development	0	0	(16,300)
Prepaid expenses	(2,172)	1,422	(1,270)
Accounts payable	14,737	(5,947)	(5,708)
Product liability reserve	(489)	(1,619)	(3,762)
Product warranty reserve	2,631	(4,486)	902
Income taxes receivable	(1,308)	(2,293)	(6,664)
Deferred revenue	0	0	883
Accrued expenses and other liabilities	5,242	805	7,224
Discontinued operations	317	(662)	4,271
Net cash provided by (used in) operating activities	(4,916)	34,327	45,267
Cash flows from investing activities:			
Additions to property, plant, and equipment	(12,305)	(17,718)	(9,324)
Proceeds from sale of assets	1,936	123	215
Payment for business acquisition, net of cash acquired	0	(54,601)	0
Discontinued operations	(9)	(4)	0
Net cash used in investing activities	(10,378)	(72,200)	(9,109)
Cash flows from financing activities:			
Book overdraft	1,432	12,475	2,076
Borrowings (payments) on line of credit, net	34,062	(9,062)	(22,964)
Borrowings (payments) on long-term notes payable	(30,000)	40,500	(5,715)
Dividends paid	(5,874)	(7,085)	(7,134)
Issuance of common stock	2,536	1,537	1,799
Tax benefit of stock options exercised	0	0	161
Debt issuance costs	(416)	(298)	(79)
Discontinued operations	156	392	96
Net cash provided by (used in) financing activities	1,896	38,459	(31,760)
Net change in cash	(13,398)	586	4,398
Cash at beginning of period	13,398	0	586
Cash at end of period	\$ 0	\$ 586	\$ 4,984

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

Business

Monaco Coach Corporation and its subsidiaries (the "Company") manufacture premium motor coaches and towable recreational vehicles at manufacturing facilities in Oregon and Indiana. These products are sold to independent dealers primarily throughout the United States and Canada. In addition, the Company owns two motor coach resort properties, the developed lots are sold to retail customers, and one parcel of land that will be developed into a resort.

The Company's core business activities are comprised of three distinct operations. The first is the design, manufacture, and sale of motorized recreational vehicles. The second is the design, manufacture, and sale of towable recreational vehicles. The third is the development and sale of motor coach recreation resort lots. Accordingly, the Company has presented segmented financial information for these three segments at Note 11 of the Company's Notes to Consolidated Financial Statements.

Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated. The Company has no material variable interest in any variable interest entities.

Fiscal Period

The Company follows a 52/53 week fiscal year period ending on the Saturday closest to December 31. Interim periods also end on the Saturday closest to the calendar quarter end. The fiscal periods were 52 weeks long for 2004, 2005, and 2006. All references to years in the consolidated financial statements relate to fiscal years rather than calendar years.

Estimates and Industry Factors

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases estimates on various assumptions that are believed to be reasonable under the circumstances. Management is continually evaluating and updating these estimates, and it is possible that these estimates will change in the near future.

Credit Risk—The Company distributes its motorized and towable recreational vehicles through an independent dealer network for recreational vehicles. Sales to one customer were approximately 11% of net revenues for fiscal year 2004, 11% for 2005, and 9% for 2006. The net revenues generated from this customer are reported in the motorized and towable segments. No other individual dealers represented over 10% of net revenues in 2004, 2005, or 2006. The loss of a significant dealer or a substantial decrease in sales by such a dealer could have a material adverse effect on the Company's business, results of operations, and financial condition. The terms and conditions of payment are a combination of open trade receivables and commitments from dealer floorplan lending institutions. For resort lot customers, funds are required at the time of closing. For our RV dealers, terms are net 30 days for units that are financed by a third party lender. For open receivables, terms vary from net 30 days to net 180 days, depending on the specific agreement. Terms beyond 30 days generally require additional collateral, as well as security interest in the inventory sold.

As of December 30, 2006, total trade receivables were \$81.6 million, net of \$708,000 for allowance for doubtful accounts (\$102.7 million, net of \$781,000 at December 31, 2005). At December 30, 2006, approximately \$49.5 million, or 60.7% of the outstanding accounts receivable balance is concentrated among floorplan lenders. The remaining open \$32.1 million of secured trade receivables were concentrated substantially all with one dealer. Terms of open trade receivables are granted by the Company, on a very limited basis, to dealers who have been subjected to evaluative credit processes conducted by the Company. These processes include evaluating the strength of the dealership's balance sheet, how long the dealership has been in existence, reputation within the industry, and credit references.

Concentrations of credit risk exist for accounts receivable and repurchase agreements (see Note 19), primarily for the Company's largest dealers. As of December 30, 2006, the Company had one dealer that comprised 35% of the outstanding trade receivables. The Company generally sells to dealers throughout the United States and there is no geographic concentration of credit risk.

Product Warranty Reserve—Estimated warranty costs are provided for at the time of sale of products with warranties covering the products for up to one year from the date of retail sale (five years for the front and sidewall frame structure, and three years on the Roadmaster chassis). These estimates are based on historical average repair costs, as well as other reasonable assumptions deemed appropriate by management. The adjustments are related to the R-Vision acquisition. The following table discloses significant changes in the product warranty reserve:

	2004	2005	2006
	<i>(in thousands)</i>		
Beginning balance	\$ 29,252	\$ 31,884	\$ 32,902
Expense	34,126	28,861	38,884
Payments	(31,494)	(33,348)	(37,982)
Adjustments	0	5,505	0
Ending balance	\$31,884	\$32,902	\$33,804

Product Liability Reserve—Estimated litigation costs are provided for at the time of sale of products or at the time a determination is made that an estimable loss has occurred. These estimates are developed by legal counsel based on professional judgment, and historical experience. The adjustments are related to the R-Vision acquisition. The following table discloses significant changes in the product liability reserve:

	2004	2005	2006
	<i>(in thousands)</i>		
Beginning balance	\$ 20,723	\$ 20,233	\$ 19,275
Expense	11,044	9,635	10,000
Payments	(11,534)	(11,254)	(13,689)
Adjustments	0	661	178
Ending balance	\$20,233	\$19,275	\$15,764

Inventories

Inventories consist of raw materials, work-in-process, and finished recreational vehicles and are stated at the lower of cost (first-in, first-out) or market. Cost of work-in-process and finished recreational vehicles includes material, labor, and manufacturing overhead costs.

Inventory Allowance

The Company writes down its inventory for obsolescence, and the difference between the cost of inventory and its estimated market value. These write-downs are based on assumptions about future sales demand and market conditions. If actual sales demand or market conditions change from those projected by management, additional inventory write-downs may be required.

Resort Lot Inventory

Resort lot inventories consist of construction-in-progress on motor coach properties, as well as fully developed motor coach properties. These properties are stated at the lower of cost (specific identification) or market. Costs of land, construction, and interest incurred during construction are capitalized as the cost basis for lots available for sale. The cost of land is allocated to each phase of the total project based on acreage used. Allocated land cost plus all other costs of construction for each phase have been allocated to each developed lot on a pro rata basis, using individual lot selling prices as a percent of total sales for the total development.

Land Held for Development

In June 2006, the Company acquired undeveloped land near La Quinta, California for \$16.3 million. The 80 acre parcel will be developed into a motorhome resort with approximately 400 lots available for sale beginning late 2007 or early 2008.

Property, Plant, and Equipment

Property, plant, and equipment, including significant improvements thereto, are stated at cost less accumulated depreciation and amortization. Cost includes expenditures for major improvements, replacements and renewals and the net amount of interest cost associated with significant capital additions during periods of construction. Maintenance and repairs are charged to expense as incurred. Replacements and renewals are capitalized. When assets are sold, retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

The cost of plant and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets. Buildings are generally depreciated over 39 years and equipment is depreciated over 3 to 10 years. Leasehold improvements are amortized under the straight-line method based on the shorter of the lease periods or the estimated useful lives.

At each balance sheet date, management assesses whether there has been any triggering events that might indicate permanent impairment in the value of property, plant, and equipment assets. The amount of any such impairment is determined by comparing anticipated undiscounted future cash flows from operating activities with the associated carrying value. The factors considered by management in performing this assessment include current operating results, trends and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

Brand Elements and Signage

As part of its franchise program for dealers, the Company places certain fixed assets at independent dealerships. These assets are comprised of informational computer kiosks, brand island displays, furniture and fixtures, as well as outdoor storefront signage. These assets are leased to dealers over 10 years through an operating lease, and the Company depreciates the assets over their respective economic useful lives, generally 3 years. As of December 31, 2005 and December 30, 2006, the brand elements and signage assets have a balance of approximately \$3.1 million and \$4.9 million, respectively (net of accumulated depreciation of approximately \$95,000 and \$1.7 million, respectively). These assets are classified with property, plant, and equipment.

Debt Issuance Costs

Unamortized debt issuance costs of \$695,000, and \$540,000 (at December 31, 2005, and December 30, 2006, respectively), are being amortized on a straight-line basis over the terms of the related loans.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of net assets acquired. Total goodwill of \$86.4 million as of December 30, 2006, included \$55.3 million of goodwill arising from the various acquisitions of assets and operations prior to January 1, 2005. The Company recorded \$30.7 million of goodwill associated with the November 18, 2005 acquisition of R-Vision. In 2006, the Company recorded additional goodwill of \$490,000 related to adjustments to the allocation of the purchase price of R-Vision. In 2006, the Company also recorded a reduction of \$30,000 for the tax benefit realized in 2006 on the excess of tax-deductible goodwill over goodwill for financial reporting purposes related to R-Vision.

During 2006, the Company reorganized its reporting structure which resulted in the splitting of the RV segment information of the Motorized Recreational Vehicle reporting segment and the Towable Recreational Vehicle reporting segment. The allocation of goodwill to the reporting segments was based on relative fair values in each segment.

The amount of goodwill assigned to each reportable segment and changes in carrying amounts of such is as follows (all dollars represented are in thousands):

	Recreational Vehicle Segment	Motorhome Resorts Segment	Motorized Recreational Vehicle Segment	Towable Recreational Vehicle Segment	Total
Balance, January 1, 2005	\$55,254	\$0	N/A	N/A	\$55,254
Allocation of goodwill due to reorganization of reporting structure	(55,254)	0	\$ 46,966	\$ 8,288	0
Goodwill acquired	0	0	0	30,698	30,698
Balance, December 31, 2005	N/A	0	46,966	38,986	85,952
Adjustment to allocation of purchase price of R-Vision	0	0	0	490	490
Excess of tax deductible goodwill	0	0	0	(30)	(30)
Balance, December 30, 2006	\$ N/A	\$0	\$46,966	\$39,446	\$86,412

SFAS 142 requires that management assess at least annually whether there has been permanent impairment in the value of goodwill at the individual reporting unit basis. To assess whether or not there has been impairment, the Company's management compares the fair value of each reporting unit to its carrying amount, including goodwill, of net book value to determine if goodwill has been impaired. The Company determines the fair value of each reporting unit using an estimate of discounted future cash flows. As required by SFAS 142, management completed its annual testing during 2004, 2005, and 2006 and has determined that there was no impairment of goodwill.

Deferred Revenue

Deferred revenue of \$883,000 as of December 30, 2006 is related to the \$1 million received from GE Commercial Distribution Finance Corporation (GECDFC) related to the Monaco Financial Services agreement. The deferred earnings are a nonrefundable incentive payment received from GECDFC for use of the Company's name in branding and are being recognized over the term of the agreement, which is five years.

Stock-Based Award Plans

At December 30, 2006, the Company had three stock-based award plans (see Note 16). As of January 1, 2006, the Company adopted the provisions of FAS 123R, "Share-Based Payments" (the "Statement"). The Statement replaces FAS 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires a fair-value-based measurement method in accounting for share-based payments to employees, except for equity instruments held by employee share ownership plans. We elected to adopt the modified prospective application method of the Statement.

Prior to the adoption, the Company accounted for stock-based employee compensation plans under the recognition and measurement principles of APB Opinion No. 25. No stock-based employee compensation cost related to these options were reflected in net income of prior periods, as all options granted under those plans had an exercise price equal to the market value of the underlying Common Stock on the date of grant.

Income Taxes

Deferred taxes are recognized based on the difference between the financial statement and tax basis of assets and liabilities at enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax expense or benefit represents the change in deferred tax asset/liability balances. A valuation allowance is established for deferred tax assets when it is more likely than not that the deferred tax asset will not be realized.

The Company has elected to utilize the practical transition option provided by FAS 123R to determine its pool of windfall tax benefits that are available to absorb tax deficiencies recognized subsequent to the Company's adoption of FAS 123R.

Revenue Recognition

The Company recognizes revenue from the sale of recreational vehicles upon shipment and recognizes revenue from resort lot sales upon closing. The title and risk of loss pass to the dealers upon shipment of recreational vehicles. The Company does not offer any rights of return to our dealers, or resort lot customers.

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition in Financial Statements." SAB No. 104 provides guidance for revenue recognition under certain circumstances. The Company has complied with the guidance provided by SAB No. 104 for fiscal years 2004, 2005, and 2006.

Repurchase Obligations

Upon request of a lending institution financing a dealer's purchases of the Company's product, the Company may execute a repurchase agreement. The Company has recorded a liability associated with the disposition of repurchased inventory. To determine the appropriate liability, the Company calculates a reserve based on an estimate of potential net losses and qualitative and quantitative factors, including dealer inventory turn rates and the financial strength of individual dealers.

Advertising and Printing Costs

The Company expenses advertising and printing costs as incurred, except for prepaid show costs, which are expensed when the event takes place. Advertising and printing costs, including retail programs, are recorded as selling, general and administrative expenses, while discounts off of invoice, or sales allowances (including wholesale volume incentives), are recorded as adjustments to net sales. During 2006, approximately \$9.8 million (\$12.4 million in 2004 and \$11.6 million in 2005) of advertising and printing costs were expensed.

Research and Development Costs

Research and development costs consist of salaries and employee benefits, contract services fees, utilities, materials and operating supplies and are charged to expense as incurred and were \$1.9 million in 2006 (\$1.3 million in 2004 and \$1.5 million in 2005).

New Accounting Pronouncements

FIN 48

In June 2006, the Board issued FIN 48, "Accounting for Uncertainty in Income Taxes" (the "Interpretation"). The Interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB 109, "Accounting for Income Taxes" by defining a criterion that an individual tax position must be met for any part of the benefit to be recognized in the financial statements. The Interpretation is effective for fiscal years beginning after December 15, 2006.

We have reviewed the provisions of FIN 48, and believe there will be no significant impact to the financial statements. We will adopt the Interpretation for the fiscal year beginning 2007.

FAS 157

In September 2006, the Board issued FAS 157, "Fair Value Measurements." The Statement defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements.

FAS 157 is effective for fiscal years beginning after November 15, 2007. We are reviewing the provisions of the Statement and will adopt it for the fiscal year beginning 2008.

FAS 159

In February 2007, the Board issued FAS 159, "Fair Value Option for Financial Assets and Financial Liabilities." This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value.

FAS 159 is effective for fiscal years beginning after November 15, 2007. We are reviewing the provisions of this statement and will adopt it for the fiscal year beginning 2008.

SAB 108

On September 13, 2006, the SEC staff issued SAB 108 which provides guidance for companies with respect to quantifying financial statement misstatements. Specifically, SAB 108 addresses immaterial differences and how they relate to the balance sheet as well as the income statement. We adopted SAB 108 without any impact to the financial statements.

Supplemental Cash Flow Disclosures	2004	2005	2006
	<i>(in thousands)</i>		
Cash paid during the period for:			
Interest	\$ 964	\$1,355	\$4,099
Income taxes	19,531	6,160	7,708

2. ACQUISITION:

R-Vision

The Company announced on November 9, 2005 that it had reached an agreement to acquire the Indiana-based R-Vision companies and affiliates in an all cash transaction. The acquisition was completed on November 18, 2005. The R-Vision companies and affiliates consist of R-Vision, Inc., R-Vision Motorized, LLC, Bison Manufacturing, LLC, and Roadmaster, LLC collectively known as "R-Vision." R-Vision manufactures towable and motorized recreational vehicle products, and the acquisition was primarily to strengthen the Company's towable recreational vehicle segment. R-Vision's results of operations for the period November 18, 2005 to December 31, 2005 are included in the consolidated financial statements of the Company.

The cash paid for R-Vision, including transaction costs of \$584,985, totaled \$54,623,512, net of cash acquired. All the goodwill associated with the R-Vision acquisition was allocated to the towable recreational vehicle segment. This was based on the conclusion that the purchase price allocated to the motorized portion of R-Vision, based on relative fair values, did not exceed its carrying amount of net book value. Of the total goodwill acquired, \$32.7 million is expected to be deductible for tax purposes as of December 30, 2006. The total R-Vision assets acquired and liabilities assumed of R-Vision based on estimated fair values at November 18, 2005, is as follows:

	<i>(in thousands)</i>
Receivables	\$ 14,571
Inventories	18,160
Prepays and other assets	618
Property and equipment	12,945
Goodwill	31,188
Total assets acquired	77,482
Accounts payable	8,769
Accrued liabilities	12,142
Current deferred tax liability	1,184
Long-term deferred tax liability	808
Total liabilities assumed	22,903
Total assets acquired and liabilities assumed	\$54,579

The purchase price was derived from a calculation of a multiple of earnings before interest, taxes, depreciation and amortization for a trailing 12-month period (adjusted for certain non-recurring expense items), which exceeded the book value of R-Vision and generated goodwill of \$30.7 million. The allocation of the purchase price and the related goodwill has been adjusted in 2006 for the resolution of pre-acquisition contingencies of \$490,000 for estimates for reserve amounts related to product litigation and deferred taxes established to account for certain book to tax basis differences as of the acquisition date.

The following unaudited pro forma information presents the consolidated results as if the acquisition had occurred at the beginning of the period and giving effect to the adjustments for the related interest on financing the purchase price, goodwill and depreciation. The pro forma information does not necessarily reflect results that would have occurred nor is it necessarily indicative of future operating results.

	2004	2005
	Unaudited	Unaudited
	<i>(in thousands, except per share data)</i>	
Net sales	\$1,599,030	\$1,455,189
Net income	38,743	12,079
Diluted earnings per common share	\$ 1.29	\$ 0.40

3. DISCONTINUED OPERATIONS:

During the third quarter of 2005, the Company announced that it planned to close its Royale Coach operations in Elkhart, Indiana. Royale Coach produces Prevost bus conversion motor coaches with price points in excess of \$1.4 million. Royale Coach sold approximately 20 coaches per year and was not a significant portion of the Company's overall business. Plant closure costs of approximately \$1.3 million (net of tax) were recognized in 2005. The net income (loss) from discontinued operations for the fiscal years ended January 1, 2005, December 31, 2005 and December 30, 2006 is net of a tax expense of \$94,000, tax benefit of \$868,000, and tax expense of \$28,000, respectively.

The operating results of Royale Coach are presented in the Company's Consolidated Statements of Income as discontinued operations, net of income tax, and all prior periods have been reclassified. The components of discontinued operations for the periods presented are as follows.

	2004	2005	2006
	<i>(in thousands)</i>		
Net sales	\$ 10,974	\$ 5,452	\$ 4,835
Cost of sales	9,660	5,923	4,916
Gross profit (loss)	1,314	(471)	(81)
Selling, general and administrative expenses	1,064	1,718	(127)
Income (loss) from discontinued operations before income taxes	250	(2,189)	46
Income tax expense (benefit)	94	(868)	28
Income (loss) from discontinued operations	\$ 156	\$ (1,321)	\$ 18

4. PLANT RELOCATION:

During the second quarter of 2005, the Company announced plans to close the Bend, Oregon production operations and relocate them to the Coburg, Oregon facility. The Bend, Oregon operations ceased as of June 15, 2005. The Company recognized pre-tax charges in 2005 and 2006 of \$4.4 million and \$269,000, respectively. The charges were primarily for the impairment of property, plant and equipment and future rental expense related to the facility.

The accrued liability for restructuring reserves consists of the following:

	December 31, 2005	December 30, 2006
	<i>(in thousands)</i>	
Lease commitment	\$ 753	\$ 29
Impairment of property, plant and equipment	510	0
Other	155	107
	\$ 1,418	\$ 136

5. INVENTORIES, NET:

Inventories consist of the following:

	December 31, 2005	December 30, 2006
	<i>(in thousands)</i>	
Raw materials	\$ 91,028	\$ 84,069
Work-in-process	61,393	55,473
Finished units	43,134	26,773
Raw material reserves	(12,263)	(10,444)
	\$ 183,292	\$ 155,871

6. PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consist of the following:

	December 31, 2005	December 30, 2006
	<i>(in thousands)</i>	
Land	\$ 15,146	\$ 15,226
Buildings	127,974	128,073
Equipment	42,837	45,341
Furniture and fixtures	18,529	22,397
Vehicles	3,510	3,473
Leasehold improvements	2,504	2,002
Brand elements and signage	3,147	6,617
Construction in progress	6,675	3,398
	220,322	226,527
Less accumulated depreciation and amortization	61,018	72,632
	\$159,304	\$153,895

7. ACCRUED EXPENSES AND OTHER LIABILITIES:

Accrued expenses and other liabilities consist of the following:

	December 31, 2005	December 30, 2006
	<i>(in thousands)</i>	
Payroll, vacation, payroll taxes and related accruals	\$ 15,363	\$ 15,997
Promotional and advertising	7,693	13,594
Health insurance reserves and premiums payable	5,943	5,997
Resorts profit sharing accruals	1,865	3,700
Other	6,868	5,076
	\$ 37,732	\$ 44,364

8. LINE OF CREDIT:

The Company's credit facilities consist of a revolving line of credit of up to \$105.0 million. At the end of the 2006 fiscal year, borrowings outstanding on the revolving line of credit (the "Revolving Loan") were \$2.0 million. At the election of the Company, the Revolving Loan bears interest at varying rates that fluctuate based on the prime rate or LIBOR and are determined based on the Company's leverage ratio. The Company also pays interest quarterly on the unused available portion of the Revolving Loan at varying rates, determined by the Company's leverage ratio. The Revolving Loan is due and payable in full on November 17, 2009 and requires monthly interest payments. The Company also has an unused letter of credit of \$2.8 million outstanding as of December 30, 2006.

The weighted-average interest rate on the outstanding borrowings under the Revolving Loan was 5.4% and 6.8% for 2005 and 2006, respectively. Interest expense on the unused available portion of the line was \$178,000 or 1.0% and \$229,000 or 1.3% of weighted-average outstanding borrowings for 2005 and 2006, respectively. The Revolving Loan is collateralized by substantially all the assets of the Company. The agreement contains restrictive covenants as to the Company's leverage ratio, current ratio, fixed charge coverage ratio, and tangible net worth. As of December 30, 2006, the Company was in compliance with these covenants.

9. LONG-TERM NOTE PAYABLE:

In November 2005, the Company amended its credit facilities to borrow \$40.0 million of term debt (the "Term Debt") to effect the acquisition of R-Vision (see Note 2). In January 2007, the Company amended its credit facilities agreement to modify certain restrictive covenants. At the end of the 2006 year, borrowings outstanding were \$34.3 million. At the election of the Company, the Term Debt bears interest at varying rates that fluctuate based on the prime rate or LIBOR and are determined based on the Company's leverage ratio. The Term Debt requires quarterly interest payments and quarterly principal payments of \$1.4 million, with a final balloon payment of \$12.9 million due on November 18, 2010. As of year end 2006, the weighted-average interest rate on the Term Debt was 7.1%. The Term Debt is collateralized by all the assets of the Company. The agreement contains restrictive covenants as to the Company's leverage ratio, current ratio, fixed charge coverage ratio, and tangible net worth. As of December 30, 2006, the Company was in compliance with these covenants.

In November 2005, the Company obtained a term loan of \$500,000 from the State of Oregon in connection with the relocation of jobs to the Coburg, Oregon production facilities from the Bend, Oregon facility. The principal and interest is due on April 30, 2009. The loan bears a 5% annual interest rate.

The following table displays the scheduled principal payments by year that will be due in thousands on the term loans.

Year	Amount of payment due
2007	\$ 5,714
2008	5,714
2009	6,214
2010	17,143
	\$34,785

10. PREFERRED STOCK:

The Company has authorized "blank check" preferred stock (1,934,783 shares authorized, \$.01 par value) ("Preferred Stock"), which may be issued from time to time in one or more series upon authorization by the Company's Board of Directors. The Board of Directors, without further approval of the stockholders, is authorized to fix the dividend rights and terms, conversion rights, voting rights, redemption rights and terms, liquidation preferences, and any other rights, preferences, privileges, and restrictions applicable to each series of the Preferred Stock. There were no shares of Preferred Stock outstanding as of December 31, 2005 or December 30, 2006.

11. SEGMENT REPORTING:

The Company is a leading manufacturer of premium Class A, B and C motor coaches (Motorized Recreational Vehicle Segment) and towable recreational vehicles (Towable Recreational Vehicle Segment). Our product line currently consists of a broad line of motor coaches, fifth wheel trailers, travel trailers, and specialty trailers under the "Monaco," "Holiday Rambler," "Beaver," "Safari," "McKenzie," "R-Vision," "Bison," and "Roadmaster" brand names.

In addition to the manufacturing of premium recreational vehicles, the Company also owns and operates two motorhome resort properties (Motorhome Resort Segment) located in Las Vegas, Nevada, and Indio, California. In addition to these two resorts, the Company has also acquired a piece of property in southern California, and has two pieces of property under contract in southern Florida. These properties are planned to be developed and sold over the next two to five years. The resorts offer sales of individual lots to recreational vehicle owners and also offer a common interest in the amenities at the resort. The resorts provide destination locations for premium Class A recreational vehicle owners and help to promote the recreational vehicle lifestyle.

The following table provides the results of operations of the three segments of the Company for the years 2004, 2005, and 2006, respectively.

	2004	2005	2006
<i>(in thousands)</i>			
Motorized Recreational Vehicle Segment			
Net sales	\$1,234,233	\$1,017,766	\$941,657
Cost of sales	1,080,972	925,014	869,110
Gross profit	153,261	92,752	72,547
Selling, general and administrative expenses	38,566	46,331	44,306
Corporate overhead allocation	51,470	43,148	34,172
Plant relocation costs	0	4,370	269
Operating income (loss)	\$ 63,225	\$ (1,097)	\$ (6,200)
Towable Recreational Vehicle Segment			
Net sales	\$ 129,331	\$ 185,433	\$324,342
Cost of sales	123,314	174,242	292,876
Gross profit	6,017	11,191	31,466
Selling, general and administrative expenses	4,827	5,603	15,323
Corporate overhead allocation	5,393	7,588	14,737
Operating income (loss)	\$ (4,203)	\$ (2,000)	\$ 1,406
Motorhome Resorts Segment			
Net sales	\$ 22,705	\$ 33,039	\$ 31,987
Cost of sales	13,171	12,212	11,457
Gross profit	9,534	20,827	20,530
Selling, general, and administrative expenses	4,194	7,606	8,236
Corporate overhead allocation	4,695	2,903	3,691
Operating income	\$ 645	\$ 10,318	\$ 8,603
<i>(in thousands)</i>			
Reconciliation to Net Income			
Operating income (loss):			
Motorized recreational vehicle segment	\$ 63,225	\$ (1,097)	\$ (6,200)
Towable recreational vehicle segment	(4,203)	(2,000)	1,406
Motorhome resorts segment	645	10,318	8,603
Total operating income	59,667	7,221	3,809
Other income, net	343	255	615
Interest expense	(1,547)	(1,820)	(4,430)
Income (loss) before income taxes and discontinued operations	58,463	5,656	(6)
Provision for (benefit from) income taxes from continuing operations	21,914	1,687	(992)
Income from continuing operations	36,549	3,969	986
Income (loss) from discontinued operations, net of tax provision (benefit)	156	(1,321)	18
Net income	\$ 36,705	\$ 2,648	\$ 1,004

The following table provides information for the respective segments related to assets:

Assets of the Recreational Vehicle and Motorhome Resorts Segments	December 31, 2005	December 30, 2006
	<i>(in thousands)</i>	
Motorized recreational vehicle segment	\$ 342,790	\$ 306,196
Towable recreational vehicle segment	83,754	87,153
Motorhome resorts segment	9,826	25,954
Total segment assets	\$436,370	\$419,303

The Company includes the total of inventories and resort lot inventory in the measure of the segments' assets that are used for decision making purposes. Property, plant, and equipment specific to the segments are also included in the measure of the segments' assets for decision making purposes. Remaining assets are accounted for at the corporate level and are not allocated out to the business segments. Total depreciation expense is allocated among the segments either based on the associated assets being allocated to the segment or through the corporate overhead allocation of expenses. Corporate overhead is comprised of certain shared services, and is allocated to the respective segments based on a combination of activities performed for the segment as well as the relative segment's percentage of sales for the Company in total.

The following table reconciles assets of the segments to total consolidated assets:

Reconciliation of Segment Assets to Total Assets	December 31, 2005	December 30, 2006
	<i>(in thousands)</i>	
Total assets allocated to segments	\$ 436,370	\$ 419,303
Assets not allocated to segments:		
Cash	586	4,984
Trade receivables, net	102,666	81,588
Prepaid expenses	4,364	5,624
Income taxes receivable	206	6,901
Deferred income taxes	36,345	38,038
Discontinued operations	4,922	0
Property, plant, and equipment, net	1,313	1,172
Debt issuance costs, net	695	540
Total assets	\$587,467	\$558,150

The following table provides information for the respective segments related to capital expenditures:

Capital Expenditures of the Recreational Vehicle and Motorhome Resort Segments	December 31, 2005	December 30, 2006
	<i>(in thousands)</i>	
Motorized recreational vehicle segment	\$ 17,470	\$ 7,589
Towable recreational vehicle segment	159	736
Motorhome resorts segment	89	999
Total capital expenditures	\$17,718	\$9,324

The following table provides information for the respective segments relating to depreciation expense:

Depreciation Expense for the Recreational Vehicle and Motorhome Resort Segments	2004	2005	2006
	<i>(in thousands)</i>		
Motorized recreational vehicle segment	\$ 9,592	\$ 9,603	\$ 11,871
Towable recreational vehicle segment	585	818	1,951
Motorhome resorts segment	42	74	111
Total depreciation expense	\$10,219	\$10,495	\$13,933

12. INCOME TAXES:

The provision for income taxes for continuing operations is as follows:

	2004	2005	2006
	<i>(in thousands)</i>		
Current:			
Federal	\$ 17,116	\$ 4,729	\$ 970
State	1,908	(169)	258
	19,024	4,560	1,228
Deferred:			
Federal	2,414	(2,573)	(1,249)
State	476	(300)	(971)
Provision for (benefit from) income taxes	\$21,914	\$ 1,687	\$ (992)

The reconciliation of the provision for income taxes at the U.S. federal statutory rate to the Company's effective income tax rate is as follows:

	2004	2005	2006
	<i>(in thousands)</i>		
Expected U.S. federal income taxes at statutory rates	\$ 20,462	\$ 1,923	\$ (2)
State and local income taxes, net of federal benefit	1,982	(305)	(788)
Change in valuation allowance	(433)	0	284
Meals expense disallowance	217	204	152
Subsidiary stock basis adjustment	0	634	625
Stock-based compensation	0	0	130
Domestic manufacturing deduction	0	(90)	(51)
Export sales benefit	(356)	(495)	(807)
Reversal of federal and state tax reserves no longer required	0	(277)	(445)
Other	42	93	(90)
Provision for (benefit from) income taxes	\$21,914	\$ 1,687	\$ (992)

The components of the current net deferred tax asset and long-term net deferred tax liability are:

	December 31, 2005	December 30, 2006
<i>(in thousands)</i>		
Current deferred income tax assets:		
Warranty liability	\$ 10,342	\$ 11,308
Product liability	7,725	6,244
Inventory allowances	4,784	3,902
Franchise and other incentive accruals	6,943	10,532
Compensation and related accruals	2,342	2,030
Insurance accruals	3,024	2,637
Resort lot inventory	1,316	602
Other accruals	(269)	490
Net operating loss (NOL) carryforward	138	293
	\$36,345	\$38,038
Long-term deferred income tax liabilities:		
Depreciation	\$ 16,306	\$ 15,835
Amortization	5,584	6,859
Compensation and related accruals	0	(734)
Net operating loss (NOL) carryforward	(143)	(263)
State tax credit carryforward	(123)	(303)
Valuation allowance on state tax credit carryforward	0	284
	\$21,624	\$21,678

Management believes that the temporary differences which gave rise to the deferred income tax assets will be realized in the foreseeable future, except for a portion of the benefits arising from the state tax credit carryforward. Accordingly, management has provided a valuation allowance for the portion of the state tax credit carryforward that may not be fully realized. Net operating loss carryforwards expire between 2015 and 2026 and state tax credits expire between 2008 and 2014.

13. EARNINGS PER SHARE:

Basic earnings per common share is based on the weighted-average number of shares outstanding during the period. Diluted earnings per common share is based on the weighted-average number of shares outstanding during the period, after consideration of the dilutive effect of outstanding stock-based awards. For the fiscal year ending 2006, there were 819,500 anti-dilutive options excluded from the diluted earnings per share calculation (zero and 385,890 for the fiscal years ending 2004 and 2005, respectively). The weighted-average number of common shares used in the computation of earnings per common share for the years ended January 1, 2005, December 31, 2005, and December 30, 2006 are as follows:

	2004	2005	2006
Basic			
Issued and outstanding shares (weighted-average)	29,370,455	29,516,794	29,712,957
Effect of Dilutive Securities			
Stock-based awards	588,191	341,242	189,873
Diluted	29,958,646	29,858,036	29,902,830
<hr/>			
	2004	2005	2006
Cash dividends per common share	\$ 0.20	\$ 0.24	\$ 0.24
Cash dividends paid <i>(in thousands)</i>	\$5,874	\$7,085	\$7,134

14. LEASES:

The Company has commitments under certain noncancelable operating leases. Total rental expense for the fiscal years ended January 1, 2005, December 31, 2005, and December 30, 2006 related to operating leases amounting to approximately \$3.6 million, \$3.6 million, and \$3.4 million, respectively. The Company's most significant lease is an operating lease for an aircraft that expired in February 2006. The Company has signed an extension of the lease through May 14, 2007 and is negotiating a new lease. The future minimum rental commitment under the extension of this lease is \$740,000 in 2007. The Company has guaranteed up to \$14.3 million of any deficiency in the event that the lessor's net sales proceeds from the aircraft are less than \$15.7 million. The Company has commitments under certain noncancelable subleases. As of December 30, 2006, the total minimum sublease rental income to be received in the future is \$2.4 million. Sublease rental income will be recognized ratably over the next eight years.

Approximate future minimum rental commitments under these leases at December 30, 2006 are summarized as follows:

Fiscal Year	(in thousands)
2007	\$1,839
2008	888
2009	741
2010	701
2011	701
2012 and thereafter	1,768

15. BONUS PLAN:

The Company has a discretionary bonus plan for certain key employees. Bonus expense included in selling, general, and administrative expenses for the years ended January 1, 2005, December 31, 2005, and December 30, 2006 was \$8.9 million, \$607,000, and \$2.2 million, respectively.

16. STOCK-BASED AWARD PLANS:

The Company has an Employee Stock Purchase Plan (the "Purchase Plan")—1993, a non-employee 1993 Director Stock Plan (the "Director Plan"), and an amended and restated 1993 Stock Plan (the "Stock Plan"). The compensation expense recognized in 2006 for the plans was \$2.8 million with an income tax benefit of \$1.1 million. The amount of cash received from the exercise of stock options, stock issued under the Stock Purchase Plan, and stock issued in lieu of some directors' cash retainer was \$1.8 million. The tax benefit realized from stock options exercised in 2006 was \$161,000.

Stock Purchase Plan

The Purchase Plan qualifies under Section 423 of the Internal Revenue Code. The Company has 683,438 shares of Common Stock reserved for issuance under the Purchase Plan, of which 592,878 shares were issued as of December 30, 2006. During the years ended December 31, 2005 and December 30, 2006, 57,989 shares and 69,644 shares, respectively, were issued under the Purchase Plan. The weighted-average fair value of purchase rights granted in 2005 and 2006 was \$18.24 and \$11.28, respectively. Under the Purchase Plan, an eligible employee may purchase shares of Common Stock from the Company through payroll deductions of up to 10% of base compensation, at a price per share equal to 85% of the lesser of the fair market value of the Company's Common Stock as of the first day (grant date) or the last day (purchase date) of each six-month offering period under the Purchase Plan.

The Purchase Plan is administered by a committee appointed by the Board of Directors. Any employee who is customarily employed for at least 20 hours per week and more than five months in a calendar year by the Company, or by any majority-owned subsidiary designated from time to time by the Board of Directors, and who does not own 5% or more of the total combined voting power or value of all classes of the Company's outstanding capital stock, is eligible to participate in the Purchase Plan.

Director Plan

Effective May 17, 2006, no further awards will be made under the Director Plan, but it will continue to govern awards previously granted thereunder. Subsequent equity awards to directors are being made under the Stock Plan. The Board of Directors and the stockholders had authorized a total of 352,500 shares of Common Stock for issuance pursuant to the Director Plan. On May 17, 2006, authorization for 76,924 shares were transferred from the Director Plan to the Stock Plan, which represented the number of shares reserved under the Director Plan that had not been issued pursuant to awards granted under the plan plus the number of shares reserved that were not subject to any outstanding awards granted under the plan.

Options granted under the Director Plan to non-employee directors on the date the optionee first became a director vest ratably over a five-year period, while subsequent annual grants vest in full on the fifth anniversary of their grant date. The exercise price of all options granted under the Director Plan was equal to the fair market value of a share of the Company's Common Stock on the date of grant. The maximum term of these options is 10 years. As of December 30, 2006, 112,950 options had been exercised, and options to purchase 146,550 shares of Common Stock were outstanding. As of December 30, 2006, 5,265 shares of Common Stock had been issued in lieu of some directors' cash retainer as allowed by the Director Plan up to May 17, 2006.

Stock Plan

The Stock Plan, as amended on May 17, 2006, provides for the grant of stock-based awards to employees, directors and consultants who provide services to the Company and its affiliates. Allowed awards include stock options, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units, dividend equivalents and other stock awards. A total of 5,534,737 shares of Common Stock have been reserved for issuance under the Stock Plan, which includes the transfer of unused share authorizations under the Director Plan on May 17, 2006.

The stock options issued subsequent to May 16, 2002, the restricted stock units and the performance share awards include a retirement eligible provision. Employees and directors who reach the retirement age of 62 and have provided five years of service meet the provision. The recognition of compensation expense associated with these awards is accelerated based upon this criteria and is derived by the use of the non-substantive vesting period approach. This approach was followed under APB 25 and subsequently with the adoption of FAS 123R.

Stock Options

A component of the Stock Plan permits the Company to grant stock options. As of December 30, 2006, 1,589,633 options had been exercised, and options to purchase 1,160,300 shares of Common Stock were outstanding. These options vest ratably over five years commencing with the date of grant.

The exercise price of all stock options granted under the Stock Plan must be at least equal to the fair market value of a share of the Company's Common Stock on the date of grant. With respect to any participant possessing more than 10% of the voting power of the Company's outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date, and the maximum term of the option must not exceed five years. The terms of all other options granted under the Stock Plan may not exceed ten years. Options outstanding to participants who meet the retirement eligible provision vest upon actual retirement or the normal vesting period, whichever is earlier.

In the fourth quarter of 2005, the Company elected to accelerate all non-vested stock options outstanding with an exercise price greater than \$16 per share. The purpose of the acceleration was to enable the Company to avoid recognizing compensation expense associated with these options in future periods in its consolidated statements of income pursuant to Financial Accounting Standards Board Statement No. 123R. Under FAS No. 123R, the Company began applying the expense recognition provisions relating to stock options beginning in the first quarter of fiscal 2006. In approving the acceleration, the Company considered its impact on future financial results, stockholder value and employee retention. The Company believes that the acceleration was in the best interest of stockholders as it reduces the Company's reported compensation expense in periods subsequent to fiscal 2005 in light of these accounting regulations. The compensation expense in future periods that is eliminated as a result of the acceleration of the vesting of these options is approximately \$3.7 million. This acceleration did not result in a charge to the Company's expenses in the consolidated statements of income in fiscal 2005.

Option transactions involving the Director Plan and the Stock Plan are summarized with the corresponding weighted-average exercise prices as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at January 3, 2004	1,237,171	\$11.63		
Granted	197,800	26.28		
Exercised	(120,398)	8.95		
Outstanding at January 1, 2005	1,314,573	14.08		
Granted	292,020	16.13		
Exercised	(72,078)	5.87		
Forfeited	(65,240)	18.14		
Outstanding at December 31, 2005	1,469,275	14.71		
Granted	0	0		
Exercised	(128,475)	7.44		
Forfeited	(33,950)	20.01		
Outstanding at December 30, 2006	1,306,850	\$15.28	5.2	\$19,974
Exercisable at December 30, 2006	1,215,430	\$15.54	5.0	\$18,884

The total intrinsic value of options exercised during fiscal years 2004, 2005, and 2006 was approximately \$2.1 million, \$739,000, and \$819,000, respectively. The pro forma weighted-average grant-date fair value of options granted in 2004 and 2005 was \$7.20 and \$5.41, respectively.

There was \$441,089 of stock option related compensation expense recognized from the combination of the Stock Plan, the Purchase Plan and the Director Plan during the fiscal year ended December 30, 2006. The total remaining expense to be recognized in future periods for outstanding non-vested stock options is approximately \$297,000. The expense is expected to be recognized over a weighted-average period of 2.2 years.

Restricted Stock Unit Grant

A component of the Stock Plan permits the Company to grant shares of restricted stock units (RSU's). These grants are compensation expense under the rules of FAS 123R, and are required to be recognized in the Company's consolidated statements of income. The valuation of the RSU's is based on the closing market price of the Common Stock on the date of grant. The RSU's vest ratably over four years or cliff vest at four years for employees and cliff vest at three years for directors. RSU's outstanding to participants who meet the retirement eligible provision

vest upon actual retirement or the normal vesting period, whichever is earlier. Under Section 162(m) of the Internal Revenue Code of 1986, as amended, RSU's granted to certain employees require performance criteria to be met in order for the units to cliff vest at three years. The performance criteria is based on the return on equity. As of December 30, 2006, there are 72,695 RSU's outstanding that require the attainment of the performance criteria.

The performance based RSU's were issued in 2006 and the associated compensation expense recognized in 2006 was approximately \$725,000. During the fiscal years ended 2005 and 2006, \$16,341 and \$1,336,770 was recorded as compensation expense related to all RSU's. A forfeiture rate is applied to the majority of the RSU's granted to employees based on the historical forfeiture experience with stock options. The total remaining expense to be recognized in future periods for outstanding non-vested RSU's is approximately \$2.2 million. The expense is expected to be recognized over a weighted-average period of 2.9 years.

Restricted stock unit transactions under the Stock Plan are summarized with the weighted-average grant-date fair value as follows:

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2005	0	\$ 0.00
Granted	53,250	14.73
Non-vested at December 31, 2005	53,250	14.73
Granted	254,159	12.71
Forfeited	(27,500)	14.67
Non-vested at December 30, 2006	279,909	\$12.90

Performance Share Awards

A component of the Stock Plan also permits the Company to grant performance share awards (PSA's). Grants were effective as of the date of approval of the Stock Plan by the shareholders on May 17, 2006 and included target payouts to participants of a total of 164,909 shares under a two-year performance plan and 164,909 shares under a three-year performance plan. Both plans require the achievement of performance based on Return on Net Assets - adjusted (RONA) and Total Shareholder Return (TSR) compared to a group of peer companies. Depending on the ranking of the Company's performance against the peer group, the participants could earn from 0% up to 200% of the target payout of performance shares. A participant who retires during a performance period and meets the retirement eligible provision is entitled to receive 100% of the award that would have otherwise been earned had the participant remained employed through the end of the performance period. The award to such a participant will be settled at the end of the normal performance period.

The fair value of share awards requiring achievement of the goal based on TSR is estimated on the date of grant using a lattice-based valuation model that uses assumptions noted in the following table. Because lattice-based option valuation models incorporate ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities were based on historical volatility of the Company's stock and the average of the competitor companies' stock, as well as other factors. The Company used historical data to estimate employee termination within the valuation model. The expected term of awards granted was derived from the output of the option valuation model and represents the period of time that awards granted are expected to be outstanding. The risk-free interest rate is based on

interest rates on total constant maturity U.S. Treasury notes with lives consistent with the expected lives of the related option. The grant-date fair value of the TSR related awards is \$10.62 and \$11.99 per share for the two-year and three-year performance plan, respectively.

	2006
Risk-free interest rate	4.97% to 5.00%
Expected life (in years)	2 to 3
Expected volatility of the Company	40.40%
Expected dividend yield	1.90%
Peer companies' average volatility experience	33.90%

The fair value of the share awards requiring achievement of the goal based on RONA is the Common Stock market price at grant date, which was \$12.73 for the awards granted in 2006. The recognition of compensation expense is initially based on the probable outcome of the performance condition and adjusted for subsequent changes in the estimated or actual outcome. The Company reassesses at each reporting date whether achievement of the performance condition is probable. The assessment involves comparing the Company's forecasted RONA for the performance period to the historical RONA achieved by a group of peer companies.

The TSR goal is based on the market price of the Company's Common Stock as compared to the peer group. This is considered a market condition under FAS 123R, thus compensation expense recognized is not reversed if the goal is not achieved by the end of the performance period. The compensation expense related to share awards that are forfeited is reversed. If the performance goal related to RONA is not met, no compensation expense is recognized and any recognized compensation expense is reversed as of the end of the plan period. A total of \$981,346 of compensation expense was recorded during the fiscal year ended 2006 relating to the performance share awards. As of December 30, 2006, it was not probable that the RONA goal would be met at the end of the performance periods and thus compensation expense recognized throughout 2006 was reversed. The total remaining expense expected to be recognized in future periods for outstanding PSA's is approximately \$883,000. The expense is expected to be recognized over a weighted-average period of 1.6 years. The total number of PSA's granted during 2006 and non-vested as of December 30, 2006 was 329,818 shares at target payout. The weighted-average grant-date fair value of these shares is \$12.02.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 to stock-based compensation in the fiscal years ended 2004 and 2005 compared to the fair value recognition provisions of FAS 123R that are applied to the stock-based payment arrangements in the fiscal year ended 2006.

	2004	2005	2006
	<i>(in thousands, except per share data)</i>		
Net income before stock-based compensation expense	\$ 36,705	\$ 2,648	\$ 2,690
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(1,569)	(3,219)	(1,686)
Net income*	\$35,136	\$ (571)	\$1,004
Earnings (loss) per share:			
Basic - as reported	\$ 1.25	\$ 0.09	\$ 0.03
Basic - with stock-based compensation	\$ 1.20	\$ (0.02)	\$ 0.03
Diluted - as reported	\$ 1.23	\$ 0.09	\$ 0.03
Diluted - with stock-based compensation	\$ 1.17	\$ (0.02)	\$ 0.03

*Net income prior to 2006 are pro forma for the effect of FAS 123R.

For purposes of the above information, the fair value of each option grant was estimated at the date of grant using the Black-Scholes option pricing model based on the weighted-average assumptions noted in the following table. There were no options granted in 2006. Expected volatilities were based on historical volatility of the Company's Common Stock, and other factors. The Company used historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted was derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on interest rates on total constant maturity U.S. Treasury notes with lives consistent with the expected lives of the related option.

	2004	2005
Risk-free interest rate	3.54%	4.03%
Expected life (in years)	6.09	6.69
Expected volatility	36.31%	31.25%
Expected dividend yield	1.00%	1.70%

17. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The fair value of the Company's financial instruments are presented below. The estimates require subjective judgments and are approximate. Changes in methodologies and assumptions could significantly affect estimates.

Line of Credit—The carrying amount outstanding on the revolving line of credit is \$25.0 million and \$2.0 million at December 31, 2005 and December 30, 2006, respectively, which approximates the estimated fair value as this instrument requires interest payments at a market rate of interest plus a margin.

Long-Term Notes Payable—The carrying amount outstanding on the long-term notes payable is \$34.8 million (including \$5.7 million of current payable) at December 30, 2006, which approximates the estimated fair value as these instruments require interest payments at a market value rate of interest plus a margin.

18. 401(K) DEFINED CONTRIBUTION PLAN:

The Company sponsors a 401(k) defined contribution plan covering substantially all full-time employees. Company contributions to the plan totaled approximately \$879,000 in 2004, \$880,000 in 2005, and \$787,000 in 2006.

19. COMMITMENTS AND CONTINGENCIES:

Repurchase Agreements

Many of the Company's sales to independent dealers are made on a "floorplan" basis by a bank or finance company which lends the dealer all or substantially all of the wholesale purchase price and retains a security interest in the vehicles. Upon request of a lending institution financing a dealer's purchases of the Company's product, the Company may execute a repurchase agreement. These agreements provide that, for up to 15 months after a unit is shipped, the Company will repurchase a dealer's inventory in the event a dealer defaults on its floorplan credit arrangement with its lender. It has been the Company's experience that the chance of default by dealers has been very low.

The Company's liability under repurchase agreements is limited to the unpaid balance owed to the lending institution by reason of its extending credit to the dealer to purchase its vehicles, reduced by the resale value of vehicles which may be repurchased. The risk of loss is spread over numerous dealers and financial institutions.

Losses of approximately \$600,000, \$79,000, and \$232,000 were incurred in 2004, 2005, and 2006, respectively. The approximate amount subject to contingent repurchase obligations arising from these agreements at December 30, 2006 is \$566.7 million, with approximately 6.6% concentrated with one dealer. The Company has recorded a liability of approximately \$462,000 for potential losses resulting from guarantees on repurchase obligations for products shipped to dealers. If the Company were obligated to repurchase a significant number of units under any repurchase agreement, its business, operating results, and financial condition could be adversely affected.

Product Liability

The Company is subject to regulations which may require the Company to recall products with design or safety defects, and such recall could have a material adverse effect on the Company's business, results of operations, and financial condition.

The Company has from time to time been subject to product liability claims. To date, the Company has been successful in obtaining product liability insurance on terms the Company considers acceptable. The terms of the policy contain a self-insured retention amount of \$500,000 per occurrence, with a maximum annual aggregate self-insured retention of \$3.0 million. Overall product liability insurance, including umbrella coverage, is available to a maximum amount of \$100.0 million for each occurrence, as well as in the aggregate. There can be no assurance that the Company will be able to obtain insurance coverage in the future at acceptable levels or that the cost of insurance will be reasonable. Furthermore, successful assertion against the Company of one or a series of large uninsured claims, or of one or a series of claims exceeding any insurance coverage, could have a material adverse effect on the Company's business, results of operations, and financial condition.

Litigation

The Company is involved in various legal proceedings which are incidental to the industry and for which certain matters are covered in whole or in part by insurance or otherwise. The Company has recorded accruals for probable settlements. Management believes that any ultimate liability which may result from these proceedings will not have a material adverse effect on the Company's consolidated financial statements.

20. SUBSEQUENT EVENTS:

Joint Venture

On February 25, 2006, the Company closed a transaction with International Truck and Engine Corporation to form a joint venture to manufacture substantially all of the Company's rear engine diesel chassis. The terms of the agreement grant the Company a 49% ownership in the joint venture, known as Custom Chassis Products, LLC (CCP). We contributed \$4.7 million of capital consisting of inventories, fixed assets, and cash to CCP.

Purchase Commitment

Subsequent to December 30, 2006, the Company issued purchase orders to Cummins (the Company's major supplier of diesel engines) in the amount of \$19.9 million. The Company will consume these engines during the 2007 fiscal year.

21. QUARTERLY RESULTS (UNAUDITED):

Year ended December 31, 2005	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	<i>(in thousands, except per share data)</i>			
Net sales	\$328,813	\$304,512	\$296,953	\$305,960
Gross profit	35,896	32,987	24,619	31,268
Operating income (loss)	8,939	1,655	(7,375)	4,002
Net income (loss):				
Continuing operations	5,364	965	(4,355)	1,995
Discontinued operations	(41)	(210)	(1,608)	538
	\$ 5,323	\$ 755	\$ (5,963)	\$ 2,533
Earnings (loss) per share - basic:				
Continuing operations	\$ 0.18	\$ 0.03	\$ (0.15)	\$ 0.07
Discontinued operations	0.00	0.00	(0.05)	0.02
Basic	\$ 0.18	\$ 0.03	\$ (0.20)	\$ 0.09
Earnings (loss) per share - diluted:				
Continuing operations	\$ 0.18	\$ 0.03	\$ (0.15)	\$ 0.06
Discontinued operations	0.00	0.00	(0.05)	0.02
Diluted	\$ 0.18	\$ 0.03	\$ (0.20)	\$ 0.08
Year ended December 30, 2006	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	<i>(in thousands, except per share data)</i>			
Net sales	\$385,068	\$321,283	\$292,473	\$299,163
Gross profit	48,449	30,491	18,533	27,071
Operating income (loss)	14,470	793	(10,941)	(512)
Net income (loss):				
Continuing operations	8,293	479	(7,098)	(687)
Discontinued operations	0	(107)	0	125
	\$ 8,293	\$ 372	\$ (7,098)	\$ (562)
Earnings (loss) per share - basic:				
Continuing operations	\$ 0.28	\$ 0.01	\$ (0.24)	\$ (0.02)
Discontinued operations	0.00	0.00	0.00	0.00
Basic	\$ 0.28	\$ 0.01	\$ (0.24)	\$ (0.02)
Earnings (loss) per share - diluted:				
Continuing operations	\$ 0.28	\$ 0.01	\$ (0.24)	\$ (0.02)
Discontinued operations	0.00	0.00	0.00	0.00
Diluted	\$ 0.28	\$ 0.01	\$ (0.24)	\$ (0.02)

(1) Third quarter 2005 amounts have been revised for a reclassification of tax credit from net income from discontinued operations to net income from continuing operations of \$49,000.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Monaco Coach Corporation

We have completed integrated audits of Monaco Coach Corporation's consolidated financial statements and of its internal control over financial reporting as of December 30, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Monaco Coach Corporation and its subsidiaries (the "Company") at December 30, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the consolidated financial statements, the company changed the manner in which it accounts for share-based compensation in 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 30, 2006 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control—Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards

require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

March 14, 2007

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 30, 2006. In making this assessment, management used the criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on its assessment of internal controls over financial reporting, management has concluded that, as of December 30, 2006, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management's assessment of the effectiveness of internal control over financial reporting as of December 30, 2006 has been audited by PricewaterhouseCoopers LLP an independent registered public accounting firm.

BOARD OF DIRECTORS

Kay L. Toolson
Chairman of the Board
and Chief Executive Officer,
Monaco Coach Corporation

Richard E. Colliver
Executive Vice President,
American Honda Motor Co., Inc.

John F. Cogan
Senior Fellow, Hoover Institution,
Stanford University

Robert P. Hanafee, Jr.
Private Investor

L. Ben Lytle
Consultant and Member of Board of
Managers/Directors, Healthways

Dennis D. Oklak
Chairman of the Board
and Chief Executive Officer,
Duke Realty Corporation

Richard A. Rouse
Private Investor

Daniel C. Ustian
Chairman of the Board, President
and Chief Executive Officer,
Navistar International Corporation

Roger A. Vandenberg
President, Cariad Capital, Inc.

EXECUTIVE OFFICERS

Kay L. Toolson
Chairman of the Board and
Chief Executive Officer

John W. Nepute
President

Richard E. Bond
Senior Vice President
and Chief Administrative Officer

P. Martin Daley
Vice President
and Chief Financial Officer

Michael P. Snell
Vice President, Sales and Marketing

Charles J. Kimball
Corporate Controller
and Chief Accounting Officer

OTHER OFFICERS AND KEY MANAGEMENT PERSONNEL

Patrick F. Carroll
Vice President, Product Development

Martin W. Garriott
Vice President, Oregon Manufacturing

John B. Healey, Jr.
Vice President, Corporate Purchasing

Garth R. Herring
Vice President, Service Operations

Richard G. Kangail
Vice President, Human Resources

April A. Lynch-Klein
Vice President, Customer Support Services

Craig M. Swisher
Vice President, Towable Operations

Irvin M. Yoder
Vice President, Indiana Manufacturing

Ronald J. Stone
Director, Information Services

Chris G. Hundt
Managing Director, Engineering

Jeff Abney, Gifford Akins, Kurt Anderson, Terri Archambault, Chris Ballinger, Joni Beachy, Jennifer Beck, Michael Becker, Mikeal Blomme, Dennis Bowen, Vance Buell, Steven Burkholder, Marv Burns, Jeffrey Butler, Roger Carlson, Debbie Carr, Carolyn Champion, Melinda Cox, Michael Creech, Debbie Cronin, Arthur Deeds, William Devos, Ron Ericson, Andrea Evans, Jenny Evans, James Fox, Paul Freet, Kurt Gabrielson, Ray Gau, Jon Gawthrop, Dave Gibson, Dennis Girod, Glen Goins, Michael Green, Dale Grose, Adam Gudger, Pete Hanes, Bob Harlan, Bret Heckaman, E. Randall Henderson, Jeff Hill, Dale Hoogenboom, Melanie Hoover-Marsh, Brett Howard, John Hurd, Enoch Hutchcraft, Ames Jacobi, Sandra Kadash, Mark Kealoha, William Kellogg, James Keough, Sarah Kiley, Edgar Kinney, Lonny Kitchell, Marcus Konyon, Aaron Lafleur, Don Lance, Brett Larson, Bren Lauck, Scott Lilly, Phillip Lord, Dan Lutz, James Mac, Richard Mackin, Jack Mason, Brian Maurer, Daryl Maurer, Don May, Reba McClary, Brad McKinney, Gary Mehafeff, Danny Miller, Michael Miller, Scott Miller, Wesley Murphy, Deanna Ota, Michael Pangburn, Trish Parker, Eric Parkes, Ray Patterson, Harry Peffley, Steven Peterson, Yvonne Reed, Steve Reser, Loren Robertson, Page Robertson, Melanie Rose, Alan Schmucker, Rick Schraw, Noveen Sheikh, Jim Sheldon, Valerie Shirey, Defoe Shook, Allen Slagle, Michael Stanley, Gary Stanton, Teresa Stearns, Christina Sterling, Lyle Stutzman, Shannon Thatcher, Charles Tillery, Gisela Tracer, Charlene Walker, Rich Walter, Craig Wanichek, Dale Weins, Terry Welles, Mike Whitter, Phil Wilson, Scott Zimmer, Joseph Zurbuch

CORPORATE INFORMATION

Corporate Headquarters/
Oregon Manufacturing Facilities
91320 Coburg Industrial Way, Coburg, OR 97408
T: (541) 686-8011
www.monaco-online.com

INDIANA FACILITIES

606 Nelson's Parkway, Wakarusa, IN 46573
T: (574) 862-7211

R-VISION

2666 S. Country Club Road, Warsaw, IN 46580
T: (574) 268-2111

STOCK TRANSFER AGENT

Wells Fargo Shareowner Services
St. Paul, MN

COMMON STOCK

The company's common stock is listed on the New York Stock Exchange. Its trading symbol is MNC.

EMPLOYEES

5,400

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP, Portland, OR

ANNUAL MEETING

The 2007 annual meeting of stockholders will be held May 17, 2007, 1:00 p.m. local time, at the Hyatt Regency O'Hare Hotel, Chicago, IL.

CORPORATE COUNSEL

Wilson Sonsini Goodrich & Rosati,
Professional Corporation
Palo Alto, CA

INVESTOR RELATIONS INQUIRIES

Monaco Coach Corporation
91320 Coburg Industrial Way, Coburg, OR 97408
Attention: Investor Relations
T: (800) 634-0855
www.monaco-online.com

FORM 10-K AND INVESTOR INFORMATION

Copies of the Annual Report on Form 10-K filed with the Securities and Exchange Commission and other investor information may be obtained without charge from the Company upon written request to its Coburg, Oregon office, attention Investor Relations.

COPYRIGHT 2007

Monaco Coach Corporation. All rights reserved.



91320 COBURG INDUSTRIAL WAY
COBURG, OR 97408

541.686.8011
WWW.MONACO-ONLINE.COM

MNC
LISTED
NYSE