2005 Annual Report NYSE:MNC

Monaco Coach Corporation is one of the world's largest manufacturers of recreational vehicles and is the leading producer of luxury diesel motorhomes. Founded in 1968 and headquartered in Coburg, Oregon, with significant manufacturing facilities in Indiana, Monaco Coach Corporation employs over 6,000 people. The Corporation's broad product line includes 71 different models of motorhomes and towables sold under the Monaco, Holiday Rambler, Safari, Beaver, McKenzie and R-Vision brand names. This highly diversified line, ranging in price from $10,000 travel trailers to motorhomes over $575,000, is represented through an extensive network of independent retail dealerships.

In 2005, the company sold over 12,000 recreational vehicles and generated revenue in excess of $1.2 billion dollars. The Company also is engaged in the development of two luxury motorhome resorts in Indio, California and Las Vegas, Nevada. Monaco Coach Corporation is traded on the NYSE under the symbol MNC. For additional information about Monaco Coach Corporation, please visit www.monaco-online.com or www.trail-lite.com.

Franchise for the Future exterior sign

Franchise for the Future brand island

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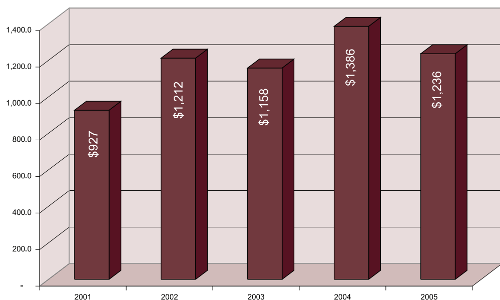
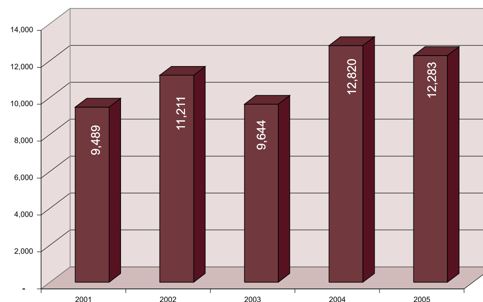
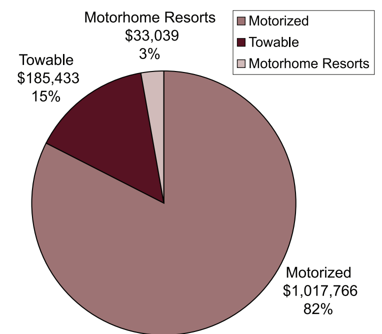


Net Sales ($ in Millions)



Total RV Unit Sales



Net Sales Per Segment
($ in 000's)

Financial Highlights

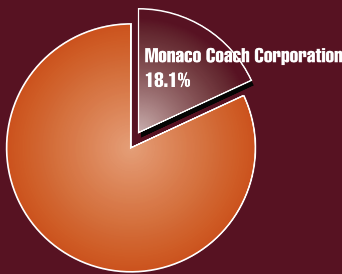
(Amounts in Thousands, expect per share data)

	2001	2002	2003	2004	2005
Net Sales	$ 927,228	$ 1,212,385	$ 1,158,083	$ 1,386,269	$ 1,236,238
Gross Profit	113,402	162,115	138,660	168,812	124,770
Operating Income	42,987	76,000	37,951	59,667	7,221
Net Income	24,919	44,515	22,200	36,705	2,648
Diluted Earnings Per Share	0.85	1.51	0.75	1.23	0.09

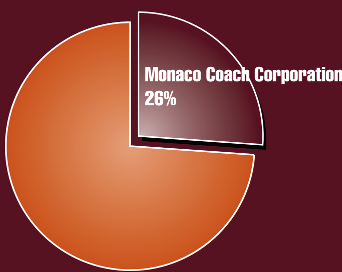
Kay L. Toolson
Chief Executive Officer
Chairman of the Board

John W. Nepute
President

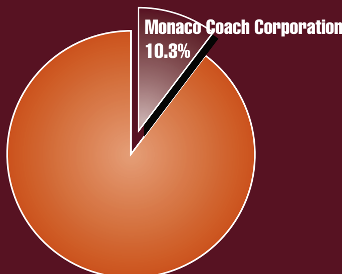
Class A Retail Market Share*



Diesel Class A Retail Market Share*



Gas Class A Retail Market Share*



To our fellow stockholders:

It's an understatement to say that 2005 was a difficult year for Monaco Coach Corporation. In fact, the year was one of the most challenging in recent history. A number of external factors contributed to the Company's demanding operating environment, including rising fuel prices, climbing interest rates and a general overcapacity within our industry. Overall retail demand for motorized products fell in the second half of the year and industry shipments of Class A models from all manufacturers were down more than 18% for the year. We worked hard to mitigate the impact of these conditions by becoming more productive and efficient in our day-to-day operations.

Even under these difficult circumstances, Monaco Coach Corporation gained market share in the key gasoline and diesel Class A motorhome segments. Keep in mind that these gains were against a backdrop of a retail diesel market that fell 7.7% for the year, and a gasoline Class A market that dropped more than 17%.

On the other hand, the towable market, which includes travel trailers, fifth wheels and toy haulers, grew by more than 3%. The rising retail demand for these products, coupled with the unprecedented need for disaster relief units due to Hurricane Katrina, pushed wholesale orders up by 20%, the highest level in more than 30 years. Monaco Coach Corporation is proud to be one of our industry's leaders in this relief effort.

During 2005, we reported revenue of $1.24 billion, approximately 10% less than the prior year, with net income of $2.6 million, or 9 cents per share on a fully diluted basis. Despite the difficult business environment we faced in 2005, we know these results are not acceptable. We know we must perform at a higher level. And, we will.

In mid-year at our annual dealer meeting, we announced our new "Franchise for the Future" initiative, designed to create a closer working relationship with our dealer partners. Historically, the relationship between manufacturers and dealers in our industry was nothing more than a simple working agreement. Both sides could easily cancel the relationship and walk away. Dealers would sell RVs like a commodity rather than a brand. We knew we had to move closer to a relationship akin to the premium brand dealers in the automotive world. The Franchise for the Future program allows us to shift from wholesale-based incentives to retail incentives. This places us in perfect alignment with our dealer partners.

So far, the results look very encouraging. Dealers are making larger gross profits selling Monaco Coach Corporation products and by selling our proprietary ancillary profit center products, such as our insured extended warranties and certified used programs. We're also delivering to our dealers brand signage, kiosks and additional selling tools which set us apart from other manufacturers in our industry. We will continue to explore additional products and services that

*Information provided by Statistical Surveys, Inc.

will become a part of the Franchise for the Future program. Because our motorized dealers now own a franchise, they see equity growing in their own business as we partner and prosper together.

As we foster a closer relationship with our dealers, our customers are benefiting as well. There are incentives built into the program to encourage our dealers to provide better service for our mutual customers. Again, this is an effort to meet service expectations established by the luxury brands in the auto industry, which will place us at the forefront of our industry.

With the advent of more expensive recreational vehicles, today's owners are searching for more upscale destinations to enjoy their RVs. To satisfy this demand, we successfully purchased and developed two luxury RV resorts in Las Vegas, Nevada and Indio, California. This segment reported operating income of more than $10 million last year. With lot inventory expected to be sold by the first quarter of 2007, we are nearing completion of these projects. We are evaluating additional potential sites in California, Florida and South Carolina, as well as other popular resort destinations.

In November of 2005, we acquired the R-Vision group of companies for the primary purpose of bolstering our presence in the towable end of the business. R-Vision specializes in lightweight, less-expensive travel trailers and fifth wheels sold under the Trail-Lite family of brand names. The company is performing well and its success is a contributor to our growth and profitability in this segment. We are confident that R-Vision's knowledge and experience will benefit us greatly as we continue to grow our towables business.

During the year, we had to take some very difficult steps and make some tough decisions. Beginning in the first quarter, we reduced our production workforce, and throughout the year we managed our production run rates with an eye to balancing them against retail sales, leading to a reduction and alignment of our dealer inventory levels. Additionally, in June we closed our Bend, Oregon facility that manufactured our Beaver models and fully integrated that production into our Coburg location. As a result of this move alone, we are expecting savings of up to $5 million per year.

In similar moves, during the third quarter we consolidated three production lines into two at our Wakarusa, Indiana facility, and we closed our Royale Coach bus conversion subsidiary. Maximizing use of our production capacity will remain one of our goals in the coming year. Additionally, in the latter part of 2005, we aligned our operating expenses closer to today's market environment, including a very difficult decision to lay off 225 non-production employees in October. Annualized savings from this change should approach $8 million.

Since our inception, 'innovation' has been Monaco Coach Corporation's middle name, and it has been a major component of our success. We pride ourselves on the development of exclusive

Safari Ivory

Holiday Rambler Vacationer

Beaver Monterey

Monaco Dynasty

R-VISION

and industry-leading features, like our Roadmaster chassis, quad and full-wall slide-out rooms, one-piece windshields, and creating models like our new low-cost, entry-level Vacationer and La Palma diesel models.

Creativity and innovation are not limited to our products. An example is the recently-constructed MonaCare healthcare facility built on our Coburg, Oregon campus. In an attempt to control the increasing costs of healthcare to our employees, we collaborated with local medical firms to build and staff a full-service clinic and pharmacy. The convenience and savings for employees reaffirms our position as the employer of choice in the community. We are planning a similar project in Indiana.

Looking ahead, we will continue to translate our leadership position in product development and dealer relations into value for our stockholders. Both areas rely on our ambition to be closer to the retail customer than any other manufacturer, and to build the products they want with the features they desire. There exists the opportunity to deliver products that are reliable and service-free. RVs are complex; they are effectively houses on wheels that travel at speeds of 65 mph or more. Today's buyers expect and deserve exceptional sales and service experiences. By working closely with our dealers, we believe we can set the industry standard for service at Monaco Coach Corporation dealerships and capitalize on this enormous opportunity.

As you can see, our management team has made a number of difficult and strategic decisions to prepare the Company for 2006. By continuing to focus on product innovation, maintaining our market-leading position, growing our Franchise for the Future program, lowering dealer inventory levels, reducing overhead and rationalizing our production levels, we believe we have uniquely positioned the Company for the years ahead. In addition, the acquisition of R-Vision will help us capitalize on the growing towable market.

The market in the near-term is cloudy at best, but we can assure you that we are poised for a return to the growth levels we have experienced before. The next decade promises to be exciting and rewarding. More than 11,000 Americans are turning 50 every day, and for them, the feeling and passion for our products and the RV lifestyle remain undeniable.

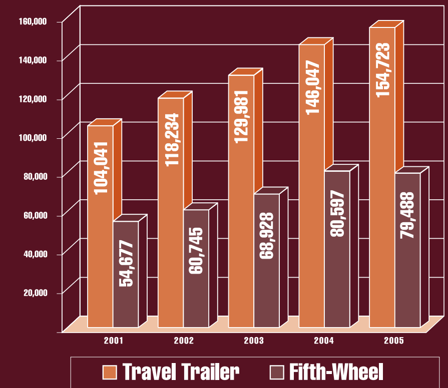
On behalf of our more than 6,000 employees, our dealer partners, suppliers and our Board of Directors, we thank you for your continued confidence and support.

Sincerely,

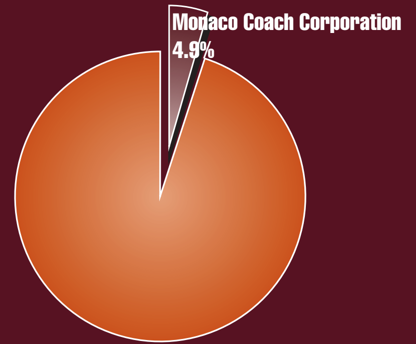
Kay L. Toolson
Chairman of the Board and Chief Executive Officer

John W. Nepute
President

Industry Towable Retail Unit Sales*



Travel Trailer and Fifth-Wheel Retail Market Share*



Holiday Rambler
Presidential Fifth Wheel

Trail-Lite by R-Vision

McKenzie Dune Chaser
Travel Trailer

MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

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 closing sale prices for the Common Stock (rounded to the nearest $.01 per share).

	High		Low	
2005				
First Quarter	$	20.04	$	15.97
Second Quarter	$	17.19	$	14.02
Third Quarter	$	18.44	$	14.20
Fourth Quarter	$	15.45	$	11.99
2004				
First Quarter	$	29.04	$	22.25
Second Quarter	$	30.68	$	23.80
Third Quarter	$	26.76	$	19.96
Fourth Quarter	$	22.01	$	17.33

As of March 13, 2006, there were approximately 907 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 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.

The market price of the Company's 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 the Company or its 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 the Company's Common Stock could experience similar fluctuations.

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 Exchange 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 $575,000 for motor coaches and from $1,000 to $70,000 for towables. Based upon retail registrations in 2005, we believe we had 26.0% share of the market for diesel Class A motor coaches, a 10.3% share of the market for gas Class A motor coaches, an 18.1% share of the market for all Class A motor coaches, a 3.2% market for all Class C motor coaches, a 4.5% share of the market for fifth wheel towables and a 5.1% 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. 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 $319,900. Amenities

at the Resorts include club house facilities, tennis, swimming, and golf. The Resorts provide destination locations for premium Class A recreational vehicle owners, and help to promote the recreational lifestyle.

Business Changes

We have conducted a series of acquisitions during our history. beginning in March 1993 when 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. And, 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 31, 2005 in the consolidated annual financial statements of the Company.

During the third quarter of 2005, the Company announced that it was closing 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 2005, all closure costs have been accrued for in the Company's financial statements.

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 2003, 2004, or 2005. Instead, SFAS 142 requires annual testing of goodwill for impairment. We completed our annual testing of goodwill during the third quarter of 2005 as required by SFAS 142 and determined that there has been no impairment requiring a write down.

RESULTS OF OPERATIONS

The following table sets forth our results of continuing 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)	—
Operating income	$ 59,667	4.3%	$ 7,221	0.6%	$ (52,446)	-87.9%

Performance in 2005

Motorized and Towable Recreational Vehicle Segments

In the third and fourth quarters of 2004, the recreational vehicle industry began to show signs of slowing down from its previously heated pace. This trend continued through the first half of 2005, and worsened during the second half of the year, resulting in net operating losses for both recreational vehicle segments. Accordingly, the Company took steps to reduce production run rates within its various facilities and also shifted production output to reflect changes in product demand mix. In addition, the Company also relocated its Bend, Oregon manufacturing operations to its Coburg, Oregon facility, and ceased operating its Royale Coach bus conversion manufacturing business in Elkhart, Indiana. While both of these decisions were difficult to make, they were positive steps toward maximizing utilization of manufacturing capacity at the various production plants. Costs associated with relocation of the Bend, Oregon operations are reflected as plant relocation costs, and represent actual costs incurred as well as estimates for future costs. Closure costs for the Royale Coach facility are shown after income from continuing operations, and are classified net of respective income taxes as discontinued operations. Closure costs reflect actual costs incurred as well as estimates for future costs.

While 2005 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 acquired R-Vision to complement our higher line towable product offerings with R-Vision's lower-priced models, thereby filling out our towable price points, and strengthening our position within the towable marketplace.

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 was

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. We believe that this concept, along with other features designed to entice 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 2005 was difficult for the recreational vehicle industry, our motorhome resort properties sales and profits were significantly improved over 2004 results. Both our properties in Las Vegas, Nevada and Indio, California experienced better than expected results of operations, with combined operating profits of $10.3 million in 2005 versus operating profits of $645,000 in 2004. We believe that these resort properties will continue to sell through their respective remaining available inventories of lots in 2006 and in the first quarter of 2007.* During 2006 we expect to evaluate opportunities for new property developments, with the intent of bringing new developments to the market in 2007.*

2005 Compared With 2004

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% 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 (FEMA). FEMA 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. The decrease in gross margin in 2005 is 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 which further dampened margins.

Selling, general, and administrative expenses (S,G,&A) increased by $4.0 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
Wages and salaries	$ 24,348	1.8%	$ 18,420	1.5%	-0.3%
Selling expenses	35,896	2.6%	42,377	3.4%	0.8%
Settlement expense	11,045	0.8%	9,635	0.8%	0.0%
Advertising and print	12,447	0.9%	11,635	1.0%	0.1%
Other	25,409	1.8%	31,112	2.5%	0.7%
Total S,G,&A expenses	$ 109,145	7.9%	$113,179	9.2%	1.3%

- Decreases in wages and salaries 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, as a percent of sales, 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 advertising and print costs in 2005, as a percent of sales, 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 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 4.3% in 2004 to 0.6% in 2005 that was only partially offset by improved results from our motorhome resort property segment.

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. Capitalized interest was zero in both 2004 and 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 options 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 will reflect the cost of stock options 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	—	—	4,370	0.4%	(4,370)	—
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 $1.2 billion in 2004, to $1.0 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 worker's 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 somewhat dampened 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 worker's 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	1499.7%

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 Resorts 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.

2004 Compared With 2003

The following table sets forth our results of operations for the fiscal years ended January 3, 2004 and January 1, 2005 (dollars in thousands):

	2003	% of Sales	2004	% of Sales	$ Change	% Change
Net sales	$ 1,158,083	100.0%	$ 1,386,269	100.0%	$ 228,186	19.7%
Cost of sales	1,019,423	88.0%	1,217,457	87.8%	(198,034)	-19.4%
Gross profit	138,660	12.0%	168,812	12.2%	30,152	21.7%
Selling, general, and administrative expenses	100,709	8.7%	109,145	7.9%	(8,436)	-8.4%
Operating income	$ 37,951	3.3%	$ 59,667	4.3%	$ 21,716	57.2%

Net sales increased 19.7% from $1.2 billion in 2003 to $1.4 billion in 2004. Gross diesel motorized revenues were up 15.6%, while gas motorized were up 21.1%, and towables were up 51.7%. For 2004, gross diesel motorized sales accounted for 76.2% of sales, gas motorized sales accounted for 13.8% of sales, and towables accounted for 10.1% of sales. For 2003, gross diesel motorized sales accounted for 78.6% of sales, gas motorized accounted for 13.5% of sales, and towables accounted for 7.9% of sales. The decrease in diesel motorized sales, as a percentage of sales, reflects the improvement in gas motorized market share. Accordingly, as diesel motorized product shrunk as a percentage of sales, the Company's overall average unit selling price decreased from $120,000 in 2003, to $107,000 in 2004.

Gross profit increased by $30.2 million from $138.7 million in 2003 to $168.8 million in 2004 and gross margin increased from 12.0% in 2003 to 12.2% in 2004. Changes in the components of cost of sales are set forth in the following table (dollars in thousands, percentages as percent of sales):

	2003	% of Sales	2004	% of Sales	Change in % of Sales
Direct materials	$ 709,603	61.2%	$ 865,822	62.4%	1.2%
Direct labor	120,308	10.4%	139,205	10.0%	-0.4%
Warranty	34,796	3.0%	34,126	2.5%	-0.5%
Other direct	55,434	4.8%	66,456	4.8%	0.0%
Indirect	99,282	8.6%	111,848	8.1%	-0.5%
Total cost of sales	$ 1,019,423	88.0%	$ 1,217,457	87.8%	-0.2%

- Direct material increases in 2004, as a percent of sales, were due to both a shift in product mixes and increases in commodity prices such as steel, aluminum, and petroleum-based materials.
- Direct labor decreases in 2004, as a percent of sales, were predominantly due to improvements in automation of certain plant operations.
- Decreases in warranty expense in 2004, as a percent of sales, were due mostly to quality improvement projects, and improvements in recoveries from vendors for warranty claims.
- Decreases in indirect costs in 2004, as a percent of sales, were due mostly to efficiencies within the plants as a result of improved plant utilization.

S,G,&A expenses increased by $8.4 million from $100.7 million in 2003 to $109.1 million in 2004 and decreased as a percentage of sales from 8.7% in 2003 to 7.9% in 2004. Decreases in spending over the prior year, as a percentage of sales, set forth in the following table (dollars in thousands):

	2003	% of Sales	2004	% of Sales	Change in % of Sales
Wages and salaries	$ 19,260	1.7%	$ 24,348	1.8%	0.1%
Selling expenses	35,040	3.0%	35,896	2.6%	-0.4%
Settlement expense	12,678	1.1%	11,045	0.8%	-0.3%
Advertising and print	11,664	1.0%	12,447	0.9%	-0.1%
Other	22,067	1.9%	25,409	1.8%	-0.1%
Total S,G,&A expenses	$ 100,709	8.7%	$ 109,145	7.9%	-0.8%

- Increases in wages and salaries as a percent of sales and in total dollars were due to higher levels of management bonus due to increased profits in 2004 versus 2003.
- Decreases in selling expenses, as a percent of sales, were due to stronger demand for product in 2004 versus 2003.
- Decreases in settlement expense (litigation settlement expense), as a percent of sales, was due to a slight decrease in the amount of new cases added, as well as favorable resolutions of cases during the 2004 year.
- Decreases in advertising and print costs, as a percent of sales, were a function of higher sales during the year for which the Company did not increase total dollars spent.
- Increases in other expenses were a combination of increases in audit and related expenses for compliance with the internal control requirements of the Sarbanes-Oxley Act, as well as employee benefits such as health care costs.

Operating income increased $21.7 million from $38.0 million in 2003 to $59.7 million in 2004. The Company's lower level of selling, general, and administrative expense as a percentage of sales combined with the increase in the Company's gross margin, resulted in an increase in operating margin from 3.3% in 2003 to 4.3% in 2004.

Net interest expense decreased from $3.0 million in 2003 to $1.5 million in 2004. This decrease was related to lower debt levels during 2004 as the Company continued to pay down long-term debt. Capitalized interest was $285,000 in 2003 and zero in 2004. The Company's interest expense included $426,000 in 2003 and $430,000 in 2004 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 $22.0 million, or an effective tax rate of 37.5%, for 2004, compared to $13.3 million, or an effective tax rate of 37.5% for 2003. The effective rate remained consistent as the Company has continued to receive the benefits associated with multi-state tax filings, as well as favorable federal tax rates associated with foreign sales.

Net income increased by $14.5 million from $22.2 million in 2003 to $36.7 million in 2004, due to the combination of increases in net sales, increases in gross margins, and increases in operating margins. The Company did not expense stock option grants in 2004 and earlier periods, however, if option expensing had been required, the impact on net income for 2004 for all previously granted options would have been a decrease of $1.6 million. See Note 16 of the Company's consolidated financial statements for information regarding the calculation of the impact of expensing stock options.

2004 versus 2003 for the Motorized Recreational Vehicle Segment

The following table sets forth the results of the MRV segment for the fiscal years ended January 3, 2004 and January 1, 2005 (dollars in thousands):

	2003	% of Sales	2004	% of Sales	$ Change	% Change
Net sales	$ 1,059,347	100.0%	$ 1,234,233	100.0%	$ 174,886	16.5%
Cost of sales	930,902	87.9%	1,080,972	87.6%	(150,070)	-16.1%
Gross profit	128,445	12.1%	153,261	12.4%	24,816	19.3%
Selling, general, and administrative expenses	37,652	3.5%	38,566	3.1%	(914)	-2.4%
Corporate overhead allocation	50,295	4.8%	51,470	4.2%	(1,175)	-2.3%
Operating income	$ 40,498	3.8%	$ 63,225	5.1%	$ 22,727	56.1%

Total net sales for the MRV segment were up from $1.1 billion in 2003, to $1.2 billion in 2004. Gross diesel motorized revenues were up 15.6% and gas motorized revenues were up 21.1%. Diesel products accounted for 84.7% of 2004 MRV segment gross revenues while gas products were 15.3%. The overall increase in revenues reflected a resurgence in the motorized market in 2004. Our overall unit sales were up 16.3% year over year from 7,029 units in 2003 to 8,178 units in 2004. Diesel motorized unit sales were up 13.7% to 5,744 units and gas motorized unit sales were up 23.1% to 2,434 units. Total average unit selling prices remained consistent from year to year at $151,000.

Gross profit for 2004 increased to $153.3 million, up from $128.4 million in 2003, and gross margin increased from 12.1% in 2003 to 12.4% in 2004. Changes in the components of cost of sales are set forth in the following table (dollars in thousands):

	2003	% of Sales	2004	% of Sales	Change in % of Sales
Direct materials	$ 647,023	61.1%	$ 766,924	62.1%	1.0%
Direct labor	108,280	10.2%	122,298	9.9%	-0.3%
Warranty	31,675	3.0%	30,058	2.4%	-0.6%
Other direct	49,475	4.7%	56,232	4.7%	0.0%
Indirect	94,449	8.9%	105,460	8.5%	-0.4%
Total cost of sales	$ 930,902	87.9%	$ 1,080,972	87.6%	-0.3%

- Direct material increases in 2004, as a percent of sales, were mostly due to increases in commodities pricing during 2004 for key items such as metals, petroleum products, and lumber as well as increases in sales of gas motorized products, which typically have a higher cost of direct materials as a percent of sales.
- Direct labor decreases in 2004, as a percent of sales, were predominantly due to efficiencies in the production lines related to higher production run rates.
- Decreases in warranty expense in 2004, as a percent of sales, were due mostly to the continued focus on quality improvement programs in 2004.
- Decreases in indirect costs in 2004, as a percent of sales, were due mostly to decreased overhead costs per unit within the production facilities due to higher run rates in 2004 versus 2003.

S,G,&A expenses for the MRV segment decreased as a percent of sales due in part to higher sales levels in 2004. Corporate overhead allocation, as a percent of sales, also decreased due to higher sales levels in 2004. Corporate overhead allocation is comprised of certain shared services such as executive, financial, information systems, legal, and investor relations expenses.

Operating income increased as both a percent of sales and in total dollars due to higher gross margins and decreases in S,G,&A expenses.

2004 versus 2003 for the Towable Recreational Vehicle Segment

The following table sets forth the results of the TRV segment for the fiscal years ended January 3, 2004 and January 1, 2005 (dollars in thousands):

	2003	% of Sales	2004	% of Sales	$ Change	% Change
Net sales	$ 87,980	100.0%	$ 129,331	100.0%	$ 41,351	47.0%
Cost of sales	80,816	91.9%	123,314	95.4%	(42,498)	-52.6%
Gross profit	7,164	8.1%	6,017	4.6%	(1,147)	-16.0%
Selling, general, and administrative expenses	3,321	3.8%	4,827	3.7%	(1,506)	-45.3%
Corporate overhead allocation	4,348	4.9%	5,393	4.2%	(1,045)	-24.0%
Operating loss	$ (505)	-0.6%	$ (4,203)	-3.3%	$ (3,698)	-732.3%

Total net sales for the TRV segment were up from $88.0 million in 2003, to $129.3 million in 2004. The overall increase in revenues reflected an increase in the overall towable market as well as market share gains we made during 2004. Our unit sales were up 78.2% in 2004 to 4,621 units. Average unit selling prices declined from $35,000 in 2003 to $30,000 in 2004. The decrease in average selling price was mostly due to increases in sales of lower priced travel trailers in 2004.

Gross profit for 2004 decreased to $6.0 million, down from $7.2 million in 2003, and gross margin decreased to 4.6% in 2004, down from 8.1% in 2003. Changes in the components of cost of sales are set forth in the following table (dollars in thousands):

	2003	% of Sales	2004	% of Sales	Change in % of Sales
Direct materials	$ 54,874	62.4%	$ 85,727	66.3%	3.9%
Direct labor	12,028	13.7%	16,908	13.1%	-0.6%
Warranty	3,121	3.5%	4,067	3.2%	-0.3%
Other direct	5,960	6.8%	10,225	7.9%	1.1%
Indirect	4,833	5.5%	6,387	4.9%	-0.6%
Total cost of sales	$ 80,816	91.9%	$ 123,314	95.4%	3.5%

- Direct material increases in 2004, as a percent of sales, were mostly due to increases in sales of products that have a higher material cost as a percentage of sales (such as for lower priced travel trailers). Higher commodity pricing for metals, petroleum products, and lumber also contributed to the increase.
- Direct labor decreases in 2004, as a percent of sales, were predominantly due to higher production run rates in our plants.
- Decreases in warranty expense in 2004, 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 2004, as a percent of sales, were due mostly to increases in employee health benefits and delivery expense for the Company's products.
- Decreases in indirect costs in 2004, as a percent of sales, were due mostly to higher run rates in our plants which improved factory overhead allocations.

S,G,&A expenses for the TRV segment increased in total dollars in part to increases in marketing and sales to promote market share gains. Corporate overhead allocation decreased slightly due to lower levels allocated to the TRV segment. Corporate overhead allocation is comprised of certain shared services such as executive, financial, information systems, legal, and investor relations expenses.

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

2004 versus 2003 for the Motorhome Resorts Segment

The following table sets forth the results of the MR segment for the fiscal years ended January 3, 2004 and January 1, 2005 (dollars in thousands):

	2003	% of Sales	2004	% of Sales	$ Change	% Change
Net sales	$ 10,756	100.0%	$ 22,705	100.0%	$ 11,949	111.1%
Cost of sales	7,705	71.6%	13,171	58.0%	(5,466)	-70.9%
Gross profit	3,051	28.4%	9,534	42.0%	6,483	212.5%
Selling, general, and administrative expenses	914	8.5%	4,194	18.5%	(3,280)	-358.9%
Corporate overhead allocation	4,179	38.9%	4,695	20.7%	(516)	-12.3%
Operating income (loss)	$ (2,042)	-19.0%	$ 645	2.8%	$ 2,687	131.6%

Net sales increased 111.1% to $22.7 million in 2004 compared to $10.8 million in 2003. 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 42.0% of sales in 2004 compared to 28.4% of sales in 2003. This was due to a heavier absorption of infrastructure costs in earlier phases sold in 2003. 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 2004.

S,G,&A expenses in 2004 increased due to real estate commissions paid on the sales of lots. 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 2005, the Company generated cash of $34.3 million from operating activities and had a net cash balance of $586,000 at December 31, 2005. The Company generated $13.3 million from net income and non-cash expenses such as depreciation and amortization. Adjusted for the non-cash activity due to the R-Vision acquisition, the other major sources of cash included a decrease in accounts receivable of $39.2 million. The uses of cash in 2005 (adjusted for the non-cash activity due to the R-Vision acquisition) included an increase of $2.9 million in inventories, a decrease of $5.9 million in trade accounts payables, a decrease of $1.6 million in product liability reserves, a decrease of $4.5 million in product warranty reserves, and a decrease of $2.3 million in income taxes payable. Decreases in accounts receivable were due to the timing of shipments of our products at the end of 2005 versus 2004. Increases in inventories were mostly the result of higher finished goods at the end of 2005 versus 2004. Decreases in accounts payable were mostly due to payments made in the fourth quarter of 2005 for our Franchise For The Future (FFTF) program. These payments to our dealers for sales incentives earned were accrued for and paid out later in the year for 2004. Decreases in product liability reserves, as well as for product warranty reserves were the result of continuing improvements in the quality of our products and lower sales volumes. Decreases in income taxes payable are the result of lower income for the 2005 year versus 2004.

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 2005 year, borrowings outstanding on the revolving line of credit (the "Revolving Loan") were $25.0 million, and Term Debt borrowings were $40.0 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 31, 2005. 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 31, 2005 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 floor plan arrangements with third parties as described below. At December 31, 2005, the Company had working capital of approximately $127.2 million, a decrease of $14.7 million from working capital of $141.9 million at January 1, 2005. The Company has been using short-term credit facilities and 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 $17.7 million in 2005, 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 2006 will be approximately $15 to $18 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 floor plan financing arrangements with third party lending institutions to finance their purchases of the Company's products. Under the terms of these floor plan arrangements, institutional lenders customarily require the recreational vehicle manufacturer to agree to repurchase any unsold units if the dealer fails to meet its commitments to 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 18 months. At December 31, 2005, approximately $607.3 million of products sold by the Company to independent dealers were subject to potential repurchase under existing floor plan financing agreements with approximately 5.9% concentrated with one dealer. Historically, the Company has been successful in mitigating losses associated with repurchase obligations. During 2005, the losses associated with the exercise of repurchase agreements were approximately $79,000, ($600,000, and $897,000 in 2004 and 2003, respectively). Gross repurchase amounts for 2005, 2004, and 2003, were $2.7 million, $6.5 million, and $4.9 million, respectively. We have been successful at mitigating the losses associated with repurchase obligations. Dealers for the Company undergo credit review prior to becoming a dealer and periodically thereafter. Financial institutions that provide floor plan 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 18 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.

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 (in thousands)	1 year or less	1 to 3 years	4 to 5 years	Thereafter	Total
Lines of credit (1)	$ 0	$ 0	$ 25,000	$ 0	$ 25,000
Long-term debt (2)	5,714	11,429	23,357	0	40,500
Operating leases (3)	3,617	2,816	2,106	3,588	12,127
Total contractual cash obligations	$ 9,331	$ 14,245	$ 50,463	$ 3,588	$ 77,627

AMOUNT OF COMMITMENT EXPIRATION BY PERIOD

Other Commitments (in thousands)	1 year or less	1 to 3 years	4 to 5 years	Thereafter	Total
Lines of credit (4)	$ 0	$ 0	$ 80,000	$0	$ 80,000
Guarantees (3)	0	14,302	0	0	14,302
Repurchase obligations (5)	0	607,321	0	0	607,321
Total commitments	$ 0	$ 621,623	$ 80,000	$0	$ 701,623

(1) See Note 8 of Notes to the Consolidated Financial Statements. The amount listed represents the outstanding balance at December 31, 2005.
(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 31, 2005.
(5) Reflects obligations under manufacturer repurchase commitments. See Note 19 of Notes to the Consolidated Financial Statements.

INFLATION

During 2004 and to a lesser extent in 2005, 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 2004, we adjusted selling prices to compensate for increases in commodity pricing. Also, due to increases in fuel prices, particularly in 2005, our cost of delivering coaches to our dealers has risen. Accordingly, we have increased our delivery charges for the fourth quarter of 2005 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 2005 Compared with 2004.”

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 initial test involves management comparing the market capitalization of the Company, to the carrying amount, including goodwill, of the net book value of the Company, to determine if goodwill has been impaired. If the Company determines that the market capitalization is not representative of the fair value of the reporting unit as a whole, then the Company will use an estimate of discounted future cash flows to determine fair value.

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.

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 useful lives.

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") to acquire all of the outstanding shares of 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, the amortization of debt issuance costs, 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 margins associated with the mix of products we sell in any particular period.
- We 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 on-going 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 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. For example, unit shipments of recreational vehicles (excluding conversion vehicles) peaked at approximately 259,000 units in 1994 and declined to approximately 247,000 units in 1996. The industry peaked again in 1999 at approximately 321,000 units and declined in 2001 to 257,000 units. The industry continued to climb to approximately 321,000 units in 2003, 370,000 units in 2004, and 384,000 in 2005. Our business is subject to the cyclical nature of this industry. Some of the factors that contribute to this cyclicality include fuel availability and costs, interest rate levels, the level of discretionary spending, and availability of credit and overall consumer confidence. The recent decline in consumer confidence and slowing of the overall economy has adversely affected the 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 approximately 580 dealerships located primarily in the United States and Canada as of December 31, 2005, a significant percentage of our sales are concentrated among a relatively small number of independent dealers. For fiscal years 2004 and 2005, sales to one dealer, Lazy Days RV Center, accounted for 10.9% of total sales. For fiscal years 2004 and 2005, sales to our 10 largest dealers, including Lazy Days RV Center, accounted for a total of 39.0% and 38.7% 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 does not repay its lender. Obligations under these agreements vary from period to period, but totaled approximately $607.3 million as of December 31, 2005, with approximately 5.9% 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 floor plan 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 31, 2005, total trade receivables were $102.7 million, with approximately $72.6 million, or 70.7% of the outstanding accounts receivable balance concentrated among floor plan lenders. The remaining $30.1 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, will 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 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 We have recently begun 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.
- It could require us 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 to 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 2005 annual report on Form 10-K filed with the SEC on March 16, 2006. In addition, on June 14, 2005, 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.

MONACO COACH CORPORATION

CONSOLIDATED BALANCE SHEETS

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

	January 1, 2005	December 31, 2005
ASSETS		
Current assets:		
Cash	$ 0	$ 586
Trade receivables, net of allowance of $482, and $778, respectively	127,298	102,666
Inventories, net	162,217	183,292
Resort lot inventory	7,315	9,135
Prepaid expenses	5,177	4,364
Income taxes receivable	0	206
Deferred income taxes	33,188	36,345
Discontinued operations	7,655	4,922
Total current assets	342,850	341,516
Property, plant, and equipment, net	141,462	159,304
Debt issuance costs net of accumulated amortization of $572, and $678, respectively	571	695
Goodwill	55,254	85,952
Discontinued operations	101	0
Total assets	$ 540,238	$ 587,467
LIABILITIES		
Current liabilities:		
Book overdraft	$ 2,075	$ 14,550
Current portion of long-term debt	0	5,714
Line of credit	34,062	25,000
Accounts payable	75,476	78,299
Product liability reserve	20,233	19,275
Product warranty reserve	31,884	32,902
Income taxes payable	2,087	0
Accrued expenses and other liabilities	31,202	37,732
Discontinued operations	3,924	853
Total current liabilities	200,943	214,325
Long-term debt, less current portion	0	34,786
Deferred income taxes	19,679	21,624
Total liabilities	220,622	270,735
Commitments and contingencies (Note 19)		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 1,934,783 shares authorized, no shares outstanding	0	0
Common stock, $.01 par value; 50,000,000 shares authorized, 29,425,787 and 29,561,766 issued and outstanding, respectively	294	296
Additional paid-in capital	57,454	59,005
Retained earnings	261,868	257,431
Total stockholders' equity	319,616	316,732
Total liabilities and stockholders' equity	$ 540,238	$ 587,467

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

MONACO COACH CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

for the years ended January 3, 2004, January 1, 2005, and December 31, 2005

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

	2003	2004	2005
Net sales	$ 1,158,083	$ 1,386,269	$ 1,236,238
Cost of sales	1,019,423	1,217,457	1,111,468
Gross profit	138,660	168,812	124,770
Selling, general, and administrative expenses	100,709	109,145	113,179
Plant relocation costs	0	0	4,370
Operating income	37,951	59,667	7,221
Other income, net	260	343	255
Interest expense	(2,968)	(1,547)	(1,820)
Income before income taxes and discontinued operations	35,243	58,463	5,656
Provision for income taxes, continuing operations	13,220	21,914	1,687
Net income from continuing operations	22,023	36,549	3,969
Income (loss) from discontinued operations, net of tax provision	177	156	(1,321)
Net income	$ 22,200	$ 36,705	$ 2,648
Earnings (loss) per common share:			
Basic from continued operations	$ 0.75	$ 1.24	$ 0.13
Basic from discontinued operations	0.01	0.01	(0.04)
Basic	$ 0.76	$ 1.25	$ 0.09
Diluted from continued operations	$ 0.74	$ 1.22	$ 0.13
Diluted from discontinued operations	0.01	0.01	(0.04)
Diluted	$ 0.75	$ 1.23	$ 0.09
Weighted average common shares outstanding:			
Basic	29,062,649	29,370,455	29,516,794
Diluted	29,567,012	29,958,646	29,858,036

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

MONACO COACH CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

for the years ended January 3, 2004, January 1, 2005, and December 31, 2005

(in thousands of dollars, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balances, December 29, 2002	28,871,144	$ 289	$ 51,501	$ 208,837	$ 260,627
Issuance of common stock	374,999	3	2,406		2,409
Tax benefit of stock options exercised			1,012		1,012
Net income				22,200	22,200
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
Restricted stock granted			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

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

MONACO COACH CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended January 3, 2004, January 1, 2005, and December 31, 2005

(in thousands of dollars)

	2003	2004	2005
Increase (Decrease) in Cash:			
Cash flows from operating activities:			
Net income	$ 22,200	$ 36,705	$ 2,648
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	9,737	10,670	10,678
Loss on disposal of assets	44	229	276
Deferred income taxes	3,850	2,833	(2,943)
Restricted stock expense			16
Change in assets and liabilities:			
Trade receivables, net	28,655	(38,231)	39,203
Inventories	47,392	(42,743)	(2,916)
Resort lot inventory	5,869	6,663	145
Prepaid expenses	573	(2,172)	1,422
Accounts payable	(13,395)	14,737	(5,947)
Product liability reserve	(599)	(489)	(1,619)
Product warranty reserve	(2,265)	2,631	(4,486)
Income taxes payable	(1,141)	(1,308)	(2,293)
Accrued expenses and other liabilities	(2,880)	5,242	805
Discontinued operations	(130)	317	(662)
Net cash provided by (used in) operating activities	97,910	(4,916)	34,327
Cash flows from investing activities:			
Additions to property, plant, and equipment	(19,498)	(12,305)	(17,718)
Proceeds from sale of assets	2,197	1,936	123
Proceeds from the sale of Naples property	6,650	0	0
Payment for business acquisition, net of cash acquired	0	0	(54,601)
Discontinued operations	(12)	(9)	(4)
Net cash used in investing activities	(10,663)	(10,378)	(72,200)
Cash flows from financing activities:			
Book overdraft	(3,636)	1,432	12,475
Borrowings (payments) on line of credit, net	(51,413)	34,062	(9,062)
Borrowings on long-term notes payable	0	0	40,500
Payments on long-term notes payable	(22,000)	(30,000)	0
Dividends paid	0	(5,874)	(7,085)
Issuance of common stock	3,421	2,536	1,537
Debt issuance costs	(339)	(416)	(298)
Discontinued operations	118	156	392
Net cash provided by (used in) financing activities	(73,849)	1,896	38,459
Net change in cash	13,398	(13,398)	586
Cash at beginning of period	0	13,398	0
Cash at end of period	$ 13,398	$ 0	$ 586

The accompanying notes are an integral part of these 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.

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 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 53 weeks long for 2003, 52 weeks for 2004, and 52 weeks for 2005. 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 12% of net revenues for fiscal year 2003, 11% for 2004, and 11% for 2005. No other individual dealers represented over 10% of net revenues in 2003, 2004, or 2005. 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 floor plan 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 31, 2005, total trade receivables were $102.7 million, with approximately $72.6 million, or 70.7% of the outstanding accounts receivable balance, concentrated among floor plan lenders. The remaining open $30.1 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 31, 2005, the Company had one dealer that comprised 24.7% 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 following table discloses significant changes in the product warranty reserve:

	2003	2004	2005
		(in thousands)	
Beginning balance	$ 31,518	$ 29,252	$ 31,884
Expense	34,796	34,126	28,861
Payments/adjustments	(37,062)	(31,494)	(27,843)
Ending balance	$ 29,252	$ 31,884	$ 32,902

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 following table discloses significant changes in the product liability reserve:

	2003	2004	2005
		(in thousands)	
Beginning balance	$ 21,322	$ 20,723	$ 20,233
Expense	12,670	11,044	9,635
Payments/adjustments	(13,269)	(11,534)	(10,593)
Ending balance	$ 20,723	$ 20,233	$ 19,275

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.

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. Capitalized interest was $285,000 in 2003, and zero in 2004 and 2005. 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 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.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of net assets acquired. The Company is the successor to a company formed in 1968 (the "Predecessor") and commenced operations on March 5, 1993 by acquiring substantially all of the assets and liabilities of the Predecessor. As of December 31, 2005, the goodwill arising from the acquisition of the assets and operations of the Company's Predecessor in March 1993 was $16.1 million. In March 1996, the Company acquired the Holiday Rambler Division of Harley-Davidson, Inc. ("Holiday Rambler"). As of December 31, 2005, the goodwill arising from the acquisition of Holiday Rambler was $1.8 million. The Company recorded $37.3 million of goodwill associated with the August 2, 2001 acquisition of SMC Corporation (SMC). The Company also recorded $30.7 million of goodwill associated with the November 18, 2005 acquisition of R-Vision. In accordance with Statements of Financial Accounting Standards No. 142 (SFAS 142) "Accounting for Goodwill and Other Intangible Assets," no amortization was recorded for any of the acquisitions that have occurred since 2001.

SFAS 142 requires that management assess annually whether there has been permanent impairment in the value of goodwill. To assess whether or not there has been impairment, the Company's management compares the market capitalization of the Company to the carrying amount, including goodwill, of the net book value of the Company to determine if goodwill has been impaired. If the Company determines that the market capitalization is not representative of the fair value of the reporting unit as a whole, then the Company will use an estimate of discounted future cash flows to determine fair value. As required by SFAS 142, management completed its annual testing during 2003, 2004, and 2005 and has determined that there was no impairment of goodwill requiring a write-down.

Debt Issuance Costs

Unamortized debt issuance costs of $571,000, and $695,000 (at January 1, 2005 and December 31, 2005, respectively), are being amortized over the terms of the related loans.

Stock-Based Employee Compensation Plans

At December 31, 2005, the Company had three stock-based employee compensation plans (see Note 16). The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income for stock options granted, 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. At December 31, 2005, the Company had granted restricted stock units totaling $16,000. This grant has been appropriately expensed through the income statement as compensation expense.

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.

Revenue Recognition

The Company recognizes revenue from the sale of recreational vehicles upon shipment and recognizes revenue from resort lot sales upon closing. 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 2003, 2004, and 2005.

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 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 2005, approximately $11.6 million ($11.6 million in 2003 and $12.4 million in 2004) of advertising and printing costs were expensed.

Research and Development Costs

Research and development costs are charged to expense as incurred and were $1.5 million in 2005 ($1.2 million in 2003 and $1.3 million in 2004).

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 useful lives.

New Accounting Pronouncements

EITF 04-10

In September of 2004, the Financial Accounting Standards Board (the Board) issued EITF 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds." FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires public companies to report financial and descriptive information about its reportable operating segments. EITF 04-10 addresses how to determine if operating segments that do not meet the quantitative thresholds of FASB No. 131 are to be reported as separate segments.

EITF 04-10 is effective for fiscal years ending after September 15, 2005.

We have implemented the necessary disclosures within the financial statements to comply with EITF 04-10.

FAS 151

In November 2004, the Board issued FAS 151, "Inventory Costs An Amendment of ARM No. 43, Chapter 4," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. The standard is effective for inventory costs incurred during fiscal years beginning after June 15, 2005.

We have reviewed the provisions of FAS 151, and believe there will be no significant changes to our inventory accounting. We will adopt the provisions of the Statement for the fiscal year beginning 2006.

FAS 123R

In December 2004, the Board issued FAS 123R, "Share-Based Payment." 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. The Statement is effective for public entities as of the beginning of the first annual reporting period that begins after June 15, 2005.

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 is to enable the Company to avoid recognizing compensation expense associated with these options in future periods in its consolidated statements of operations pursuant to Financial Accounting Standards Board Statement No. 123R. Under FAS No. 123R, the Company will apply 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 is in the best interest of stockholders as it will reduce the Company's reported compensation expense in future periods in light of these accounting regulations. The compensation expense to be recorded 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 will not result in a charge to the Company's expenses in the consolidated statements of operations in fiscal 2005.

We will adopt the provisions of the Statement for the fiscal year beginning 2006. If we had included the cost of the employee stock option compensation using the fair value method in our financial statements, our net income for 2003, 2004, and 2005 would have decreased by approximately $1.4 million, $1.6 million, and $3.2 million, respectively.

Supplemental Cash Flow Disclosures:

	2003	2004	2005
		(in thousands)	
Cash paid during the period for:			
Interest, net of amount capitalized of $285 in 2003, $0 in 2004, and $0 in 2005	$ 2,552	$ 964	$ 1,355
Income taxes	9,604	19,531	6,160

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 consists 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 $607,016, totaled $54,601,481, net of cash acquired. The total R-Vision assets acquired and liabilities assumed of R-Vision based on estimated fair values at November 18, 2005, is as follows:

	(in thousands)
Receivables	$ 14,571
Inventories	18,160
Prepaids and other assets	618
Property and equipment	12,945
Goodwill	30,698
Total assets acquired	76,992
Accounts payable	8,769
Accrued liabilities	11,891
Current deferred tax liability	868
Long-term deferred tax liability	863
Total liabilities assumed	22,391
Total assets acquired and liabilities assumed	$ 54,601

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 is subject to adjustment upon resolution of pre-R-Vision acquisition contingencies that may arise (such as certain estimates for reserve amounts related to warranty, product litigation, and inventory obsolescence). The effects of resolution of pre-R-Vision Acquisition contingencies occurring within one year of the acquisition date will be reflected as an adjustment of the allocation of the purchase price and of goodwill. After one year they will be recognized in the determination of net income.

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 or is it necessarily indicative of future operating results.

	(in thousands, except per share data) 2004 Unaudited	(in thousands, except per share data) 2005 Unaudited
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 sells 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) have been recognized in 2005. The net loss from discontinued operations for the fiscal years ending January 3, 2004, January 1, 2005, and December 31, 2005 is net of a tax expense of $106,000, $94,000, and net of a tax benefit of $868,000, 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. All dollars represented are in thousands.

	2003	2004	2005
		(in thousands)	
Net sales	$ 10,229	$ 10,974	$ 5,452
Cost of sales	8,956	9,660	5,923
Gross profit (loss)	1,273	1,314	(471)
Selling, general, and administrative expenses	990	1,064	1,718
Net income (loss) from discontinued operations before income taxes	283	250	(2,189)
Income tax expense (benefit)	106	94	(868)
Net income (loss) from discontinued operations	$ 177	$ 156	$ (1,321)

4. PLANT RELOCATION:

On April 15, 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 of $4.4 million. 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
	(in thousands)
Lease commitment	$ 753
Impairment of property, plant, and equipment	510
Other	155
	$ 1,418

5. INVENTORIES, NET:

Inventories consist of the following:

	January 1, 2005	December 31, 2005
	(in thousands)	
Raw materials	$ 85,932	$ 91,028
Work-in-process	65,094	61,393
Finished units	22,537	43,134
Raw material reserves	(11,346)	(12,263)
	$ 162,217	$ 183,292

6. PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consist of the following:

	January 1, 2005	December 31, 2005
	(in thousands)	
Land	$ 14,547	$ 15,146
Buildings	115,799	127,974
Equipment	36,330	42,837
Furniture and fixtures	13,991	18,529
Vehicles	2,936	3,510
Leasehold improvements	2,626	2,504
Brand elements and signage	0	3,147
Construction in progress	7,230	6,675
	193,459	220,322
Less accumulated depreciation and amortization	51,997	61,018
	$ 141,462	$ 159,304

7. ACCRUED EXPENSES AND OTHER LIABILITIES:

Accrued expenses and other liabilities consist of the following:

	January 1, 2005	December 31, 2005
	(in thousands)	
Payroll, vacation, payroll taxes, and related accruals	$ 16,974	$ 15,363
Promotional and advertising	5,140	7,693
Health insurance reserves and premiums payable	4,789	5,943
Resorts profit sharing accruals	0	1,865
Other	4,299	6,868
	$ 31,202	$ 37,732

8. LINE OF CREDIT:

The Company's credit facilities consists of a revolving line of credit of up to $105.0 million. At the end of the 2005 fiscal year, borrowings outstanding on the revolving line of credit (the "Revolving Loan") were $25.0 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 weighted average interest rate on the outstanding borrowings under the Revolving Loan was 4.3% and 5.4% for 2004 and 2005, respectively. Interest expense on the unused available portion of the line was $188,000 or 1.1% and $178,000 or 1.0% of weighted average outstanding borrowings for 2004 and 2005, respectively. The Revolving Loan 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 31, 2005, 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). At the end of the 2005 year, borrowings outstanding were $40.0 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 2005, the interest rate on the Term Debt was 6.1%. 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 31, 2005, 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
2006	$ 5,714
2007	5,714
2008	5,714
2009	6,214
2010	17,144
	$ 40,500

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 January 1, 2005 or December 31, 2005.

11. SEGMENT REPORTING:

Monaco Coach Corporation is a leading manufacturer of premium Class A, B, and C motor coaches (Motorized Recreational Vehicle Segment) and towable recreational vehicle (Towable Recreational Vehicle Segment). Our product line currently consists of a broad line of motor coaches, fifth wheel trailers, and travel 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. The Motorhome Resorts offer sales of individual lots to owners and also offer a common interest in the amenities at the resort. The Motorhome Resorts provide destination locations for premium Class A recreational vehicle owners and help to promote the recreational lifestyle.

The following table provides the results of operations of the three segments of the Company for the years 2003, 2004, and 2005, respectively.

	2003	2004	2005
		(in thousands)	
Motorized Recreational Vehicle Segment			
Net sales	$ 1,059,347	$ 1,234,233	$ 1,017,766
Cost of sales	930,902	1,080,972	925,014
Gross profit	128,445	153,261	92,752
Selling, general, and administrative expenses	37,652	38,566	46,331
Corporate overhead allocation	50,295	51,470	43,148
Plant relocation costs	0	0	4,370
Operating income (loss)	$ 40,498	$ 63,225	$ (1,097)
Towable Recreational Vehicle Segment			
Net sales	$ 87,980	$ 129,331	$ 185,433
Cost of sales	80,816	123,314	174,242
Gross profit	7,164	6,017	11,191
Selling, general, and administrative expenses	3,321	4,827	5,603
Corporate overhead allocation	4,348	5,393	7,588
Operating loss	$ (505)	$ (4,203)	$ (2,000)
Motorhome Resorts Segment			
Net sales	$ 10,756	$ 22,705	$ 33,039
Cost of sales	7,705	13,171	12,212
Gross profit	3,051	9,534	20,827
Selling, general, and administrative expenses	914	4,194	7,606
Corporate overhead allocation	4,179	4,695	2,903
Operating income (loss)	$ (2,042)	$ 645	$ 10,318

	2003	2004	2005
		(in thousands)	
Reconciliation to Net Income			
Operating income (loss):			
Motorized recreational vehicle segment	$ 40,498	$ 63,225	$ (1,097)
Towable recreational vehicle segment	(505)	(4,203)	(2,000)
Motorhome resorts segment	(2,042)	645	10,318
Total operating income	37,951	59,667	7,221
Other income, net	260	343	255
Interest expense	(2,968)	(1,547)	(1,820)
Income before income taxes and discontinued operations	35,243	58,463	5,656
Provision for income taxes, continuing operations	13,220	21,914	1,687
Net income from continuing operations	22,023	36,549	3,969
Income (loss) from discontinued operations, net of tax provision	177	156	(1,321)
Net income	$ 22,200	$ 36,705	$ 2,648

Assets of the Recreational Vehicle and Motorhome Resorts Segments	**January 1, 2005**	**December 31, 2005**
	(in thousands)	
Motorized recreational vehicle segment	$ 281,487	$ 295,824
Towable recreational vehicle segment	17,843	44,768
Motorhome resorts segment	10,032	9,826
Total assets	$ 309,362	$ 350,418

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. Corporate overhead is allocated based on the relative segment's percentage of sales for the Company in total.

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

Depreciation Expense for the Recreational Vehicle and Motorhome Resorts Segments	**January 3, 2004**	**January 1, 2005**	**December 31, 2005**
		(in thousands)	
Motorized recreational vehicle segment	$ 9,031	$ 9,592	$ 9,603
Towable recreational vehicle segment	245	585	818
Motorhome resorts segment	25	42	74
Total depreciation expense	$ 9,301	$ 10,219	$ 10,495

12. INCOME TAXES:

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

	2003	2004	2005
		(in thousands)	
Current:			
Federal	$ 8,570	$ 17,116	$ 4,729
State	1,871	1,908	(169)
	10,441	19,024	4,560
Deferred:			
Federal	2,244	2,414	(2,573)
State	535	476	(300)
Provision for income taxes	$ 13,220	$ 21,914	$ 1,687

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:

	2003	2004	2005
		(in thousands)	
Expected U.S. federal income taxes at statutory rates	$ 12,335	$ 20,462	$ 1,923
State and local income taxes, net of federal benefit	1,564	1,982	(305)
Change in valuation allowance	(280)	(433)	0
Meals expense disallowance	170	217	204
Subsidiary stock basis adjustment	0	0	634
Export sales benefit	(321)	(356)	(495)
Reversal of federal and state tax reserves no longer required	0	0	(277)
Other	(248)	42	3
Provision for income taxes	$ 13,220	$ 21,914	$ 1,687

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

	January 1, 2005	December 31, 2005
	(in thousands)	
Current deferred income tax assets:		
Warranty liability	$ 11,527	$ 10,342
Product liability	8,258	7,725
Inventory allowances	4,459	4,784
Franchise and other incentive accruals	1,808	6,943
Payroll and related accruals	2,300	2,342
Insurance accruals	2,258	3,024
Resort lot inventory	864	1,316
Other accruals	1,714	(131)
	$ 33,188	$ 36,345
Long-term deferred income tax liabilities:		
Depreciation	$ 15,025	$ 16,306
Amortization	4,876	5,584
Net operating loss (NOL) carryforward	(222)	(143)
State tax credit carryforward	0	(123)
	$ 19,679	$ 21,624

Management believes that the temporary differences which gave rise to the deferred income tax assets will be realized in the foreseeable future, including benefits arising from the state NOL carryforward associated with the SMC Acquisition and state tax credits generated, but not utilized in 2005. Net operating losses expire in 2015 and state tax credits expire between 2008 and 2013.

13. EARNINGS PER SHARE:

Basic earnings per common share is based on the weighted average number of shares outstanding during the period using net income attributable to common stock as the numerator. 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 stock options and convertible preferred stock, using net income as the numerator. The weighted average number of common shares used in the computation of earnings per common share for the years ended January 3, 2004, January 1, 2005, and December 31, 2005 are as follows:

	2003	2004	2005
Basic			
Issued and outstanding shares (weighted average)	29,062,649	29,370,455	29,516,794
Effect of Dilutive Securities			
Stock options	504,363	588,191	341,242
Diluted	29,567,012	29,958,646	29,858,036

Anti-dilutive shares outstanding were 155,850, 0, and 384,490 for the fiscal years ending 2003, 2004, and 2005, respectively.

14. LEASES:

The Company has commitments under certain noncancelable operating leases. Total rental expense for the fiscal years ended January 3, 2004, January 1, 2005, and December 31, 2005 related to operating leases amounted to approximately $3.6 million, $3.6 million, and $3.6 million, respectively. The Company's most significant lease is an operating lease for an aircraft with annual renewals for up to three additional years. The Company began its third year of renewal in February 2006. The future minimum rental commitments under the renewal term of this lease is $1.8 million in 2006 and $306,000 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 31, 2005, the total minimum sublease rental income to be received in the future is $1.5 million. Sublease rental income will be recognized ratably over the next ten years.

Approximate future minimum rental commitments under these leases at December 31, 2005 are summarized as follows:

Fiscal Year	(in thousands)
2006	$ 3,617
2007	$ 1,634
2008	$ 1,183
2009	$ 1,073
2010	$ 1,033
2011 and thereafter	$ 3,587

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 3, 2004, January 1, 2005, and December 31, 2005 was $5.1 million, $8.9 million, and $607,000, respectively.

16. STOCK OPTION PLANS:

The Company has an Employee Stock Purchase Plan (the "Purchase Plan") - 1993, a Non-employee Director Stock Plan (the "Director Plan") - 1993, and an Incentive Stock Option Plan (the "Option Plan") - 1993.

Stock Purchase Plan

The Purchase Plan qualifies under Section 423 of the Internal Revenue Code. The Company has reserved 683,438 shares of Common Stock for issuance under the Purchase Plan. During the years ended January 1, 2005 and December 31, 2005, 55,322 shares and 57,989 shares, respectively, were purchased under the Purchase Plan. The weighted-average fair value of purchase rights granted in 2004 and 2005 was $24.56 and $18.24, 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.

Directors' Option Plan

Each non-employee director of the Company is entitled to participate in the Company's Director Plan. The Board of Directors and the stockholders have authorized a total of 352,500 shares of Common Stock for issuance pursuant to the Director Plan. Under the terms of the Director Plan, each eligible non-employee director is automatically granted an option to purchase 8,000 shares of Common Stock (the "Initial Option") on which the optionee first becomes a director of the Company. Thereafter, each optionee is automatically granted an additional option to purchase 4,000 shares of Common Stock (a "Subsequent Option") on September 30 of each year if, on such date, the optionee has served as a director of the Company for at least six months. Each Initial Option vests over five years at the rate of 20% of the shares subject to the Initial Option at the end of each anniversary following the date of grant. Each Subsequent Option vests in full on the fifth anniversary of its date of grant. The exercise price of each option is the fair market value of the Common Stock as determined by the closing price reported by the New York Stock Exchange on the date of grant. The maximum term of these options are 10 years. As of December 31, 2005, 93,900 options had been exercised, and options to purchase 166,150 shares of common stock were outstanding. Under the Director Plan, the directors of the Company may elect to receive up to 50% of the value of their retainer in the form of common stock or an option to purchase shares of common stock. As of December 31, 2005, 11,320 shares of common stock had been issued in lieu of cash retainer under the plan.

Option Plan

The Option Plan provides for the grant to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the grant to employees and consultants of the Company of nonstatutory stock options. A total of 3,257,813 shares of Common Stock have been reserved for issuance under the Option Plan. As of December 31, 2005, 1,469,258 options had been exercised, and options to purchase 1,303,875 shares of Common Stock were outstanding. These options vest ratably over five years commencing with the date of grant.

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 is to enable the Company to avoid recognizing compensation expense associated with these options in future periods in its consolidated statements of operations pursuant to Financial Accounting Standards Board Statement No. 123R. Under FAS No. 123R, the Company will apply 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 is in the best interest of stockholders as it will reduce the Company's reported compensation expense in future periods in light of these accounting regulations. The compensation expense to be recorded 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 will not result in a charge to the Company's expenses in the consolidated statements of operations in fiscal 2005.

The exercise price of all incentive stock options granted under the Option 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 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 Option Plan may not exceed ten years.

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

	Shares	Price
Outstanding at December 28, 2002	1,341,523	$ 10.15
Granted	207,200	11.48
Exercised	(306,352)	4.92
Forfeited	(5,200)	19.61
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

For various price ranges, weighted average characteristics of all outstanding stock options at December 31, 2005 were as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Remaining Life (years)	Weighted-Average Price	Shares	Weighted-Average Price
$ 2.68 - 5.36	111,681	0.9	$ 3.33	111,681	$ 3.33
$ 5.37 - 8.04	119,652	2.3	$ 7.72	119,652	$ 7.72
$ 8.05 - 10.72	265,729	5.3	$ 10.30	177,589	$ 10.28
$ 10.73 - 13.40	293,273	4.8	$ 12.24	254,588	$ 12.28
$ 13.41 - 16.08	47,000	8.7	$ 15.04	8,000	$ 16.08
$ 16.09 - 18.76	289,970	8.5	$ 16.30	289,970	$ 16.30
$ 18.77 - 21.44	17,500	5.5	$ 20.03	17,500	$ 20.03
$ 21.45 - 24.12	28,000	7.6	$ 21.65	28,000	$ 21.65
$ 24.13 - 26.80	296,470	7.2	$ 25.65	296,470	$ 25.63
	1,469,275			1,303,450	

At December 31, 2005, the Company has three stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost for incentive stock option grants are reflected in net income, 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. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123, Accounting for Stock-based Compensation, to stock-based employee compensation.

	2003	2004	2005
	(in thousands, except per share data)		
Net income - as reported	$ 22,200	$ 36,705	$ 2,648
Deduct: Total stock-based employee compensation expense			
Determined under fair value based method for all awards, net of related tax effects	(1,357)	(1,569)	(3,219)
Net income - pro forma	$ 20,843	$ 35,136	$ (571)
Earnings per share:			
Basic - as reported	$ 0.76	$ 1.25	$ 0.09
Basic - pro forma	0.72	1.20	(0.02)
Diluted - as reported	$ 0.75	$ 1.23	$ 0.09
Diluted - pro forma	0.71	1.17	(0.02)

For purposes of the above pro forma information, the fair value of each option grant was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2003	2004	2005
Risk-free interest rate	3.89 %	3.54 %	4.03 %
Expected life (in years)	5.81	6.09	6.69
Expected volatility	54.70 %	36.31 %	31.25 %
Expected dividend yield	0.00 %	1.00 %	1.70 %

Restricted Stock Unit Grant

A component of the stock option plan permits the Company to grant shares of restricted stock units. These grants are compensation expense under the rules of APB No. 25, and are required to be recognized in the Company's income statement. During the year, the Company granted restricted shares of restricted stock units totalling approximately $16,000. These costs have been recorded as compensation expense in the current year's income statement.

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 $34.1 million, and $25.0 million at January 1, 2005 and December 31, 2005, 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 $40.5 million (including $5.7 million of current payable) at December 31, 2005, 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 $678,000 in 2003, $879,000 in 2004, and $880,000 in 2005.

19. COMMITMENTS AND CONTINGENCIES:

Repurchase Agreements

Many of the Company's sales to independent dealers are made on a "floor plan" 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 will execute a repurchase agreement. These agreements provide that, for up to 18 months after a unit is shipped, the Company will repurchase a dealer's inventory in the event of a default by a dealer to its lender.

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 $897,000, $600,000 and $79,000 were incurred in 2003, 2004, and 2005, respectively. The approximate amount subject to contingent repurchase obligations arising from these agreements at December 31, 2005 is $607.3 million, with approximately 5.9% concentrated with one dealer. The Company has recorded a liability of approximately $780,000 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 estimated settlements. Management believes that any liability which may result from these proceedings will not have a material adverse effect on the Company's consolidated financial statements.

20. QUARTERLY RESULTS (UNAUDITED):

Year ended January 1, 2005

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands, except per share data)			
Net sales	$ 351,890	$ 355,103	$ 357,763	$ 321,513
Gross profit	44,152	45,347	43,427	35,886
Operating income	19,666	18,905	12,622	8,474
Net income (loss):				
Continuing operations	11,913	11,934	7,586	5,116
Discontinued operations	10	14	(150)	282
	$ 11,923	$ 11,948	$ 7,436	$ 5,398
Earnings (loss) per share-basic:				
Continuing operations	$ 0.41	$ 0.41	$ 0.26	$ 0.17
Discontinued operations	$ 0.00	$ 0.00	$ (0.01)	$ 0.01
Basic	$ 0.41	$ 0.41	$ 0.25	$ 0.18
Earnings per share-diluted:				
Continuing operations	$ 0.40	$ 0.40	$ 0.25	$ 0.17
Discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ 0.01
Diluted	$ 0.40	$ 0.40	$ 0.25	$ 0.18

Year ended December 31, 2005

	1st Quarter	2nd Quarter	3rd Quarter (1)	4th Quarter
	(in thousands, except per share data)			
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

(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 (the "Company") December 31, 2005 and January 1, 2005 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its January 3, 2004 consolidated financial statements 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 the Company at December 31, 2005 and January 1, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 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.

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 31, 2005 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 31, 2005, 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.

March 16, 2006

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 31, 2005. 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 31, 2005, 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 31, 2005 has been audited by PricewaterhouseCoopers, LLP, an independent registered public accounting firm.

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				
	2001	2002	2003	2004	2005
Consolidated Statements of Income Data:					
Net sales	$ 927,228	$ 1,212,385	$ 1,158,083	$ 1,386,269	$ 1,236,238
Cost of sales	813,826	1,050,270	1,019,423	1,217,457	1,111,468
Gross profit	113,402	162,115	138,660	168,812	124,770
Selling, general, and administrative expenses	69,770	86,115	100,709	109,145	113,179
Plant relocation costs	0	0	0	0	4,370
Amortization of goodwill	645	0	0	0	0
Operating income	42,987	76,000	37,951	59,667	7,221
Other income, net	334	105	260	343	255
Interest expense	(2,357)	(2,752)	(2,968)	(1,547)	(1,820)
Income before income taxes and discontinued operations	40,964	73,353	35,243	58,463	5,656
Provision for income taxes	15,844	28,794	13,220	21,914	1,687
Net income from continuing operations	25,120	44,559	22,023	36,549	3,969
Income (loss) from discontinued operations, net of tax provision	(201)	(44)	177	156	(1,321)
Net income	$ 24,919	$ 44,515	$ 22,200	$ 36,705	$ 2,648
Earnings (loss) per common share:					
Basic from continuing operations	$ 0.88	$ 1.55	$ 0.75	$ 1.24	$ 0.13
Basic from discontinued operations	$ (0.01)	$ 0.00	$ 0.01	$ 0.01	$ (0.04)
Basic	$ 0.87	$ 1.55	$ 0.76	$ 1.25	$ 0.09
Diluted from continuing operations	$ 0.86	$ 1.51	$ 0.74	$ 1.22	$ 0.13
Diluted from discontinued operations	$ (0.01)	$ 0.00	$ 0.01	$ 0.01	$ (0.04)
Diluted	$ 0.85	$ 1.51	$ 0.75	$ 1.23	$ 0.09
Weighted average common shares outstanding:					
Basic	28,531,593	28,812,473	29,062,649	29,370,455	29,516,794
Diluted	29,288,688	29,573,420	29,567,012	29,958,646	29,858,036
Cash dividends per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.20	$ 0.24
Consolidated Operating Data:					
Units sold (includes discontinued operations):					
Motor coaches	6,228	8,005	7,051	8,199	6,221
Towables	3,261	3,206	2,593	4,621	9,337

Consolidated Balance Sheet Data:	December 29, 2001	December 28, 2002	January 3, 2004	January 1, 2005	December 31, 2005
Working capital	$ 63,694	$ 114,241	$ 121,231	$ 141,907	$ 127,191
Total assets	$ 427,098	$ 547,417	$ 478,669	$ 540,238	$ 587,467
Long-term borrowings, less current portion	$ 30,000	$ 30,333	$ 15,000	$ —	$ 34,786
Total stockholders' equity	$ 213,130	$ 260,627	$ 286,248	$ 319,616	$ 316,732

Monaco Coach Corporation

Board Of Directors

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

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

Robert P. Hanafee, Jr.
Private Investor

L. Ben Lytle
Chairman of the Board and Chief Executive Officer of Axia Health Management, LLC (Healthcare Services)

Dennis D. Oklak
Chairman of the Board and Chief Executive Officer of Duke Realty (Real Estate Services)

Richard A. Rouse
Private Investor

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

Roger A. Vandenberg
President, Cariad Capital (Financial Services)

Executive Officers

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

John W. Nepute
President

Richard E. Bond
Senior Vice President, Secretary and Chief Administrative Officer

Patrick F. Carroll
Vice President of Product Development

P. Martin Daley
Vice President & Chief Financial Officer

Martin W. Garriott
Vice President & Director of Oregon Manufacturing

Michael F. Greene
Vice President of Engineering

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

Garth R. Herring
Vice President of Service Operations

Richard G. Kangail
Vice President of Human Resources

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

Michael P. Snell
Vice President of Sales & Marketing

Irvin M. Yoder
Vice President
& Director of Indiana Manufacturing

Charles J. Kimball
Corporate Controller

D. Page Robertson
Special Assistant to CEO

Ronald J. Stone
Director of Information Services

Other Officers And Key Management Personnel

Jeff Abney, Gifford Akins, Kurt Anderson, Terri Archambault, Denny Bailey, Chris Ballinger, Joni Beachy, Michael Becker, Mikeal Blomme, Dennis Bowen, Vance Buell, Steven Burkholder, Marvin Burns, Jeffrey Butler, Colleen Caulkins, Caroline Champion, Jan Cleveland, Melinda Cox, Mike Creech, Debbie Cronin, Ken Davis, Arthur Deeds, William Devos, Ron Ericson, Jenny Evans, James Fox, Paul Freet, Jon Gawthrop, David Gibson, Dennis Girod, Glen Goins, Adam Gudger, Peter Hanes, Bret Heckaman, Dale Hoogenboom, Brett Howard, Chris Hundt, John Hurd, Enoch Hutchcraft, Sandra Kadash, Joseph Kalil, Mark Kealoha, Joe Keil, James Keough, Sara Kiley, Edgar Kinney, Helen Krizman, Aaron LaFleur, Donald Lance, Brett Larson, Scott Lilly, Phillip Lord, James Mac, James Mackin, Richard Mackin, Melanie Marsh, Jack Mason, Brian Maurer, Daryl Maurer, Donald May, Brad McKinney, Ty Meier, Gary Mehaffey, Danny Miller, Michael Miller, Wesley Murphy, Deanna Ota, Michael Pangburn, Trisha Parker, Eric Parkes, Ray Patterson, Harry Peffley, Yvonne Reed, Loron Robertson, Daniel Ryan, Alan Schmucker, Rick Schraw, James Sheldon, Defoe Shook, Allen Slagle, Gary Stanton, Christina Sterling, Lyle Stutzman, Craig Swisher, Patrick Terveer, Shannon Thatcher, Charles Tillery, Richard Walter, Craig Wanichek, Dale Weins, Terry Welles, Mike Whitter, Phil Wilson, Scott Zimmer, Thomas Zoll, Joe Zurbuch

Corporate Information

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

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

On The World Wide Web

www.monaco-online.com

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

6,040

Independent Auditors

PricewaterhouseCoopers LLP, Portland, Oregon

Annual Meeting

The 2006 annual meeting will be held on May 17, 2006 at 2:00 p.m. local time in Coburg, OR

Corporate Counsel

Wilson, Sonsini, Goodrich and Rosati, Professional Corporation, Palo Alto, California

Investor Relations Inquiries Should Be Directed To:

Monaco Coach Corporation
91320 Coburg Industrial Way, Coburg, OR 97408
Attention: Investor Relations
T: (800) 634-0855 or on the World Wide Web at 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.

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91320 Coburg Industrial Way, Coburg OR 97408 • www.monaco-online.com • (541) 686-8011