

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

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### FILER

#### **ASV INC /MN/**

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SIC: **3531** Construction machinery & equip

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1998

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-25620

A.S.V., Inc.

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(Exact name of registrant as specified in its charter)

Minnesota

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State or other jurisdiction of  
incorporation of organization

41-1459569

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I.R.S. Employer Identification No.

840 Lily Lane, P.O. Box 5160,  
Grand Rapids, MN 55744

(218) 327-3434

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Address of principal executive offices

-----  
Registrant's telephone number,  
including area code

Securities registered under Section 12(b) of the Exchange Act:

None

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Title of each class

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.01 par value

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Title of each class

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Based on the closing sale price at March 22, 1999, the aggregate market value of the registrant's Common Stock held by nonaffiliates was \$111,607,756.

As of March 22, 1999, 9,639,312 shares of the registrant's Common Stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Proxy Statement for its June 4, 1999 Annual Meeting, which will be filed by April 30, 1999, are incorporated by reference in Part III.

## PART I

## Item 1. Description of Business

## General

A.S.V., Inc. was incorporated in Minnesota in July 1983 and its wholly-owned subsidiary, A.S.V. Distribution, Inc., was incorporated in Minnesota in January 1989. A.S.V., Inc. and A.S.V. Distribution, Inc. are collectively referred to herein as the "Company." Effective January 1, 1998, all of the assets and liabilities of A.S.V. Distribution, Inc. were transferred to A.S.V., Inc.

ASV designs, manufactures and sells track-driven all-season vehicles. The Company's two principal product lines, the Posi-Track-TM- product line and the Track Truck-R- product line, use a rubber track suspension system that takes advantage of the benefits of both traditional rubber wheels and steel tracks. Rubber track vehicles provide the traction, stability and low ground pressure necessary for operation on soft, wet, muddy, rough, boggy, slippery, snowy or hilly terrain, but, unlike steel track vehicles, can be driven on groomed, landscaped and paved surfaces without causing damage. The Company's products are versatile machines used in the construction, agricultural, landscaping, trail grooming and maintenance, vineyard, military, wildlife management and other markets.

The Company currently offers four models in its Posi-Track product line; the MD-70, the MD 2800, the HD 4500 (the "Posi-Track MD and HD models") and the DX 4530. The Company currently offers one model in its Track Truck product line, the HPT 2800.

Track Truck is a registered trademark, and Posi-Track, Posi-Turn and Snow Saver are trademarks, of ASV, Inc. This Annual Report also contains trademarks of other companies.

## Current Year Developments

## Stock Split

In May 1998, the Company completed a 3-for-2 stock split of its common stock. All share and per share amounts included in this report have been adjusted to reflect the stock split.

## New Posi-Track Model

In 1998, the Company introduced one new model into its Posi-Track product line. In the third quarter of 1998, the Company began selling the Posi-Track MD 2800. The MD 2800 integrates the size, weight and operating capabilities of the Company's existing Model MD-70 Posi-Track with the maintenance-free undercarriage currently in use on the Company's HD 4500 and DX 4530 models.

## Caterpillar Inc. Transaction

On October 14, 1998, ASV entered into a Securities Purchase Agreement (the "Purchase Agreement") with Caterpillar Inc. ("Caterpillar"). This Purchase Agreement was approved by the Company's shareholders on January 28, 1999 and closed January 29, 1999. Pursuant to the Purchase Agreement, Caterpillar acquired, for an aggregate purchase price of \$18,000,000, one million newly-issued shares of the Company's Common Stock and a warrant (the "Warrant") to purchase an additional 10,267,127 newly-issued shares of the Company's Common Stock at a price of \$21.00 per share (the "Transaction"). The Purchase Agreement provided that, upon closing, the Company's Board of Directors would be increased from eight to ten members and the Company's Board of Directors appointed two members designated by Caterpillar.

In connection with entering into the Purchase Agreement, the Company and Caterpillar have entered into several ancillary agreements. First, the Company and Caterpillar have entered into a commercial alliance agreement (the

"Commercial Alliance Agreement") pursuant to which, following the closing, Caterpillar will provide the Company with access to its worldwide dealer network and will make various management, financial and engineering resources available to the Company. Caterpillar and the Company will supply each other with certain components, Caterpillar will agree to allow the Company to

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use certain of its trademarks and trade dress in the event certain conditions are met and Caterpillar and the Company will agree to share certain technologies, all at certain costs. Material terms of the above agreements are described below.

Following the closing, Caterpillar owns approximately 8.8% of the Company's outstanding Common Stock (assuming the exercise of all outstanding options and warrants ) and has the right to own up to approximately 52.2% of the Company's outstanding Common Stock (assuming the exercise of all outstanding options and warrants) upon exercise of the Warrant.

Securities Purchase Agreement. Under the Purchase Agreement, the parties have covenanted and agreed to certain matters as described below.

Board of Directors. In the event Caterpillar's percentage ownership of the Company increases following the Closing (whether by partial or full exercise of the Warrant, other purchases of Common Stock by Caterpillar or a reduction in the number of shares outstanding), the number of Directors designated by Caterpillar will increase such that the ratio of the number of directors designated by Caterpillar to the total number of directors is substantially equal to the ratio of the number of shares of Common Stock owned by Caterpillar to the total number of shares of Common Stock outstanding. Caterpillar will have the right to designate a majority of the Board at such time as Caterpillar owns a majority of the outstanding shares of Common Stock of ASV. The increase in Caterpillar's percentage representation on the Board will be accomplished by the resignation of then existing members of the Board and replacement by directors designated by Caterpillar.

Conduct of ASV's Business Following the Closing; Repurchase of Stock by ASV. ASV has agreed that, between the date of the Closing and the termination of the Warrant, unless approved by at least one-half of the directors of ASV designated by Caterpillar, ASV will not (i) amend its Articles of Incorporation or Bylaws, (ii) issue any shares of capital stock other than pursuant to its stock option plans, (iii) declare or pay dividends, (iv) effect a stock split or stock repurchase program, (v) acquire or invest in another company, (vi) purchase any property or assets, other than in the ordinary course of business, (vii) incur any indebtedness, make any loans or issue any debt securities, other than in the ordinary course of business, or (viii) enter into any contract or agreement, other than in the ordinary course of business. Notwithstanding the above, ASV is not obligated to use the proceeds from the initial purchase of Shares by Caterpillar to repurchase shares of Common Stock, but ASV will be entitled to and will be required to, to the extent reasonable at such time, use the net proceeds received upon exercise of all or any portion of the Warrant to repurchase shares of its Common Stock.

First Offer Rights. Subject to certain limitations, in the event ASV intends to issue any Common Stock or other securities in the future, ASV must first offer to sell such securities to Caterpillar and, if not purchased by Caterpillar, may only sell such securities to others on terms no more favorable than those offered to Caterpillar.

Additional Warrants. In the event that ASV issues or sells Common Stock or other securities to anyone other than Caterpillar or in other certain limited issuances, ASV will issue to Caterpillar a stock purchase warrant containing substantially the same terms as the Warrant, to purchase a number of shares of Common Stock equal to the number of shares of Common Stock sold or issuable upon conversion or exercise of the other security sold, at a purchase price equal to the purchase, conversion or exercise price applicable to the Common Stock or other security sold.

The Warrant. The Warrant issued to Caterpillar at closing entitles Caterpillar to purchase 10,267,127 shares of the Company's Common Stock at a purchase price of \$21.00 per share. The Warrant is exercisable at any time from the date of the Closing until the tenth anniversary of the date of the Closing, except that the Warrant may expire with respect to a portion of the shares covered thereby in the event that the Company meets certain revenue levels as follows:

Amount of Revenues	Number of Shares Remaining Subject to the Warrant
-----	-----
\$100 million	8,727,058
\$150 million	6,673,632
\$200 million	4,106,851
\$250 million	Zero

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In the event that (i) the Company meets one of the revenue goals set forth above for any four consecutive fiscal quarters, (ii) the Company's gross profit derived from such revenues is at least 20%, and (iii) the market price of the Common Stock at such time is greater than \$21.00 per share, then the Company will have the right to give an acceleration notice to Caterpillar and upon the expiration of 75 days following the giving of such notice, the number of shares subject to the Warrant will be reduced to a maximum of the number of shares set forth above corresponding to the revenue goal achieved (the "Warrant Expiration Clause").

Under the terms of the Warrant, the Company has the right to terminate the Warrant upon 60 days prior written notice to Caterpillar in the event that the Company has terminated any of the Commercial Alliance Agreement, the Marketing Agreement or the Technology License Agreement as a result of a material breach by Caterpillar which is not remedied by Caterpillar, or the Company has terminated one or more of the Trademark and Trade Dress License Agreement, the Management Services Agreement, a Supply Agreement or the Joint Venture Agreement as a result of a material breach by Caterpillar which is not remedied by Caterpillar and the Company is materially unable to realize the benefits provided collectively by those agreements.

The Commercial Alliance Agreement. The Commercial Alliance Agreement provides that the Company and Caterpillar will enter into certain agreements, each of which is discussed below.

Marketing Agreement. The Marketing Agreement requires Caterpillar to provide the Company with access to its worldwide distribution network, in part, by promoting the sale of the Company's products to Caterpillar's dealers. Caterpillar will first promote ASV's products in North America and gradually extend such promotion throughout the world consistent with a joint marketing plan to be developed by the Company and Caterpillar. In addition, under the Marketing Agreement, Caterpillar intends to handle orders for the Company's products and administer its warranties. In consideration for Caterpillar's services under the Marketing Agreement, ASV will pay to Caterpillar a commission equal to a percentage of the dealer net price for all products sold to Caterpillar's dealers plus the costs of certain services provided by Caterpillar.

Trademark and Trade Dress License Agreement. The Marketing Agreement provides that the Company and Caterpillar enter into a Trademark and Trade Dress License Agreement (the "License Agreement") at such time as the Company's products have been evaluated by Caterpillar and have been found to meet Caterpillar's quality and safety standards in accordance with Caterpillar's established testing and validation procedures. The License Agreement will provide, in part, that Caterpillar will grant to the Company the non-exclusive, non-transferable right and license to use certain trademarks of Caterpillar on the Company's products for a fee equal to a percentage of the dealer net price for products sold to dealers with such trademarks. The term of the License Agreement will be five years from the date of the signing of the License Agreement, unless earlier terminated by mutual consent of the Company and Caterpillar. Although no time frame for the evaluation of the Company's products has been agreed to, the Company

anticipates that such process may take from two to four years, or longer.

Management Services Agreement. Under the Management Services Agreement, Caterpillar will make available to the Company general management support in connection with the day-to-day operation of its business, commercial development and marketing research services, financial planning services, such other administrative services as Caterpillar and the Company may subsequently agree to in writing, and manufacturing and engineering services. In consideration for Caterpillar's obligations under the Management Services Agreement, the Company will pay Caterpillar a fee equal to Caterpillar's fully-loaded cost, as defined in the Management Services Agreement, plus an administrative surcharge (or such other fee as the parties may agree upon). The Management Services Agreement remains in effect indefinitely until otherwise terminated by the parties.

Other Agreements. The Commercial Alliance Agreement also provides that the Company and Caterpillar enter into several additional agreements, the terms of which, including the fees and costs to be paid thereunder, are to be negotiated in the future. These agreements are as follows:

Service Agreements. The parties have agreed to enter into Service Agreements pursuant to which Caterpillar will offer to ASV financial services, logistics services and services to promote ASV's products to governmental bodies, either

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through Caterpillar or a wholly owned subsidiary of Caterpillar, and ASV will agree to use such services if the prices to be negotiated for such services are competitive from a total value point of view.

Supply Agreement (Caterpillar to ASV). The parties have agreed to enter into a Supply Agreement (Caterpillar to ASV) pursuant to which Caterpillar will offer to supply Caterpillar components to ASV for incorporation into ASV's products, including, without limitation, diesel engines, and ASV will agree to purchase such components from Caterpillar if the terms upon which such components are offered for sale to ASV are competitive from a total value point of view.

Supply Agreement (ASV to Caterpillar). The parties have agreed to enter into a Supply Agreement (ASV to Caterpillar) pursuant to which ASV will offer to supply ASV components to Caterpillar for incorporation into Caterpillar's products that do not compete with ASV's products and ASV will further agree to license to Caterpillar the intellectual property rights necessary for Caterpillar to manufacture such components in the event it becomes economically impractical for ASV to supply such components.

Technology License Agreement (ASV to Caterpillar). The parties have agreed to enter into a Technology License Agreement (ASV to Caterpillar) pursuant to which ASV will offer to license to Caterpillar, on an exclusive (except as to ASV) and royalty bearing basis, the right to use ASV's proprietary patents and know-how relating to all-terrain rubber track vehicles in the design, manufacture, use and sale of Caterpillar's products that do not compete directly with ASV's products (subject to ASV's right to supply components to Caterpillar pursuant to the Supply Agreement (ASV to Caterpillar) described above).

Joint Venture Agreement. The parties have agreed to enter into a Joint Venture Agreement pursuant to which ASV and Caterpillar will establish a 50-50 joint venture company to design and develop a line of agricultural tractors utilizing key aspects of the parties' respective technology and know-how.

## Markets

The Company believes its products to be very versatile and can be used in a wide variety of applications. The following represents several of the possible markets where the Company's products may be used.

Construction. The construction industry currently depends heavily on

skid-steer vehicles for a wide variety of functions. Skid-steers are small four-wheeled vehicles that were originally designed and used primarily as loaders, but in the last decade have become increasingly more popular for a variety of functions and more versatile with the availability of attachments such as backhoes, forklifts, breakers, planers, rakes and augers. Most skid-steer attachments are designed for use with an industry standard quick-attach mechanism which allows attachments used by one manufacturer to be used on vehicles manufactured by another.

The primary disadvantage of skid-steer vehicles is that they are wheeled vehicles and are not designed for operation on wet, soft, slippery or rough ground, which means that they are inherently limited in when and where they can function. Skid-steers often sit idle in the winter and spring or after rain because the ground is not suitable for their operation. A skid-steer exerts ten times or more ground pressure than the Posi-Track MD or HD models which makes a skid-steer less suitable for operation on landscaped or groomed ground.

Recognizing the benefits of tracked vehicles, a few manufacturers have created tracks that can be placed around a skid-steer's wheels. Add-on tracks are generally steel; however, rubber add-on tracks are now available due to the limitations imposed by steel tracks. Although rubber add-on tracks can decrease a skid-steer's ground pressure to approximately 10 pounds per square inch, the overall design of a Posi-Track gives it more versatility and less ground pressure than a skid-steer with add-on tracks.

In addition to the tasks performed by skid-steers, the Posi-Track MD and HD models are used for construction jobs performed by small steel track dozers. A skid-steer's design lacks the power, traction and stability necessary for moving dirt and other materials efficiently. Therefore, dozers have remained single purpose machines and, because of their steel tracks and significant ground pressure, cannot be operated on soft, groomed, landscaped or paved surfaces.

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Landscaping. Like the construction industry, the landscaping industry depends heavily on small dozers and skid-steers with loaders, backhoes, rakes and other attachments. Landscapers have also been limited by these machines on soft, wet, muddy, hilly or rough terrain or on groomed or paved surfaces, thereby affecting productivity. Skid-steers and dozers cause greater soil compaction than the Posi-Track models, which is a concern for landscapers because the more compact the soil, the more difficult it is for plants to grow. The Posi-Track MD and HD models can also be adapted to perform special functions in the landscaping industry. For example, the Company manufactured a Posi-Track attachment which is used for laying a specially cut continuous roll of sod over 100 feet in length and weighing over 1,200 pounds. The sod is held in front of the vehicle and unrolls as the Posi-Track moves forward, laying the sod on the ground. The Posi-Track's rubber tracks then move over the sod, gently setting it in place. This procedure allows sod to be laid with significantly less manual labor and on places such as sides of hills where traditional smaller sod sections could be washed away by excessive rain.

Agricultural. The Posi-Track MD and HD models are used in the agricultural industry to perform the functions of small tractors. Its three-point hitch and reversible seating allow it to be used with pull-type attachments such as roto-tillers, plows, disks and cultivators. The Posi-Track's hydraulic power take off allows it to be used for farming chores such as grinding and unloading feed. Its low ground pressure and rubber tracks allow it to be used on wet, soft, muddy ground that would not be possible with traditional wheeled tractors, thereby increasing the number of productive days. In addition, Posi-Track's low ground pressure reduces compaction of soil. The Posi-Track MD and HD models are being used in several grape vineyards in California's Napa Valley as a replacement to four-wheel drive tractors.

Trail Grooming and Maintenance. Both the Posi-Track and Track Truck are used for maintaining trails such as snowmobile, cross-country ski, biking and hiking trails. The Company manufactures an attachment for the Track Truck and the Posi-Track DX 4530 which is designed to efficiently groom snowmobile trails and can also be used to groom cross-country ski trails. The Posi-Track is used with a mower attachment to clear and maintain trails for biking, hiking and other purposes. The Company believes the Track Truck has captured a significant

portion of the United States snowmobile trail grooming equipment market since its introduction in 1985. The Posi-Track DX 4530 is currently being sold into some of the same markets and serves some of the same functions as the Track Truck.

Utility. The Track Truck and Posi-Track DX 4530 are used in the utility industry for access to off-road utility sites that would be otherwise inaccessible with traditional vehicles. Utility companies may need to access remote areas to repair downed power lines, inspect gas lines or to repair or maintain other remotely located equipment. These areas may only be accessible through snow, ice, mud, swamps, bogs, or rough, hilly or rocky terrain. The Track Truck and Posi-Track DX 4530 are able to access and transport tools, equipment and personnel to those sites.

Wildlife Management. All Posi-Track models and the Track Truck are used in wildlife management by Federal agencies and the departments of natural resources of a number of states. The Posi-Track models are used to mow trails for wildlife and to mow clearings so that grass, clover and other vegetation needed for wildlife can grow. The Posi-Track MD and HD models are also used to clear cattails and other unwanted vegetation from swamps to provide access for feeding ducks and other waterfowl. Both vehicles are used in the management of controlled burning or the maintenance of fire lines to prevent the spread of forest fires and for access to remote sites for a variety of other purposes.

Military Applications. The Posi-Track MD-70 is being equipped with robotic and video equipment to enable remote operation of the machine at distances up to three miles. Current applications for this type of Posi-Track include detonation and removal of land mines, clearing unexploded munitions on bomb ranges and clearing bomb ranges of overgrown vegetation. For these types of applications, the Company is selling the Posi-Track MD-70 to an unrelated party who equips it with the necessary robotics and video equipment to provide for the remote operation.

The Company has been awarded a supply contract number for its Posi-Track MD and HD models under the General Service Administration which allows Federal governmental agencies to purchase the MD-70, MD 2800 and HD 4500 without going through a competitive bidding process.

Other. The versatility of the Posi-Track MD and HD models has allowed for their use in areas where a typical skid-steer vehicle could not operate. A grain export company is using Posi-Track MD-70's in the hold of grain vessels to level the grain for proper weight distribution or before adding more cargo, eliminating many hours of hand labor.

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## Products

The Company's principal products are contained in two primary product lines, the Posi-Track product line and the Track Truck product line. All products under these two product lines utilize a rubber track suspension system that takes advantage of the benefits of traditional rubber wheels and steel tracks, without the disadvantages possessed by each. Wheeled vehicles have less traction, are less stable than tracked vehicles and cannot operate on soft, wet, slippery, rough or hilly terrain. Steel tracks damage the surfaces on which they operate. Also, the significant ground pressure of both wheeled and steel track vehicles creates compacted soil. The rubber track on the Posi-Track and Track Truck products provides the traction, stability and mobility of tracked vehicles, but does not damage surfaces. In addition, the Posi-Track has extremely low ground pressure which means it will not cause significant soil compaction.

The Company began manufacturing the Track Truck in 1984. The current Track Truck model is the HPT 2800. The Company began manufacturing the Posi-Track Model MD-70 for sale in 1991. In July 1997, the Company began selling the Posi-Track HD 4500 series, which is larger than the MD-70 and has additional features not available on the current model MD-70. In October, the Company began selling the Posi-Track DX 4530 (previously named the HD 125), the largest of all the Posi-Track models produced. The DX 4530 has features not found on either the MD-70 or HD 4500 models. In August 1998, the Company began selling the



Posi-Track MD 2800 series. The MD 2800 integrated the size, weight and operating capabilities of the Company's existing Model MD-70 Posi-Track with the maintenance-free undercarriage currently in use on the Company's HD 4500 and DX 4530 models.

The rubber tracks used on the Company's products are made of molded rubber reinforced with layers of nylon, Kevlar and fiberglass rods. The MD 2800, HD 4500 and DX 4530 feature a maintenance-free suspension with no grease fittings, while the MD-70 and the Track Truck are built upon a suspension that requires periodic maintenance. The Posi-Track model MD-70 and MD 2800 and the Track Truck model HP 2800 each have a 70 horsepower, 4-cylinder Isuzu diesel engine and dual hydrostatic transmission and both can be equipped with an optional 4-cylinder Isuzu turbo diesel engine. The Posi-Track model HD 4500 utilizes John Deere engines available in either an 80 horsepower 4-cylinder diesel engine or a 115 horsepower 4-cylinder turbo diesel engine. The Posi-Track DX 4530 uses a 125 horsepower, 4-cylinder John Deere turbo diesel engine. The Company anticipates it will begin using engines manufactured by Perkins Engines, a subsidiary of Caterpillar, in its HD 4500 series Posi-Tracks in the second half of 1999.

#### Posi-Track MD and HD Models.

The Company believes the MD and HD model Posi-Tracks are ideal replacements to skid-steers, small dozers and small tractors and can perform many of the jobs handled by these vehicles without the disadvantages they possess. Their standard quick-attach mechanism enables them to operate the attachments used by skid-steers. The MD and HD model Posi-Tracks are also designed to be used with a dozer attachment. In addition, their three-point hitch and reversible seating allow them to function as a small tractor.

The Posi-Track's weight is distributed over its two tracks, which have a ground surface of approximately 102 x 18 inches per track, which results in an average ground pressure of approximately 1.5 pounds per square inch for the MD-70, compared to approximately 35 pounds per square inch for a typical wheeled skid-steer weighing approximately the same as a Posi-Track. The HD 4500, which weighs approximately 2,000 pounds more than the MD-70, exerts ground pressure of approximately 2.6 pounds per square inch. The MD 2800 has an average ground pressure of that between the MD-70 and the HD 4500. The Posi-Track's low ground pressure allows it to operate on wet, soft, slippery, rough and hilly terrain. Conventional wheeled vehicles may not be able to operate or may be destructive in these conditions. The Posi-Track's low ground pressure also reduces compaction which decreases the need for frequent tilling and conditioning of the soil.

The MD and HD model Posi-Tracks are multi-purpose vehicles which the Company believes are attractive to customers principally because of their:

- o Size. The Posi-Track MD-70, the lightest of all Posi-Tracks, with a loader, weighs approximately 6,600 pounds and has an approximate ground pressure of less than 2 pounds per square inch. The Posi-Track HD 4500, with a loader, weighs approximately 8,500 pounds and has an approximate ground pressure of 3 pounds per square inch.
- o Features. The Posi-Track's loader includes a quick-attach mechanism which allows for use of a wide range of attachments, manufactured both by the Company and others such as a bucket, forklift, rake, mower and snowblower. The MD-70 and MD 2800 accept a category one three-point hitch, while the HD 4500 accepts a category two three-point hitch. A dozer blade and backhoe are also available for the MD and HD model Posi-Tracks.
- o Price. The current retail price of a Posi-Track MD-70 is approximately \$34,700 for a base model and approximately \$39,300 with a loader, bucket and quick-attach mechanism. Although the most common skid-steer vehicles have a slightly lower base price, comparably equipped skid-steers cost approximately the same as a Posi-Track MD-70. The current retail price of a Posi-Track MD 2800 is approximately \$38,100 for a base model and approximately \$42,700 with a loader, bucket and quick-attach mechanism. The current retail price of a Posi-Track HD

4500 is approximately \$42,100 for a base model and approximately \$47,700 with a loader, bucket and quick-attach mechanism.

- o Ease of Operation. The MD and HD model Posi-Tracks feature a reversible driver's seat which allows an operator to face either end of the vehicle for better control. All Posi-Track models are maneuverable and can easily turn in their own length.

In addition to the attachments already available on the market from other manufacturers, the Company also manufactures and sells attachments for the Posi-Track for special functions not performed by other competing vehicles. Because skid-steers are not designed for performing dozer functions, dozers have traditionally been separate, single-function vehicles. However, because of its rubber track and design, the Posi-Track is able to perform dozer functions with the dozer attachment manufactured and sold by the Company. The Company also modifies a mower attachment for the Posi-Track and designs, manufactures and sells other attachments for special purposes.

#### Posi-Track Model DX 4530

In response to customer desires for a larger, rubber tracked utility vehicle, the Company introduced the Posi-Track model DX 4530 (previously referred to as the HD 125) in February 1997, with the first sales occurring in the fourth quarter of 1997. The DX 4530 incorporates certain features of the Posi-Track and the Track Truck. Built on a larger, maintenance-free rubber track suspension, the DX 4530 has a roomy, two-person, fully-enclosed, steel cab. The DX 4530 comes standard with a quick-attach mechanism to accept a variety of front-end attachments. The DX 4530 is being sold into the trail grooming and land management markets.

The Company believes the DX 4530 will be attractive to certain markets due to the following:

- o Maintenance-Free Suspension. The suspension of the DX 4530 is built on the same concept as that of the HD 4500 which has been designed so that it does not require periodic greasing of the bearings.
- o More Powerful Engine. The DX 4530 is powered by a 125 horsepower John Deere PowerTec turbo diesel engine.
- o User Friendliness. The DX 4530 has a larger, more spacious steel cab with many interior features found on pickup trucks, including high-back bucket seats, tilt and telescopic steering wheel and stereo cassette radio. The large amount of glass in the cab provides for good visibility. The DX 4530 incorporates the Company's patented Posi-Turn steering system which utilizes a steering wheel rather than levers to steer the vehicle.
- o Features. The DX 4530 comes standard with a quick-attach mechanism so it can accept a variety of attachments including brush cutters, backhoes, buckets, trenchers and dozer blades. It also has hydraulic controls mounted inside the cab to allow for the use of trail grooming attachments.

The Company believes the DX 4530 can be sold into the snowmobile trail grooming market as well as those seeking a vehicle to access remote work sites, such as utilities, construction companies, real estate developers and governmental agencies. The retail price for the DX 4530 is \$74,500. The Company began selling the DX 4530 through selected Posi-Track dealers in 1998.

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The Company also sells optional attachments and accessories for the DX 4530. Certain of the options, such as a trail groomer attachment, are made and stocked at the Company's manufacturing facility while others are manufactured by others to the Company's specifications and integrated into the overall design of the DX 4530.

Track Truck Vehicle.

The Track Truck is designed for utility use on snow, mud, swamps, sand, brush, rocks and bogs. The Track Truck has a body similar to a pickup truck with two front wheels and two rear tracks similar to the Posi-Track. The Track Truck's wheels reduce the jarring and pitching usually experienced with other track-driven vehicles on rough and hilly terrain, which creates a more comfortable ride and reduces driver fatigue. Unlike other tracked vehicles, which use levers for steering, the Track Truck has a steering wheel. The Track Truck's Posi-Turn patented power steering system enables the steering wheel to vary power to the tracks while also turning the front wheels.

The Company believes that the Track Truck is a unique product and is attractive to customers principally because of its:

- o Size. The Track Truck is smaller and more maneuverable than other track-driven vehicles currently on the market. Each Track Truck is about the size of a pickup truck and weighs approximately 4,200 pounds.
- o Price. The current retail price of a Track Truck is approximately \$43,000. The retail prices of other track-driven vehicles generally exceed \$80,000.
- o Safety. The front wheels of the Track Truck stabilize it on steep grades and a roll-bar provides certified roll-over protection.
- o User Friendliness. The cab's structure and features, including a steering wheel instead of levers, are very similar to those of a pickup truck and are familiar to most users. The Track Truck is available with a radio and other features generally available on trucks. The front wheels stabilize the ride making it more comfortable than other tracked vehicles.

The Company also sells options and accessories for the Track Truck. The options and accessories are either made and stocked at the Company's manufacturing facility or manufactured by others to the Company's specifications and are integrated into the overall design of the Track Truck. For instance, the snowmobile trail groomer option comes attached to the Track Truck with the required controls placed in the climate controlled cab of the vehicle. Other options include a snow plow, trailer and van body style. The Company can also manufacture custom-designed units for specialty purposes. One such unit was built for use by airport fire-fighters and was equipped with a water pump, hoses and other fire-fighting equipment.

#### Sales and Marketing

Prior to entering into its strategic alliance with Caterpillar in October 1998, the Company sold and distributed its Posi-Track MD and HD models primarily through independent construction and farm equipment dealers in the United States and limited areas of Canada and New Zealand. The Company also began distributing its DX 4530 through selected Posi-Track dealers in the United States during 1998.

Subsequent to entering into its strategic alliance with Caterpillar, the Company's Posi-Track products will be distributed through Caterpillar's world-wide dealer network which consists of 195 dealers in approximately 200 countries. The Company intends to first distribute its Posi-Track products to Caterpillar dealers in North America and certain Caterpillar dealers in Canada and Australia. In the United States, there are 64 Caterpillar dealers representing approximately 400 dealer locations.

As of October 1998 (prior to the Caterpillar transaction), the Company had 120 Posi-Track dealer locations. Between the time of the announcement of the Caterpillar transaction and March 1999, approximately 36 dealer locations have elected to no longer carry the Company's products. These 36 locations are comprised of eleven dealers who will no longer carry the Company's products and two dealers whose Posi-Track trade areas have been reduced. One of those dealers whose trade area has been reduced was the Company's largest customer for 1998. This dealer accounted for approximately 21% of the Company's net sales in 1998. This dealer is a Caterpillar dealer and their Posi-Track trade area was reduced as they were selling

into the trade area of approximately nine other Caterpillar dealers.

During that same time period of October 1998 through March 1999, the Company signed thirteen additional Caterpillar dealers to carry the Company's products representing 107 dealer locations. It is the Company's intent to continue meeting with Caterpillar dealers that currently do not carry the Company's products such that a majority of Caterpillar dealers in the United States will be Posi-Track dealers within 12-24 months. During that time period and beyond, the Company plans to pursue international Caterpillar dealers as sales demand and production capacity allows. It is the Company's intent to continue to sell to its non-Caterpillar dealers until such time as the Caterpillar dealer in that trade area is able to adequately represent the Posi-Track products. The Company believes its association with Caterpillar will provide the necessary dealer locations to adequately cover the available market.

As of March 1998, the Company had 91 Posi-Track dealer locations and three Track Truck dealer locations. Of these figures, three Posi-Track dealer locations were located in Canada and one was located in New Zealand. As of March 1997, the Company had 48 Posi-Track dealer locations and two Track Truck dealer locations in the United States and one Posi-Track dealer location in Canada.

The Company sells and distributes the Track Truck in the United States through three independent dealers as well as in-house sales and marketing efforts. Sales of the Company's products in geographic areas outside the above-mentioned areas are made on a direct basis through in-house sales and marketing efforts.

The construction and farm equipment industries, in which the Posi-Track MD and HD models compete, have historically been cyclical. Sales of construction and agricultural equipment are generally affected by the level of activity in the construction and agricultural industries as well as farm production and demand, weather conditions, interest rates and construction levels (especially housing starts). In addition, the demand for the Company's products may be affected by the seasonal nature of the activities in which they are used. Sales of the Posi-Track MD and HD models have generally been greater in the spring and summer while sales of the DX 4530 and the Track Truck have generally been greater in the fall.

In 1998, the Company had sales to one dealer which totaled approximately 21% of the Company's net sales. In 1997, the Company had sales to two dealers (one of which was the dealer mentioned in the previous sentence) which totaled approximately 27% of the Company's net sales. In 1996, sales to these two dealers totaled approximately 21% of the Company's total net sales. The Company believes the loss of either of these dealers would not have a significant effect on its future operations as the Company believes new dealers could be obtained where these two dealers are located.

As of March 22, 1999, the Company had orders for approximately \$3.0 million of Posi-Track units and related accessories. As of March 16, 1998, the Company had pre-sold production of approximately \$8.2 million. The Company believes the reason for the decrease in orders is due to the transition from selling its products primarily through an independent dealer network to the Caterpillar dealer network.

The Company generally does not offer financing on its vehicles, but has arrangements with several finance companies to finance the sale of the Company's vehicles to its dealers and end purchasers. The Company has an agreement with John Deere Credit whereby John Deere Credit will provide floor plan financing to the Company's Posi-Track dealers. For 1998, 1997 and 1996, approximately 8%, 10% and 9%, respectively, of the Company's sales were financed through John Deere Credit. Company financed sales were less than 1% of the Company's sales for the years 1996 through 1998.

The agreement with John Deere Credit requires the Company to repurchase any units not paid for by the purchaser within the terms of the respective agreements. As of February 26, 1999, the total amount owed to John Deere Credit by dealers under the Company's agreement was approximately \$1,311,000.

## Competition

The markets in which the MD and HD model Posi-Tracks compete are generally comprised of small to medium sized tractor-type vehicles including skid-steers. The market is dominated by large corporations producing models with substantial name recognition, including Case, which manufactures the Uniloader skid-steer, Ingersoll Rand, which manufactures the Bobcat, Deere & Co. and Caterpillar Inc. The competitors primarily produce wheeled or steel track vehicles in the markets in which the Posi-Track competes. Caterpillar, John Deere and Case sell rubber track vehicles in the medium to large sized tractor market.

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The markets in which the Posi-Track DX 4530 and Track Truck compete generally are comprised of all-terrain vehicles, principally larger, track-driven vehicles other than snowmobiles. The Company believes that the principal participants in the general all-terrain vehicle market include Bombardier, Inc. of Canada, Tucker Corporation and LMC Corporation. The Company believes that the products most closely competitive with the DX 4530 and Track Truck are larger than these two products, do not provide the same level of maneuverability and are significantly more costly.

The Company expects its products to compete in the market based on, among other things: adaptability, versatility, performance, convenience of operation, features, size, brand loyalty, price and reputation. Some of the Company's competitors possess significantly greater resources than the Company, as well as established reputations within the industry. There is no assurance that a competitor with greater capital resources will not enter and exploit the Company's markets to the Company's detriment. The Company believes the introduction of additional competitors could enhance market acceptance of rubber track vehicles.

## Warranty

The Company provides a limited warranty to purchasers of its products. The Posi-Track MD-70 warranty covers defects in materials and workmanship for a period of one year from the delivery date or 500 operating hours, whichever occurs first. The Posi-Track MD 2800 and HD 4500 warranty covers defects in materials and workmanship for a period of one year from the delivery date with no hour limit. The Track Truck and DX 4530 warranty covers defects in material or workmanship for a period of two years from the delivery date or 1,000 operating hours, whichever occurs first. Components which are not manufactured by the Company are subject only to the warranty of the manufacturer of the component.

## Manufacturing and Suppliers

The Company manufactures and assembles its products at its facility in Grand Rapids, Minnesota. See "Item 2. Description of Property." The majority of the component parts are purchased from outside vendors. Certain parts, such as engines and transmissions, are standard "off-the-shelf" parts purchased by the Company and incorporated into its vehicles. Others, such as the rubber track, undercarriage and loader, are manufactured specifically for the Company. The remaining parts, such as the Posi-Track and Track Truck frame, are manufactured on site for incorporation into the vehicles. In order to help reduce production costs, the Company periodically reviews those parts that may be more cost-effective to manufacture in-house.

The Company owns the tooling used by outside vendors for manufacturing customized parts. While current vendors are meeting the Company's quality and performance expectations, the Company believes alternative contract manufacturers are available should the necessity arise. However, shortages of parts or the need to change vendors could result in production delays or reductions in product shipments that could adversely affect the Company's business. The Company believes that a change in suppliers for component parts could occur without material disruption of the Company's business.

## Intellectual Property Rights

In 1986, a patent was issued to the Company with respect to the Posi-Turn power steering system. The steering system was invented by Gary Lemke, President of the Company, and his rights with respect to the invention were assigned by him to the Company. In connection with the assignment, the Company did not pay any compensation to Mr. Lemke, but agreed that in the event the Company licenses any of its rights under the patent to others, Mr. Lemke would receive 25% of any royalties under such license. This royalty agreement was terminated in January 1999, with no consideration paid to Mr. Lemke.

The Company has registered the trademark "Track Truck" with the U.S. Patent and Trademark Office and claims common law trademark rights in the names "Posi-Track", "Posi-Turn" and "Snow Saver." Despite these protections, it may be possible for competitors or users to copy aspects of the Company's products.

The Company believes that patent and trademark protection is less significant to its competitive position than the knowledge, ability and experience of the Company's personnel, product enhancements, new product development and the ongoing reputation of the Company.

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#### Research and Development

During the years ended December 31, 1998, 1997 and 1996, the Company spent approximately \$319,000, \$217,000 and \$171,000, respectively, on research and development. The Company's research and development expenses have been incurred in connection with development of new models and enhancements to existing products.

#### Insurance

The Company maintains product liability insurance as well as a commercial umbrella insurance policy in amounts the Company believes are adequate. The Company also maintains key-person life insurance in the amount of \$1,000,000 on the life of Mr. Lemke.

#### Employees

As of March 22, 1999, the Company had 109 employees, one of whom is part-time. The Company's employees include four in management, 14 in administration, nine in sales and marketing and 82 in manufacturing and engineering. The Company believes its relations with its employees are good. None of the Company's employees is represented by a labor union.

#### Item 2. Description of Property

The Company's manufacturing and office facilities are located in Grand Rapids, Minnesota. These facilities consist of approximately 95,000 square feet of production space and approximately 10,000 square feet of office space. The facilities are leased under a 20 year lease from the Grand Rapids Economic Development Authority (EDA). The Grand Rapids facility has been the Company's primary production and office facility since the original 40,000 square foot facility was first occupied by the Company in May 1995. The facility was expanded to its present size in 1997. The Company has an option to purchase the facility at any time at the present value of the remaining lease payments plus the current purchase price of the land on which the facility was constructed. The purchase price of the land is currently \$215,000, but can be reduced or forgiven over a remaining period of seven years if certain minimum employment levels are met and maintained during the applicable year.

The Company's lease payments for its original 40,000 square foot facility remain unchanged and additional lease payments are being made for the added space. The original lease payments are approximately \$38,000 per year for the period June 1997 through May 1999 and approximately \$81,000 per year thereafter, payable monthly. The lease payments for the expanded portion of the facility are equal to the retirement of the \$1.6 million debt incurred by the EDA to finance the expansion. The \$1.6 million debt is comprised of two parts: a \$750,000 loan with an interest rate of 4% per year and payments based upon a fully amortizing 20 year term; and an \$850,000 loan with an interest rate of 9% per year and payments based upon a 20 year amortization and a balloon payment due January 1,

2003. Payments under the \$750,000 portion are \$4,585 per month and payments under the \$850,000 portion are \$7,725 per month, each of which began April 1, 1998. The lease has been recorded as a capital lease for financial statement and income tax purposes. The Company is responsible for all real estate taxes, utilities and insurance on the leased property.

With the occupancy of its original facility in Grand Rapids in 1995, the Company became eligible to receive up to \$200,000 of grant monies through the State of Minnesota over a three-year period, provided certain employment levels are attained. During 1998, the Company received the third and final year of grant monies available under this grant.

In January 1998, the Company purchased a parcel of land consisting of 63 acres and six buildings with a total of 47,000 square feet, which it had previously rented for its research and development facility and for additional warehousing. The purchase price of this facility was \$500,000, which was financed, in part, by the proceeds of approximately \$150,000 from the sale of the Company's former production facility in Marcell, Minnesota. In addition the Company entered into a note payable with the seller for approximately \$350,000 to be paid in two equal principal installments in January 1999 and January 2000, with interest payable quarterly at 8%.

Prior to occupying the Grand Rapids facility, the Company's production and office facilities were located in Marcell, Minnesota. These facilities were sold to an unrelated party in December 1997 via a like-kind exchange.

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The Company also owned three acres of land and a 9,000 square foot building in Grand Rapids used for research and development and warehousing. This Grand Rapids property was acquired in 1990 from Company President, Gary Lemke, pursuant to a contract for deed. The land and building on this property were under agreement for sale to an unrelated party when the building was completely destroyed by fire in December 1997. The building and its contents were covered by insurance. In 1998, the Company constructed a new building on this site and the sale to the same unrelated party closed in March 1998 resulting in a gain of approximately \$10,000, which was recognized in the first quarter of 1998.

The Company believes that its properties are adequately covered by insurance.

#### Item 3. Legal Proceedings

During its 1998 fiscal year, the Company was not involved in any material legal proceedings.

#### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

### PART II

#### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

##### Market Information

The Company's common stock has been traded on the Nasdaq National Market-SM- under the ticker symbol ASVI since February 26, 1997. Prior to that date, the Company's common stock had been traded on the Nasdaq Small Cap Market-SM- since the completion of its initial public offering, August 11, 1994. The following table sets forth sales price information for the periods indicated, as adjusted to reflect the Company's three-for-two stock splits, effective January 21, 1997 and May 15, 1998:

Year Ended December 31, 1997	High	Low
-----	-----	-----
First Quarter	\$17.33	\$10.83
Second Quarter	17.83	11.33
Third Quarter	22.00	16.00

Fourth Quarter	20.33	15.00
Year Ended December 31, 1998	High	Low
-----	-----	-----
First Quarter	\$20.00	\$14.50
Second Quarter	25.88	16.83
Third Quarter	26.38	14.13
Fourth Quarter	21.50	14.88

The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

#### Holders

As of March 22, 1999, the Company had approximately 266 holders of record of its Common Stock (not including beneficial holders). The Company believes it has in excess of 4,500 beneficial holders of its Common Stock.

#### Dividends

The Company has never declared or paid a cash dividend on its Common Stock. The Company currently intends to retain earnings for use in the operation and expansion of its business and therefore does not anticipate paying any dividends in the foreseeable future.

#### Item 6. Selected Financial Data

<TABLE>

<CAPTION>

(Dollar amounts in thousands, except per share data)	Year ended December 31,				
	1998	1997	1996	1995	1994
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales.....	\$ 39,019	\$ 24,316	\$ 12,266	\$ 8,245	\$ 4,806
Net Income.....	3,366	2,324	922	440	148
Net Income Per Share-Diluted.....	.40	.28	.12	.06	.03
Total Assets.....	29,533	19,215	13,410	6,322	4,885
Long-Term Liabilities.....	2,464	7,021	5,697	643	40
Shareholders' Equity.....	19,515	9,957	6,287	5,078	4,609

</TABLE>

#### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

##### Results of Operations

The following table sets forth, for the periods indicated, certain Statements of Earnings data as a percentage of net sales:

	Year Ended December 31,		
	1998	1997	1996
-----	-----	-----	-----
Net sales.....	100.0%	100.0%	100.0%
Cost of goods sold.....	75.6	74.5	76.2
Gross profit.....	24.4	25.5	23.8
Selling, general & administrative expense...	8.9	9.2	10.8
Operating income.....	14.7	15.4	11.6
Interest expense.....	1.5	1.6	1.0
Net income.....	8.6	9.6	7.5

Net Sales. Net sales for the year ended December 31, 1998 increased 60% to approximately \$39,019,000 compared with 1997. The increase can be attributed to a combination of several factors. First, the Company expanded its network of Posi-Track dealers in 1998. Prior to the announcement of its agreement with Caterpillar in October 1998, the Company had approximately 120 dealer locations able to distribute its Posi-Track products compared with 91 at March 1998.



Second, 1998 was the first full year of sales for the Company's HD 4500 series Posi-Track which accounted for approximately 75% of all units shipped in 1998. Sales of the HD 4500 series began in the third quarter of 1997. Third, the Company introduced the MD 2800 series in the third quarter of 1998, which accounted for approximately 19% of all units shipped in 1998. The Company believes the two additional model Posi-Tracks available for sale in 1998 and the maintenance-free undercarriage found on these models were responsible for the sales decrease of the MD-70 Posi-Track in 1998. Fourth, the Posi-Track model DX 4530 was available for the full year in 1998. 1998 sales of the Posi-Track DX 4530 increased approximately 47% over 1997. Conversely, sales of the Company's Track Truck decreased approximately 54% as customers purchased the DX 4530 instead of the Track Truck. Lastly, sales of service parts increased 80% in 1998 as the number of machines in service continues to increase. Also, sales of used equipment increased 67% in 1998 as the Company has been able to increase its used equipment offerings and devote additional marketing efforts towards its sale.

Net sales for the year ended December 31, 1997 increased 98% compared with 1996 to approximately \$24,316,000. This increase was due to the combination of increased sales of the Company's existing model Posi-Track, sales from the introduction of two new Posi-Track models, increased sales of parts and used equipment, offset in part by a decrease in Track Truck sales. Sales of the Company's existing model Posi-Track, the MD-70, and related accessories increased 61% in 1997, due primarily to the increase in the number of Posi-Track dealer locations and the increased market acceptance of the Posi-Track. At March 1998, the Company had 91 Posi-Track dealer locations, compared with 49 at March 1997. In 1997, the Company introduced two new Posi-Track models, the HD 4500 and the DX 4530 (previously referred to as the HD 125). The Company began selling the HD 4500 in the third quarter of 1997 and had sales related to this product of approximately \$4,047,000, the majority of which occurred in the fourth quarter. The Company began selling the DX 4530 in the fourth quarter of 1997 and had sales related to this product of approximately \$992,000 in 1997. Sales of parts, used equipment and other increased 93% compared with 1996, due primarily to a 126% increase in the sale of parts as the number of vehicles in service continues to increase. Sales of used equipment increased 20% as the Company had a greater selection of used equipment to sell and increased marketing efforts were devoted to the sale of used equipment. Track Truck related sales decreased 34%, or

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approximately \$380,000, due to the introduction of the Posi-Track DX 4530, which serves some of the same markets as the Track Truck.

Gross Profit. Gross profit for the year ended December 31, 1998 increased to approximately \$9,531,000, or 24.4% of net sales, compared with approximately \$6,202,000, or 25.5% of net sales in 1997. The increase in gross profit is due to the 60% increase in the Company's net sales for 1998. The gross profit percentage change was due to an increase resulting from the sale of models with higher gross margins more than offset by an increase in warranty expense and two additional factors. First, the Company incurred initial start up production costs related to its Model 2800 Series Posi-Track, primarily during the fourth quarter, as manufacturing changes were made to improve the overall product. Second, the Company experienced less retail sales as a percentage of its total net sales in 1998, thereby reducing its overall gross profit margin, as more of its product was sold through its dealer network in 1998 compared with 1997.

For the twelve months ended December 31, 1997, gross profit increased to approximately \$6,202,000, or 25.5% of net sales, compared with approximately \$2,925,000, or 23.8% of net sales, in 1996. The increase in gross profit was due to the 98% increase in net sales for 1997. The increase in the gross profit percentage was due to several factors. First, the Company began selling the model HD 4500 Posi-Track in the second half of 1997, which carried a higher selling price than the average vehicle sold and also a higher gross profit margin. Second, the Company began selling the Posi-Track DX 4530, which also carried a higher selling price than the average vehicle sold, but also was primarily sold direct to the end user, rather than through the Posi-Track dealer network. Third, greater efficiencies were obtained in the production process as the number of units produced increased significantly in 1997.

Selling, General and Administrative Expenses. For the twelve months ended December 31, 1998, selling, general and administrative expenses increased from approximately \$2,230,000 in 1997 to \$3,480,000 in 1998. As a percentage of net sales, however, these expenses decreased to 8.9% of net sales in 1998 from 9.2% of net sales in 1997. The increase in the expenses is due to increased sales and marketing efforts and increased administrative costs from increased employment levels. The increased sales and marketing costs are primarily from additional sales personnel hired in 1998 and increased advertising and promotion expenditures to expand the Company's dealer network. The decreased percentage of selling, general and administrative expenses is due to the Company closely managing its costs as sales volume increases.

Selling, general and administrative expenses increased for the twelve months ended December 31, 1997 to approximately \$2,230,000 compared with \$1,330,000 for 1996. However, as a percentage of net sales, these expenses decreased from 10.8% in 1996 to 9.2% for 1997. The increase in the expenses was due to increased sales and marketing efforts, increased financial and legal related costs and increased administrative costs from increased employment levels. The increased sales and marketing costs were primarily from additional sales personnel hired in 1997 and increased advertising and promotion expenditures. The increase in financial and legal related costs were due primarily to a full twelve months of amortization of a financial consulting agreement in 1997 compared with one month in 1996, and the additional legal costs incurred as the Company continues to expand its operations. The decreased percentage of selling, general and administrative expenses was due to the Company closely managing its costs as sales volume increased.

Research and Development. For the twelve months ended December 31, 1998, research and development expenses increased to approximately \$319,000 compared with approximately \$217,000 in 1997. The increase is due primarily to the introduction of the MD 2800 series Posi-Track in 1998 and enhancements to existing Posi-Track models.

Research and development expenses increased from approximately \$171,000 in 1996 to \$217,000 in 1997. This increase was due to the introduction of two new Posi-Track models in 1997 and the Company's desire to invest in new products and future product enhancements.

In order to maintain its competitive advantage over other manufacturers of similar products, the Company believes it will increase the level of spending on research and development activities. It is expected the main thrust of these activities will be directed towards extensions of the Company's current product lines and improvements of existing products.

Interest Expense. Interest expense was approximately \$576,000, or 1.5% of net sales, in 1998 compared with \$399,000, or 1.6% of net sales, in 1997 and approximately \$127,000, or 1.0% of net sales, in 1996. The increase in 1998 is due to the expansion of the Company's manufacturing facilities and the related debt thereon. In addition, in connection with the exchange by the holders of the Company's convertible debentures in the fourth quarter of 1998, the Company paid one additional

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quarter of interest to those who exchanged their debentures for common stock. This amount represented approximately \$81,000 of additional interest expense in 1998. The increase in 1997 was due primarily to a full year of interest expense for the Company's \$5,000,000 convertible debentures which were issued in October 1996. The remaining increase in 1997 is due to construction loan interest (net of amount capitalized) incurred for the expansion of the Company's manufacturing facility.

Net Income. Net income for the twelve months ended December 31, 1998 was approximately \$3,366,000, compared with approximately \$2,324,000 in 1997 and \$922,000 in 1996. The increases were due to increased sales and profitability on those sales, offset, in part, by increased operating expenses.

#### Liquidity and Capital Resources

At December 31, 1998, the Company's working capital increased to

approximately \$17,416,000 from approximately \$13,342,000 at December 31, 1997. This increase was due primarily to the increase in the Company's inventory and accounts receivable levels, offset, in part, by increases in accounts payable and borrowings on the Company's line of credit. The Company's sales during the fourth quarter of 1998 were approximately \$3,290,000 less than the third quarter of 1998, as explained below. During the fourth quarter, the Company chose not to reduce its production levels, but instead, increased its finished goods. This decision, along with the overall increase in the Company's business activity, caused inventory levels to increase 61% from 1997. Accounts receivable increased as more of the Company's sales occurred in December in fourth quarter 1998 compared with fourth quarter 1997. With the decrease in fourth quarter 1998 sales, the Company began drawing on its line of credit, with the outstanding advances under the line totaling \$3,535,000 at December 31, 1998. With the increase in the Company's overall volume, accounts payable increased approximately \$1,439,000, or 98%, at December 31, 1998. Due to the exercise of certain stock options in the latter half of 1998, the Company had no liability for income taxes at December 31, 1998. In addition, the current portion of long-term liabilities increased approximately \$219,000 due to the additional debt incurred for the Company's facility expansion and the acquisition of land and buildings for storage and to house the Company's research and development activities.

At December 31, 1997, the Company had working capital of approximately \$13,342,000, compared with approximately \$10,510,000 at December 31, 1996. This increase is due to a combination of several factors. Inventory increased approximately \$6,514,000 as the Company increased production of its original model Posi-Track and introduced two new models in 1997. Accounts receivable increased approximately \$729,000 due to increased sales volume. The Company used cash and short-term investments of approximately \$3,740,000 to finance these increases, along with increases in accounts payable and accrued expenses of approximately \$808,000. The Company also funded approximately \$1,079,000 of capital expenditures through cash flow generated from operations.

On October 14, 1998, the Company entered into a Securities Purchase Agreement (the Agreement) with Caterpillar Inc. (Caterpillar). The Agreement was approved by the Company's shareholders on January 28, 1999 and closed January 29, 1999. Under the terms of the Agreement, Caterpillar acquired, for an aggregate purchase price of \$18,000,000, one million newly issued shares of the Company's common stock and a warrant to purchase an additional 10,267,127 newly-issued shares of the Company's common stock at a price of \$21.00 per share. Also under the terms of the Agreement, the Company's board of directors was increased from eight to ten with the additional two members appointed as designated by Caterpillar.

In connection with entering into the Agreement, the Company and Caterpillar have entered into several ancillary agreements. These agreements provide the Company access to Caterpillar's dealer network and also make various management, financial and engineering resources from Caterpillar available to the Company following the closing. One of these agreements is a Marketing Agreement which provides, among other things, that the Company will pay Caterpillar a commission equal to 5% of the dealer net price for complete machines and 3% for replacement parts and Company-branded attachments for all sales made to Caterpillar dealers. Should the Company manufacture products that are eligible to be sold under the Caterpillar brand name, the Company will pay Caterpillar a trademark license fee equal to 3% of the net sales of these products to Caterpillar dealers.

Following the closing, Caterpillar owns approximately 8.8% of the Company's outstanding common stock (assuming the exercise of all outstanding stock options and warrants) and will have the right to own up to approximately 52% of the Company's outstanding common stock (assuming the exercise of all outstanding stock options and warrants) upon exercise of the Warrant. The Company intends to use the proceeds from the initial sale of its shares for increasing production levels, advertising and marketing and general working capital purposes.

It is the intent of the Company and Caterpillar to introduce the Company's Posi-Track products to Caterpillar's North American dealers as soon as practicable. With the signing and announcement of the Agreement with Caterpillar, certain of the Company's existing, non-Caterpillar dealers have

been hesitant to place orders for the Company's products. Management believes these dealers are uncertain of their future status as Posi-Track dealers. Between the time of the announcement of the Caterpillar transaction and March 1999, approximately 36 dealer locations elected to no longer carry the Company's products. These 36 locations are comprised of eleven dealers who will no longer carry the Company's products and two dealers whose Posi-Track trade areas have been reduced. One of those dealers whose trade area has been reduced was the Company's largest customer for 1998. This dealer accounted for approximately 21% of the Company's net sales in 1998. This dealer is a Caterpillar dealer and their Posi-Track trade area was reduced as they were selling into the trade area of approximately nine other Caterpillar dealers.

The Company's believes sales during the fourth quarter of 1998 were decreased primarily due to four main factors. First, during the time the Company was negotiating the Agreement with Caterpillar in the third quarter, the Company did not actively market new Posi-Track dealerships to non-Caterpillar dealers as the Company believed these new dealers would not choose to remain dealers when the Agreement was announced. Second, the Company believes there has been hesitancy on the part of existing Posi-Track dealers to place orders in light of the Caterpillar Agreement discussed above. Third, because the Agreement was entered into during the latter part of the year, the transition to Caterpillar dealers began when many Caterpillar dealers had already completed their annual purchasing cycles. Finally, the Company's largest customer cancelled orders for delivery of approximately \$1.4 million of Posi-Track machines which were scheduled for shipment during the fourth quarter. The Company believes future sales to this Posi-Track dealer (also a Caterpillar dealer) may be reduced as this dealer is the authorized Posi-Track dealer for territory that overlaps nine existing Caterpillar dealers' trade areas. The Company believes the slow-down in orders is temporary and expects the order level to increase as additional Caterpillar dealers begin carrying the Posi-Track models. Although the Company has been working closely with Caterpillar to introduce the Posi-Track products to North American Caterpillar dealers as quickly as possible, the Company may experience a decrease in its sales volume while the Company proceeds through this transitional period with Caterpillar. The Company currently believes its first quarter 1999 sales will also be reduced for the same reasons mentioned above.

In connection with the replacement of the Company's independent dealers with Caterpillar dealers, the Company has made arrangements with certain dealers to repurchase their existing inventory of Posi-Track products and transfer it to the new Caterpillar dealers. In some instances, it has been necessary for the Company to take possession of the inventory, rather than transferring it directly to the new Caterpillar dealer. In these situations, the Company will be responsible for re-marketing this inventory. The Company does not currently anticipate a material loss from the re-marketing of this inventory.

As a result of the Transaction, the Company's near term revenues, profitability and other financial results are expected to be lower than if the Transaction were not announced or entered into. The decline is related to a number of factors, including (i) the commission to be paid to Caterpillar for sales made through Caterpillar's dealers, (ii) transition issues affecting orders from the preexisting non-Caterpillar affiliated dealers, and (iii) certain other costs of implementing the Transaction and the agreements contemplated by the Commercial Alliance Agreement. Over the longer term, however, management believes that the Company will be able to achieve improved financial results due to the Transaction and the Commercial Alliance Agreement.

The Company believes its existing cash and marketable securities, together with cash expected to be provided by operations and available, unused credit lines, will satisfy the Company's projected working capital needs and other cash requirements for at least the next twelve months.

Impact of the Year 2000 Issue. The Company has established a team to assess and address the possible exposures related to the Year 2000 ("Y2K") issue and is in the initial assessment phase. The areas under investigation include business computer systems, production equipment, vendor readiness and contingency plans. The Company does not use internally developed computer software and is therefore not anticipating major reprogramming efforts. The Company's primary financial and operational system has been assessed and is certified Y2K compliant. There are several ancillary applications that may not currently be Y2K compliant, but the Company expects it will be able to purchase Y2Y compliant versions by mid to

late-calendar 1999, the cost of which is not expected to be material. The majority of the Company's personal computers are currently Y2K compliant. Those computers that may not currently be Y2K compliant are planned to be replaced as part of the Company's technology update strategy. None of these replacements have been accelerated in response to the Y2K issue and are not anticipated to have a material effect on the Company consolidated financial statements. Equipment used for production or quality control does not use dates to control operations. The costs of this examination to date have been expensed as incurred and have

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totaled less than \$5,000.

The Company intends to mail questionnaires to each of its significant vendors during the first quarter of 1999 to determine the extent to which the Company may be vulnerable to those third parties' failure to remediate their own Y2K issues. It is anticipated this assessment will be completed during second quarter 1999. The Company anticipates developing a contingency plan once it has completed its assessment of significant vendor compliance which it anticipates to be by the end of second quarter 1999. A contingency plan, if needed, will be developed during the second half of 1999 to minimize the Company's exposure to work slowdowns or business disruptions. In the event any vendors are not Y2K compliant, the Company may seek new vendors to meet its production needs. Any costs that may be incurred by the Company that are related to external systems Y2K issues are unknown at this time (other than immaterial costs of the questionnaire itself). However, management expects that after reviewing and evaluating the responses to the survey, it will be able to complete an assessment of its Y2K exposure and estimate the costs associated with resolving any Y2K issues.

Although the Company does not at this time expect a significant impact on its consolidated financial position, results of operations and cash flows, the assessment has not been completed and there can be no assurance that the systems of other companies will be converted on a timely basis and will not have a corresponding adverse effect on the Company.

The statements set forth above under "Liquidity and Capital Resources" and elsewhere in this Form 10-K which are not historical facts are forward-looking statements including the statements regarding the Company's expected revenue, profitability and other financial results in 1999 and beyond, the Company's capital needs and the impact of and the Company's plans with respect to the year 2000. These forward looking statements involve risks and uncertainties, many of which are outside the Company's control and, accordingly, actual results may differ materially. Factors that might cause such a difference include, but are not limited to, lack of market acceptance of new or existing products, inability to attract new dealers for the Company's products, unexpected delays in obtaining raw materials, unexpected delays in the manufacturing process, unexpected additional expenses or operating losses, the activities of competitors or the failure of the Company or third parties to adequately address issues relating to the year 2000. Additional factors include the Company's ability to realize the anticipated benefits from the relationship with Caterpillar. Any forward-looking statements provided from time-to-time by the Company represent only management's then-best current estimate of future results or trends.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company has no history of, and does not anticipate in the future, investing in derivative financial instruments, derivative commodity instruments or other such financial instruments. Transactions with international customers are entered into in US dollars, precluding the need for foreign currency hedges. Additionally, the Company invests in money market funds and fixed rate U.S. government and corporate obligations, which experience minimal volatility. Thus, the exposure to market risk is not material.

#### Item 8. Financial Statements and Supplementary Data

The following financial statements and financial schedules are attached as a separate section immediately following the signature page of the Annual Report

Report of Independent Certified Public Accountants  
Consolidated Balance Sheets as of December 31, 1998 and 1997  
Consolidated Statements of Earnings for the years ended December 31,  
1998, 1997 and 1996  
Consolidated Statements of Changes in Shareholders' Equity for the  
years ended December 31, 1998, 1997 and 1996  
Consolidated Statements of Cash Flows for the years ended December 31,  
1998, 1997 and 1996  
Notes to Consolidated Financial Statements

Item 9. Changes in and Disagreements With Accountants on Accounting  
and Financial Disclosure

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by Item 10 is incorporated by reference to the sections entitled "Election of Directors", "Executive Officers" and "Section 16(a) Beneficial Ownership Compliance" in the Company's Proxy Statement for its 1999 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the Company's fiscal year end.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference to the section entitled "Executive Compensation" in the Company's Proxy Statement for its 1999 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the Company's fiscal year end.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement for its 1999 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the Company's fiscal year end.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is incorporated by reference to the section entitled "Certain Relationships and Related Transactions" in the Company's Proxy Statement for its 1999 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the Company's fiscal year end.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Financial Statements

The financial statements filed as part of this report are listed under Item 8. Financial Statements and Supplementary Data.

(a) (2) Financial Statement Schedules

The following items are attached as a separate section immediately following the financial statements included in this Annual Report on Form 10-K:

Report of Independent Certified Public Accountants on the

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 1998, 1997 and 1996

(a) (3) Exhibits

Exhibit Number -----	Description -----
3.1	Second Restated Articles of Incorporation of the Company (a)
3.1a	Amendment to Second Restated Articles of Incorporation of the Company filed January 6, 1997 (e)
3.1b	Amendment to Second Restated Articles of Incorporation of the Company filed May 4, 1998 (h)
3.2	Bylaws of the Company (a)
4.1	Specimen form of the Company's Common Stock Certificate (a)
4.3*	1994 Long-Term Incentive and Stock Option Plan (a)
4.4	Form of Warrant issued to Summit Investment Corporation (b)
4.6	Warrant issued to Leo Partners, Inc. on December 1, 1996 (d)
4.7*	1996 Incentive and Stock Option Plan (e)
4.8*	1996 Incentive and Stock Option Plan, as amended (f)
4.9*	1998 Non-Employee Director Stock Option Plan (f)
4.10	Securities Purchase Agreement dated October 14, 1998 between Caterpillar Inc. and the Company (h)
4.11	Warrant issued to Caterpillar Inc. on January 29, 1999 (i)
4.12	Option Certificate dated as of October 14, 1998 between Caterpillar Inc and the Company (h)
4.13	Voting Agreement dated as of October 14, 1998 by certain shareholders of the Company and Caterpillar Inc. (h)
10.1	Development Agreement dated July 14, 1994 among the Iron Range Resources and Rehabilitation Board ("IRRRB"), the Grand Rapids Economic Development Agency ("EDA") and the Company (b)
10.2	Lease and Option Agreement dated July 14, 1994 between the EDA and the Company (b)
10.3	Option Agreement dated July 14, 1994 between the EDA and the Company (b)
10.4	Grant Contract dated July 1, 1994 between the Company and the IRRRB (b)
10.5	Letter Credit Agreement dated September 15, 1994 between the Security State Bank of Hibbing and the Company (a)
10.6	Supplemental Lease Agreement dated April 18, 1997 between the EDA and the Company (e)
10.7	Supplemental Development Agreement dated April 18, 1997 between the EDA and the Company (e)

- 10.8 Line of Credit dated May 22, 1997 between Norwest Bank Minnesota North, N.A. and the Company (e)
- 10.9\* Employment Agreement dated October 17, 1994 between the Company and Thomas R. Karges (c)
- 10.10 Consulting Agreement between the Company and Leo Partners, Inc. dated December 1, 1996 (d)
- 10.11 Extension of Lease Agreement dated May 13, 1998 between the EDA and the Company (g)
- 10.12 First Amendment to Credit Agreement dated September 30, 1998 between Norwest Bank Minnesota North, N.A. and the Company (g)
- 10.13 Commercial Alliance Agreement dated October 14, 1998 between Caterpillar Inc. and the Company (h)

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- 10.14 Management Services Agreement dated January 29, 1999 between Caterpillar Inc. and the Company
- 10.15 Marketing Agreement dated January 29, 1999 between Caterpillar Inc. and the Company
- 11 Statement re: Computation of Per Share Earnings
- 22 List of Subsidiaries (a)
- 23 Consent of Grant Thornton LLP, independent auditors
- 27 Financial Data Schedule for the year ended December 31, 1998

- 
- (a) Incorporated by reference to the Company's Registration Statement on Form SB-2 (File No. 33-61284C) filed July 7, 1994.
  - (b) Incorporated by reference to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form SB-2 (File No. 33-61284C) filed August 3, 1994.
  - (c) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1994 (File No. 33-61284C) filed November 11, 1994.
  - (d) Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1996 (File No. 0-25620) filed electronically March 28, 1997.
  - (e) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 1997 (File No. 0-25620) filed electronically August 13, 1997.
  - (f) Incorporated by reference to the Company's Definitive Proxy Statement for the year ended December 31, 1997 (File No. 0-25620) filed electronically April 28, 1998.
  - (g) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 0-25620) filed electronically August 12, 1998.
  - (h) Incorporated by reference to the Company's Current Report on Form 8-K (File No. 0-25620) filed electronically October 27, 1998.
  - (i) Incorporated by reference to the Company's Current Report on Form 8-K (File No. 0-25620) filed electronically February 11, 1999.

\* Indicates management contract or compensation plan or arrangement.



(b) Reports on Form 8-K

The following Current Report on Form 8-K was filed by the Company during the quarter ended December 31, 1998:

Current Report on Form 8-K dated October 27, 1998 reporting under Item 5. "Other Events" that on October 14, 1998, the Company entered into a Securities Purchase Agreement with Caterpillar Inc. under which terms Caterpillar will acquire, for an aggregate purchase price of \$18,000,000, one million newly issued shares of the Company's common stock and a warrant to purchase an additional 10,267,127 newly-issued shares of the Company's common stock at \$21.00 per share.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, A.S.V., Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

A.S.V., Inc.

/s/ Gary Lemke  
-----  
By: Gary Lemke, President

Date: March 29, 1999  
-----

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<TABLE>  
<S>

<C>

/s/ Philip C. Smaby  
-----  
By: Philip C. Smaby, Chairman of the Board and Director

Date: March 29, 1999  
-----

/s/ Jerome T. Miner  
-----  
By: Jerome T. Miner, Vice-Chairman of the Board and Director

Date: March 29, 1999  
-----

/s/ Gary Lemke  
-----  
By: Gary Lemke, President and Director  
(Chief Executive Officer)

Date: March 29, 1999  
-----

/s/ Edgar E. Hetteen  
-----  
By: Edgar E. Hetteen, Vice President and Director

Date: March 29, 1999  
-----

/s/ James Dahl  
-----  
By: James Dahl, Director

Date: March 29, 1999  
-----

/s/ Leland T. Lynch  
-----  
By: Leland T. Lynch, Director

Date: March 29, 1999  
-----

/s/ Karlin S. Symons  
-----  
By: Karlin S. Symons, Director

Date: March 29, 1999  
-----

/s/ R. E. Turner, IV

Date: March 29, 1999

-----  
By: R. E. Turner, IV, Director

/s/ Richard A. Benson

Date: March 29, 1999

-----  
By: Richard A. Benson, Director

/s/ Richard A. Cooper

Date: March 29, 1999

-----  
By: Richard A. Cooper, Director

/s/ Thomas R. Karges

Date: March 29, 1999

-----  
By: Thomas R. Karges, Chief Financial Officer

</TABLE>

A.S.V., Inc.

CONSOLIDATED BALANCE SHEETS

December 31, 1998 and 1997

<TABLE>  
<CAPTION>

ASSETS	1998	1997
	-----	-----
<S>	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	\$ 308,565	\$ 316,599
Short-term investments	243,035	1,255,160
Accounts receivable (net of allowance for doubtful accounts of \$40,000 and \$20,000 at December 31, 1998 and 1997)	4,563,840	1,989,906
Inventories	18,776,758	11,674,027
Prepaid expenses and other	912,457	342,896
Income taxes receivable	163,989	--
	-----	-----
Total current assets	24,968,644	15,578,588
	-----	-----
PROPERTY AND EQUIPMENT, NET	4,563,996	3,636,091
	-----	-----
	\$29,532,640	\$19,214,679
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit	\$ 3,535,000	\$ --
Current portion of long-term liabilities	219,417	--
Accounts payable	2,913,526	1,474,701
Accrued liabilities		
Compensation	281,055	180,349
Warranties	400,000	200,000
Other	204,017	180,248
Income taxes payable	--	201,674
	-----	-----
Total current liabilities	7,553,015	2,236,972
	-----	-----
LONG-TERM LIABILITIES, less current portion		
Convertible debentures	--	5,000,000
Capital lease obligation	2,289,114	717,859
Construction loan	--	1,302,749

Note payable	175,271	--
	-----	-----
	2,464,385	7,020,608
	-----	-----
COMMITMENTS AND CONTINGENCIES	--	--
SHAREHOLDERS' EQUITY		
Capital stock, \$.01 par value:		
Preferred stock, 11,250,000 shares authorized; no shares outstanding	--	--
Common stock, 33,750,000 shares authorized; shares issued and outstanding 8,601,835 in 1998 and 7,518,310 in 1997	86,018	75,183
Additional paid-in capital	12,701,622	6,520,371
Retained earnings	6,727,600	3,361,545
	-----	-----
	19,515,240	9,957,099
	-----	-----
	\$29,532,640	\$19,214,679
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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A.S.V., Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31, 1998, 1997 and 1996

<TABLE>  
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Net sales	\$39,018,904	\$24,315,591	\$12,266,499
Cost of goods sold	29,487,983	18,113,910	9,341,860
	-----	-----	-----
Gross profit	9,530,921	6,201,681	2,924,639
	-----	-----	-----
Operating expenses			
Selling, general and administrative	3,479,911	2,230,399	1,329,705
Research and development	319,324	216,888	171,340
	-----	-----	-----
	3,799,235	2,447,287	1,501,045
	-----	-----	-----
Operating income	5,731,686	3,754,394	1,423,594
	-----	-----	-----
Other income (expense)			
Interest expense	(576,224)	(398,589)	(127,069)
Interest income	98,465	223,111	99,706
Other, net	92,128	74,641	63,278
	-----	-----	-----
	(385,631)	(100,837)	35,915
	-----	-----	-----
Income before income taxes	5,346,055	3,653,557	1,459,509
Provision for income taxes	1,980,000	1,330,000	538,000
	-----	-----	-----
NET INCOME	\$ 3,366,055	\$ 2,323,557	\$ 921,509

Net income per common share			
Basic	\$ .43	\$ .32	\$ .13
Diluted	\$ .40	\$ .28	\$ .12
Weighted average number of common shares outstanding			
Basic	7,764,504	7,366,117	7,181,537
Diluted	9,015,513	8,900,651	7,900,755

</TABLE>

The accompanying notes are an integral part of these statements.

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A.S.V., Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1998, 1997 and 1996

<TABLE>  
<CAPTION>

	Common stock		Additional	Retained	Total
	Shares	Amount	paid-in capital	earnings	
Balance at December 31, 1995	7,145,788	\$71,458	\$ 4,889,805	\$ 116,479	\$ 5,077,742
Exercise of stock options	70,200	702	78,580	-	79,282
Tax benefit from exercise of stock options	-	-	196,000	-	196,000
Warrant earned	-	-	12,600	-	12,600
Net income	-	-	-	921,509	921,509
Balance at December 31, 1996	7,215,988	72,160	5,176,985	1,037,988	6,287,133
Exercise of stock options	302,322	3,023	174,186	-	177,209
Tax benefit from exercise of stock options	-	-	1,018,000	-	1,018,000
Warrant earned	-	-	151,200	-	151,200
Net income	-	-	-	2,323,557	2,323,557
Balance at December 31, 1997	7,518,310	75,183	6,520,371	3,361,545	9,957,099
Exercise of stock options and warrants	456,248	4,562	1,281,722	-	1,286,284
Tax benefit from exercise of stock options	-	-	835,000	-	835,000

Cost of shares retired	(54,535)	(545)	(1,074,186)	-	(1,074,731)
Exchange of convertible debentures (net of costs of \$5,667)	681,812	6,818	4,987,515	-	4,994,333
Warrant earned	-	-	151,200	-	151,200
Net income	-	-	-	3,366,055	3,366,055
Balance at December 31, 1998	8,601,835	\$86,018	\$12,701,622	\$6,727,600	\$19,515,240

</TABLE>

The accompanying notes are an integral part of these statements.

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A.S.V., Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1998, 1997 and 1996

	1998	1997	1996
	-----	-----	-----
	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	\$ 3,366,055	\$ 2,323,557	\$ 921,509
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	314,131	207,101	114,000
Interest accrued on capital lease obligation	50,242	46,056	46,417
Deferred income taxes	(235,000)	(123,000)	(49,000)
Warrant earned	151,200	151,200	12,600
Changes in assets and liabilities			
Accounts receivable	(2,573,934)	(728,678)	(523,905)
Inventories	(7,102,731)	(6,513,674)	(1,474,378)
Prepaid expenses and other	(334,561)	(17,953)	(90,719)
Accounts payable	1,438,825	695,092	600,227
Accrued liabilities	324,475	112,949	255,355
Income taxes	469,337	1,020,720	165,363
Net cash used in operating activities	(4,131,961)	(2,826,630)	(22,531)
Cash flows from investing activities:			
Purchase of property and equipment	(564,208)	(1,065,802)	(232,231)
Purchase of short-term investments	-	(746,985)	(2,269,753)
Redemption of short-term investments	1,012,125	1,761,578	50,000
Net cash provided by (used in) investing activities	447,917	(51,209)	(2,451,984)
Cash flows from financing activities:			
Proceeds from convertible debenture	-	-	5,000,000
Principal payments on long-term liabilities	(64,876)	(25,265)	-
Proceeds from exercise of stock options and warrants	1,286,284	177,209	79,282
Retirement of common stock	(1,074,731)	-	-
Proceeds from line of credit advances	3,535,000	-	-
Costs of exchanging convertible debentures	(5,667)	-	-
Net cash provided by financing activities	3,676,010	151,944	5,079,282
Net increase (decrease) in cash and cash equivalents	(8,034)	(2,725,895)	2,604,767
Cash and cash equivalents at beginning of period	316,599	3,042,494	437,727

Cash and cash equivalents at end of period	\$ 308,565	\$ 316,599	\$ 3,042,494
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 613,337	\$ 350,072	\$ 1,867
Cash paid for income taxes	1,745,663	432,280	452,110
Supplemental disclosure of investing and financing activities:			
Assets acquired by incurring capital lease obligation	\$ 327,285	\$ 1,302,749	\$ 7,444
Assets acquired by incurring promissory note	350,543	-	-
Tax benefit from exercise of stock options	835,000	1,018,000	196,000
Issuance of common stock in exchange for convertible debentures	5,000,000	-	-

</TABLE>

The accompanying notes are an integral part of these statements.

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A.S.V., Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998, 1997 and 1996

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company designs and manufactures track-driven, all-season vehicles and related accessories and attachments in northern Minnesota. The Company sells its products through a national dealer network and also directly to the end user throughout the United States and internationally.

In January 1999, the Company entered into an agreement with Caterpillar Inc., whereby the Company will begin selling to the Caterpillar dealer network (see note M).

Principles of Consolidation

The consolidated financial statements include the accounts of A.S.V., Inc. and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

All highly liquid temporary cash investments with an original maturity of three months or less are considered to be cash equivalents. At December 31, 1998 and 1997, the Company had cash equivalents of approximately \$609,000 and \$48,000, which consisted of a money market account. The fair value of these investments approximates cost.

Short-Term Investments

The Company considers its short-term investments at December 31, 1998 and 1997 as "available for sale" and, therefore, states its short-term investments at fair value with unrealized gains and losses reported as a separate component of shareholders' equity.

Accounts Receivable

The Company grants credit to customers in the normal course of business. Management performs on-going credit evaluations of customers and maintains allowances for potential credit losses which, when realized, have generally

been within management expectations.

#### Inventories

-----

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

#### Property and Equipment

-----

Property and equipment are carried at cost. Building and improvements are depreciated over periods of 18 to 39 years using the straight-line method. Tooling, machinery and equipment, and vehicles are depreciated over periods of 3 to 20 years using straight-line and accelerated methods. Accelerated methods are used for income tax purposes.

#### Warranties

-----

Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience.

#### Revenue Recognition

-----

Revenue is recognized when products are shipped.

#### Advertising Expense

-----

Advertising is expensed as incurred. Advertising expense was \$416,194, \$320,545 and \$200,656 for 1998, 1997 and 1996.

#### Stock Options

-----

The Company accounts for the issuance of stock options to employees using the intrinsic value method.

#### Accounting Estimates

-----

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the related amounts of revenues and expenses. Actual results could differ from those estimates.

#### Reclassifications

-----

Certain of the 1997 amounts have been reclassified to conform with the presentation in the 1998 financial statements.

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A.S.V., Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

December 31, 1998, 1997 and 1996

#### NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Net Income Per Common Share

-----

Basic net income per share amounts have been computed by dividing net income

by the weighted average number of outstanding common shares. Diluted net income per share is computed by dividing net income, plus the interest expense (net of tax) applicable to the convertible debentures in the amount \$233,213, \$206,700 and \$48,847 for 1998, 1997 and 1996, by the weighted average number of outstanding common shares and common share equivalents relating to stock options and warrants, when dilutive. For the years ended December 31, 1998, 1997 and 1996, 1,251,009, 1,534,534 and 719,218 shares of common stock equivalents were included in the computation of diluted net income per share. Options to purchase 381,750, 381,750, and 782,250 shares of common stock with a weighted average exercise price of \$18.33, \$18.33 and \$12.22 were outstanding at December 31, 1998, 1997 and 1996, but were excluded from the computation of common share equivalents because their exercise prices were greater than the average market price of the common shares.

NOTE B -- SHORT-TERM INVESTMENTS

Short-term investments consist primarily of a diversified portfolio of taxable governmental agency bonds. As of December 31, 1998 the security consists of an available for sale debt security which matures in the year 2000. At December 31, 1998 and 1997, the fair value of all short-term investments approximated cost. Therefore, net income equals comprehensive income.

NOTE C -- INVENTORIES

Inventories consist of the following:

	December 31,	
	----- 1998	1997 -----
Production parts and materials	\$10,426,321	\$7,776,128
Finished goods and service parts	6,467,395	2,903,257
Used equipment held for resale	1,883,042	994,642
	-----	-----
	\$18,776,758	\$11,674,027
	=====	=====

NOTE D -- PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	----- 1998	1997 -----
Land	\$ 132,635	\$ 32,367
Buildings and improvements	3,526,794	2,888,972
Tooling	367,266	285,314
Machinery and equipment	1,209,941	970,289
Vehicles	200,908	200,908
	-----	-----
	5,437,544	4,377,850
Less accumulated depreciation	873,548	741,759
	-----	-----
	\$4,563,996	\$3,636,091
	=====	=====

NOTE E -- LINES OF CREDIT

The Company has a \$5,000,000 line of credit agreement with a bank which was due on demand. The interest rate was variable at prime less one half percent (7.25% as of December 31, 1998). As of December 31, 1998, there were advances of \$3,535,000 outstanding under this line of credit. The line of credit was paid in January 1999.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

December 31, 1998, 1997 and 1996

## NOTE F -- LONG-TERM LIABILITIES

Convertible Debentures  
-----

During 1996, the Company issued \$5,000,000 of unsecured senior convertible debentures with interest payable quarterly at 6.5% and due October 15, 2006. The debentures were convertible at any time into the Company's common stock at \$7.33 per share, approximately the fair market value of the stock at the time the debentures were sold.

All convertible debentures were exchanged during November 1998. The Company issued 681,812 shares of common stock upon exchange of the debentures. A private investment partnership of which an ASV Board of Director member is the managing general partner held \$1,000,000 of the convertible debentures. The Company incurred interest expense of approximately \$74,000, \$65,000 and \$16,000 to the related party in 1998, 1997 and 1996.

Capital Lease Obligation  
-----

The Company leases its manufacturing and office building from the Grand Rapids Economic Development Authority ("the City") over a twenty-year period commencing May 1995. Terms of the lease agreement provide for no rent in the first two years, rental payments of approximately \$38,000 per year in years three and four and approximately \$81,000 per year in years five through twenty. The Company has an option to purchase the facility at any time during the lease period for the present value of the remaining lease payments plus the purchase price of the land. The purchase price of the land is \$215,000, but can be reduced if certain minimum employment levels are met and maintained.

During 1997, the Company entered into a Supplemental Development Agreement with the City to provide financing for the expansion of its manufacturing facility. During the construction phase a construction loan was received from a bank with interest at 9%. At December 31, 1997, advances totaling \$1,302,749 were outstanding on the construction loan. Advances of an additional \$297,251 were received during 1998. After completion of the construction phase the loan was repaid in full through financing provided for under the Supplemental Development Agreement which is a supplement to the Company's existing lease.

The agreement provides for additional lease payments which equal the debt service requirements of the City. A portion of the financing obtained by the City provides for a balloon payment of approximately \$756,000 in January 2003. The additional annual lease payments are approximately \$147,000 through January 2003. The lease with the City was extended to January 2018.

Future minimum lease payments under this capital lease obligation at December 31, 1998 are as follows:

1999	\$ 210,369
2000	228,134
2001	228,134
2002	228,134
2003	892,208
Thereafter	1,801,950
	-----
Total payments	3,588,929
Amounts representing interest	1,255,659
	-----
Present value of minimum capitalized lease payments	\$2,333,270
	=====

Assets and accumulated amortization related to the capital lease were \$2,250,773 and \$106,526 at December 31, 1998 and \$620,739 and \$41,258 at December 31, 1997.

Notes Payable

On January 22, 1998, property was exchanged for property with a value of \$149,457 and a promissory note for \$350,543. The note is payable in two equal annual installments of \$175,271 beginning January 22, 1999. Interest at 8% is payable quarterly.

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A.S.V., Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

December 31, 1998, 1997 and 1996

NOTE G -- PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

	Year ended December 31,		
	1998	1997	1996
Current			
Federal	\$1,984,000	\$1,294,500	\$520,500
State	231,000	158,500	66,500
	2,215,000	1,453,000	587,000
Deferred	(235,000)	(123,000)	(49,000)
	\$1,980,000	\$1,330,000	\$538,000

Deferred income taxes relate to the tax effect of temporary differences as follows:

	December 31,	
	1998	1997
Accruals and reserves	\$420,000	\$201,200
Other	10,000	(6,200)

The net deferred tax asset is included with prepaid expenses and other in the financial statements.

The following is a reconciliation of the Federal statutory income tax rate to the effective tax rate:

	1998	1997	1996
Statutory federal rate	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	2.6	2.6	3.0
Other	.4	(.2)	(.1)
	37.0%	36.4%	36.9%

The Company realizes an income tax benefit from the exercise or early disposition of certain stock options. This benefit results in a decrease in current income taxes payable and an increase in additional paid-in capital.

## Stock Option Plans

The Company's 1994 Long-Term Incentive and Stock Option Plan (the 1994 Plan) provides for the granting of stock options, stock appreciation rights, restricted stock awards and performance awards to officers, directors, employees and independent contractors of the Company at an exercise price which is equal to the fair market value of the stock on the date of grant. Under the plan, the option term is fixed at the date of grant and may not exceed ten years for an incentive stock option or fifteen years for non-qualified stock options. In the year of adoption, the Company reserved 281,250 shares of common stock for issuance under this plan. Each year thereafter, one and one-half percent of the number of shares of the Company's common stock outstanding at the previous fiscal year end are available for issuance under the plan with a maximum of 1,125,000 shares available. Options awarded under the 1994 Plan are generally exercisable in 25% cumulative amounts beginning one year from the date of issuance.

The Company's 1996 Stock Option Plan reserved 750,000 shares of its common stock. The Plan was amended in 1998 to increase the number of shares which may be issued under the plan to 2,250,000 shares of common stock. This plan has similar terms and vesting requirements as the 1994 Plan.

Option transactions under the plans during each of the three years in the period ended December 31, 1998 are summarized as follows:

	Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at		
December 31, 1995	641,250	\$ 1.40
Granted	812,250	12.05
Exercised	(70,200)	1.13
	-----	-----
Outstanding at		
December 31, 1996	1,383,300	7.78
Granted	464,250	17.70
Exercised	(310,200)	1.01
Canceled	(3,375)	3.11
	-----	-----
Outstanding at		
December 31, 1997	1,533,975	12.07
Granted	9,375	16.55
Exercised	(186,248)	4.40
	-----	-----
Outstanding at		
December 31, 1998	1,357,102	\$13.16
	=====	=====

A total of 54,535 shares were tendered in the exercise of options in 1998.

At December 31, 1998, 1997 and 1996, 584,420, 418,913 and 393,863 options were exercisable with a weighted average exercise price of \$11.46, \$7.07 and \$1.19.

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A.S.V., Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

December 31, 1998, 1997 and 1996

The following information applies to grants that are outstanding at December 31, 1998:

Options outstanding			
Range of exercise prices	Number outstanding at period end	Weighted-average remaining contractual life	Weighted-average exercise price
\$ 1.39 - \$ 2.08	51,788	2.3 years	\$ 1.50
2.56 - 3.83	82,687	3.0 years	3.00
12.17 - 18.25	840,877	4.9 years	12.52
18.33	381,750	5.5 years	18.33
	1,357,102		

Options exercisable		
Range of exercise prices	Number exercisable at period end	Weighted-average exercise price
\$ 1.39 - \$ 2.08	51,788	\$ 1.50
2.56 - 3.83	57,379	3.02
12.17 - 18.25	379,815	12.36
18.33	95,438	18.33
	584,420	

The weighted average fair values of the options granted during 1998, 1997 and 1996 are \$9.62, \$10.07 and \$6.33. The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions used for all grants in 1998, 1997 and 1996; zero dividend yield; expected volatility of 49.68%, 48.80% and 48.80%; risk-free interest rate of 5.37%, 5.90% and 6.16% and expected lives of 7.00, 6.56 and 5.56 years.

The Company's pro forma net income and net income per common share for 1998, 1997 and 1996, had the fair value based method been used, are set forth below.

		1998	1997	1996
		-----	-----	-----
Net income	As reported	\$3,366,055	\$2,323,557	\$921,509
	Pro forma	1,500,730	1,189,627	844,049
Net income per common share	Basic	As reported	\$ .43	\$ .32
		Pro forma	.19	.16
	Diluted	As reported	\$ .40	\$ .28
		Pro forma	.19	.16

Stock Warrant  
-----

In connection with the Company's public offering, a warrant was issued to the Underwriter to purchase up to 270,000 shares of the Company's common stock at the exercise price of \$1.73 per share. The warrant was exercised during 1998.

Stock Split  
-----

On April 14, 1998, the Board of Directors authorized a three-for-two stock split to shareholders of record as of May 4, 1998. All share and per share information has been restated to reflect the stock split.

Director Stock Option Plan  
-----

The Company adopted the 1998 Non-employee Director Stock Option Plan during 1998. The plan provides for the granting of stock options to directors who are not employees of the Company at an exercise price which is equal to the fair market value of the stock on the date of grant. Under the plan, the option term is fixed at five years. The plan reserved 450,000 shares of its common stock and has similar vesting requirements as the 1994 plan.

The plan provides that each eligible director shall receive an option to purchase 15,000 shares on the first business day of each calendar year. However, in December 1998, the Board of Directors unanimously approved a resolution reducing the number of shares subject to the options to be granted under the plan in 1999 from 15,000 shares to 1,000 shares. As a result, each eligible director received an option to purchase 1,000 shares with an exercise price of \$17.88 on January 4, 1999. The fair value of the options granted is \$8.73. The fair value of each option grant is estimated on the date of grant using

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A.S.V., Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

December 31, 1998, 1997 and 1996

NOTE H -- SHAREHOLDERS' EQUITY  
Continued

the Black-Scholes options-pricing model with the following weighted-average assumptions used for all grants: zero dividend yield; expected volatility of 49.68%; risk-free interest rate of 4.74% and expected life of five years.

Shares Retired  
-----

During 1998, in connection with the exercise of stock options by employees and directors, the Company repurchased 54,535 shares of stock from various employees and directors of the Company for total consideration of \$1,074,731. These shares had been held for longer than six months and were considered mature shares.

NOTE I -- CONSULTING AGREEMENT

Effective December 1, 1996, the Company entered into a five-year consulting agreement and issued a warrant for the purchase of 337,500 shares of the Company's common stock at \$7.33 per share, expiring December 1, 2006, in exchange for consulting services to be received over the term of the agreement. Subsequently, an individual who contracts with the consulting firm was appointed a member of the Board of Directors. The warrant is exercisable and outstanding as of December 31, 1998.

The fair value of the warrant granted is \$2.24 per share and was calculated on the date of grant using the average of the Black-Scholes and Shelton options-pricing models with the following assumptions: zero dividend yield; risk-free interest rate of 6.3%; expected life of ten years; expected volatility of 48.8% and a marketability discount factor of 40.0%. The marketability discount factor was determined based upon no public market for the warrant and the limit on exercisability. Compensation costs are recognized evenly over the term of the consulting agreement.

NOTE J -- COMMITMENTS AND CONTINGENCIES

Credit Arrangement

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The Company has entered into an agreement with a financing company (the "Creditor") whereby the Creditor extends credit to the Company's dealers to finance goods sold to the dealers. The agreement requires the Company to repurchase goods and pay the Creditor for the unpaid balance of the credit, along with repossession costs, in the event of default by dealers. As of December 31, 1998 and 1997, approximately \$1,570,000 and \$1,197,000 was outstanding in credit that had been extended to the Company's dealers.

Risks and Uncertainties

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The Year 2000 issue relates to limitations in computer systems and applications that may prevent proper recognition of the Year 2000. The potential effect of the Year 2000 issue on the Company and its business partners will not be fully determinable until the year 2000 and thereafter. If Year 2000 modifications are not properly completed either by the Company or entities with whom the Company conducts business, the Company's financial condition and results of operations could be adversely impacted.

NOTE K -- MAJOR CUSTOMERS

During 1998, 20.6% of sales were made to one unaffiliated customer. At December 31, 1998, the accounts receivable from this customer was \$87,765. In 1997 and 1996, 26.8% and 21.0% of sales were made to two unaffiliated customers, each accounting for over 10% of sales. At December 31, 1997 and 1996, the accounts receivable from these customers were \$48,123 and \$165,098.

At December 31, 1998, the accounts receivable from three other customers represented 43.3% of total accounts receivable, each accounting for over 10% of accounts receivable. Sales to these customers did not exceed 10% individually.

NOTE L -- EMPLOYEE BENEFIT PLAN

The Company has a 401(k) employee savings and profit sharing plan which provides for employee salary deferrals of up to \$10,000 and discretionary Company contributions. The plan covers employees who have

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A.S.V., Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

December 31, 1998, 1997 and 1996

NOTE L -- EMPLOYEE BENEFIT PLAN

Continued

completed three months of service, as defined in the plan, and who have attained the age of 20 and one-half. Discretionary Company contributions for 1998, 1997 and 1996 were \$28,863, \$22,898 and \$15,881.

NOTE M -- SUBSEQUENT EVENT

A Securities Purchase Agreement (the Agreement) with Caterpillar Inc. was entered into on October 14, 1998 and subsequently closed on January 29, 1999. Under the terms of the Agreement, Caterpillar acquired, for an aggregate purchase price of \$18,000,000, one million newly issued shares of common stock and a warrant to purchase an additional 10,267,127 newly issued shares of common stock at a price of \$21.00 per share. The warrant is exercisable immediately and at any time over the next ten years, subject to partial termination in the event the Company achieves certain financial goals. As a result of the Agreement, the board of directors was increased from eight to ten members with the additional two members appointed by Caterpillar. In addition, the Agreement contains other provisions which allow Caterpillar to

maintain its proportionate potential ownership and that restricts certain situations including acquisitions, loans and the payment of dividends, without approval of at least one of the Caterpillar designated members of the Board.

The Company and Caterpillar have entered into a Commercial Alliance Agreement pursuant to which Caterpillar will provide the Company with access to its dealer network and will make various management, financial and engineering resources available to the Company. Included in the Commercial Alliance Agreement is a Marketing Agreement which provides, among other things, that the Company will pay Caterpillar a commission equal to 5% of the dealer net price for complete machines and 3% for replacement parts and Company-branded attachments for all sales made to Caterpillar dealers. In addition, if the Company's products are sold under the Caterpillar brand name, the Company will pay Caterpillar a trademark license fee equal to 3% of the net sales of these products to Caterpillar dealers. The Company and Caterpillar also entered into other ancillary agreements for the benefit of both the Company and Caterpillar.

Upon closing, Caterpillar owned approximately 8.8% of the Company's outstanding common stock (assuming the exercise of all outstanding options and warrants) and will have the right to own up to approximately 52% of the Company's common stock (assuming the exercise of all outstanding options and warrants) upon exercise of the warrant.

The warrant issued to Caterpillar provides for a potential change of control. As a result, in accordance with the 1994 and 1996 stock option plans, all previously issued stock options become fully vested upon the closing of the transaction. As a result of the acceleration, the Company will reflect pro forma compensation of approximately \$4,400,000 in its calculation of pro forma net income and pro forma net income per share for 1999.

In connection with this transaction, the Company incurred expenses of approximately \$328,000 as of December 31, 1998. The expenses are included in prepaid and other assets in the December 31, 1998 financial statements and will be offset against the proceeds for the issued shares at the close of the transaction.

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REPORT OF INDEPENDENT CERTIFIED  
PUBLIC ACCOUNTANTS

Board of Directors  
A.S.V., Inc.

We have audited the accompanying consolidated balance sheets of A.S.V., Inc. and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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 in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly in all material respects, the consolidated financial position of A.S.V., Inc. and subsidiary as of December 31, 1998 and 1997, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Minneapolis, Minnesota  
February 17, 1999

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON SCHEDULE  
-----

Board of Directors  
A.S.V., Inc.

In connection with our audit of the consolidated financial statements of A.S.V., Inc. referred to in our report dated February 17, 1999, which is included in the Annual Report of A.S.V., Inc. on Form 10-K for the year ended December 31, 1998, we have also audited Schedule II for each of the three years in the period ended December 31, 1998. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

GRANT THORNTON LLP

Minneapolis, Minnesota  
February 17, 1999

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A.S.V., Inc. and Subsidiary  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
Years ended December 31, 1998, 1997 and 1996

Accrued Warranty	Balance Beginning of Period	Additions Charged to Expense	Deductions (A)	Balance End of Period
1998	\$200,000	\$1,197,973	\$997,973	\$400,000
1997	\$100,000	\$451,316	\$351,316	\$200,000
1996	\$ -	\$194,923	\$94,923	\$100,000

(A) Warranty credits issued

## EXHIBIT INDEX

Exhibit	Method of Filing
<C>    <S>	<C>
10.14    Management Services Agreement dated January 29, 1999 between Caterpillar Inc. and the Company	Filed herewith electronically
10.15    Marketing Agreement dated January 29, 1999 between Caterpillar Inc. and the Company	Filed herewith electronically
11        Statement re: Computation of Per Share Earnings	Filed herewith electronically



23	Consent of Grant Thornton LLP, independent auditors	Filed herewith electronically
27	Financial Data Schedule for the year ended December 31, 1998	Filed herewith electronically

</TABLE>

MANAGEMENT SERVICES AGREEMENT  
-----

This Agreement, dated as of January 29, 1999, is by and between Caterpillar Inc., a corporation organized and existing under the laws of Delaware, having offices at 100 Northeast Adams, Peoria, Illinois (hereinafter referred to as "Caterpillar") and A.S.V., Inc., a corporation organized and existing under the laws of Minnesota, having offices at 840 Lily Lane, Grand Rapids, Minnesota (hereinafter referred to as "ASV").

WHEREAS, ASV desires to obtain certain management, administrative, and technical services from Caterpillar as described below; and

WHEREAS, Caterpillar is willing to provide or cause to be provided such certain services to ASV in accordance with the terms set forth below;

NOW, THEREFORE, in consideration of the mutual agreements contained herein, the parties agree as follows:

1. Definitions.

1.1 "Affiliate" shall mean any person (individual, corporation, partnership, limited liability company or other entity) that directly or indirectly controls, is under common control of or is controlled by either party to this Agreement. For the purposes of this definition, "control" shall mean the direct or indirect ownership of fifty percent (50%) or more of the voting shares or capital of such person.

1.2 "Field of Activity" shall mean the development, manufacture, production and commercial distribution of Products.

1.3 "Products" shall mean ASV's line of all-terrain vehicles, including replacement parts and attachments therefor.

1.4 "Services" shall mean the services described in Section 2 hereof.

1.5 "Term of this Agreement" shall mean the period set forth in Section 8 hereof.

2. Description of Services. While this Agreement is in effect, Caterpillar shall make available to ASV the following Services in connection with the Field of Activity:

2.1 Management Support and Commercial Development Services.

(a) General management support in connection with the day-to-day operation of ASV's business; and

(b) Commercial development and marketing research services, including, without limitation, advice concerning and collection and analysis of information relating to the market for ASV's Products and services.

## 2.2 Administrative Services.

(a) Financial Services. Treasury, control and planning services, to assist ASV with respect to accounting, control and other financial matters.

(b) Miscellaneous. Such other miscellaneous administrative services as Caterpillar and ASV may mutually agree upon in writing.

2.3 Manufacturing and Engineering Services. Manufacturing and engineering services, including, but not limited to, manufacturing assembly process improvement, quality assurance services, new product introduction methods and procedures, consultation concerning intellectual property protection techniques, inventory management services, and advice concerning purchasing techniques.

## 3. Requests; Timing of Services; Personnel.

3.1 ASV may request Services under this Agreement by written request addressed to Caterpillar, signed by an officer of ASV.

3.2 Caterpillar shall provide Services under this Agreement in a reasonably prompt manner after receipt of ASV's request, subject to the reasonable availability of personnel possessing the skills, expertise and experience required to fulfill ASV's request. Caterpillar's Services shall be the equivalent of similar services provided by Caterpillar personnel to Caterpillar's internal divisions and Affiliates.

3.3 All Caterpillar personnel assigned to perform Services under this Agreement shall report directly to and follow all reasonable and lawful instructions of the Chief Executive Officer of ASV or his designee. All Caterpillar personnel performing Services under this Agreement shall be compensated by and shall remain employees of Caterpillar.

3.4 ASV shall provide Caterpillar's personnel performing Services hereunder with office and other facilities and equipment reasonably suited to the tasks assigned to them.

## 4. Charges for Services.

4.1 ASV shall pay Caterpillar for the Services supplied under this Agreement a fee equal to Caterpillar's fully-loaded cost plus a 10% administrative surcharge or such other fee as the parties may agree upon.

4.2 Fully Loaded Cost. For purposes of Section 4.1, the term "fully-loaded cost" shall be computed at the same rates and in the same manner as Caterpillar charges or would charge its internal divisions and subsidiaries for like or similar services rendered, in accordance with its normal practices and policies in effect from time to time, together with all out-of-pocket expenses incurred by Caterpillar, including without limitation, all travel, housing, relocation and subsistence expenses of Caterpillar's personnel directly related to the rendering of Services to ASV.

4.3 Invoicing, Payment and Record Keeping. Caterpillar shall invoice ASV by the tenth day of each month for Services performed during the preceding month, if any. ASV shall pay Caterpillar's invoice within 45 days of receipt. Caterpillar shall keep reasonable records as evidence of the above costs for a period of not less than 3 years and shall allow ASV to examine such records at reasonable times.

## 5. Indemnification.

5.1 ASV. ASV shall defend, indemnify and hold Caterpillar, its Affiliates, and its and their directors, officers, and employees, agents and representatives harmless against any and from all claims, demands, suits, liabilities, loss, damage, cost and expense of whatsoever nature, (including costs of defense, settlement and reasonable attorneys' fees and expenses) which arise from or are in any way connected with any bodily injury or death of any person or destruction of or damage to property, resulting from or allegedly resulting from or attributable to ASV's performance of its obligations under this Agreement, except if caused by Caterpillar's willful misconduct or negligence.

5.2 Caterpillar. Caterpillar shall defend, indemnify and hold ASV, its Affiliates, and its and their directors, officers, and employees, agents and representatives harmless against any and from all claims, demands, suits, liabilities, loss, damage, cost and expense of whatsoever nature, (including costs of defense, settlement and reasonable attorneys' fees and expenses) which arise from or are in any way connected with any bodily injury or death of any person or destruction of or damage to property, resulting from or allegedly resulting from or attributable to Caterpillar's performance of its obligations under this Agreement, except if caused by ASV's willful misconduct or negligence.

6. Warranty; Responsibility of Parties. Caterpillar warrants that it possesses the skill, expertise and experience necessary to perform the Services; however, Caterpillar makes no warranty, express or implied, as to the result the Services will have on ASV's operations or business. In particular, nothing in this Agreement shall be construed to mean

6.1 Caterpillar has assumed any obligation to increase ASV's sales or

profits or otherwise to guarantee the success of ASV's operations;

6.2 Caterpillar has assumed any financial obligation to ASV;

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6.3 The creation of any relationship of employment between ASV and employees or consultants of Caterpillar or its Affiliates;

6.4 Caterpillar has assumed any responsibility for the work performed by outside suppliers employed by ASV at the suggestion or recommendation of Caterpillar; or

6.5 the delegation of any function or authority of ASV to Caterpillar;

it being understood that Caterpillar will make recommendations and offer advice pursuant to this Agreement but that complete responsibility for all decisions with respect thereto shall rest with ASV.

## 7. Limitation of Liability.

7.1 In providing the Services, Caterpillar shall not (a) be liable for any action it takes or refrains from taking (i) in good faith without negligence or willful misconduct, (ii) in accordance with the directions of ASV, or (b) be liable for any act or omission of any third party, including, without limitation, insurance carriers. Except with respect to any claim that Caterpillar breached Section 9, on no account shall Caterpillar be liable to ASV for any indirect, special or consequential damages, losses or expenses (which shall be deemed to include all lost or anticipated revenues or profits, goodwill or competitive advantage) or any exemplary or punitive damages arising from any claim relating to this Agreement or any of the Services, whether such claim is based on warranty, contract, tort (including negligence or strict liability) or otherwise.

7.2 Caterpillar's liability (whether in contract, tort, negligence, strict liability, fiduciary relationship, equity, or otherwise) to ASV or to any third party concerning performance or nonperformance by Caterpillar, except for Caterpillar's breach of Section 9, under or in any manner related to this Agreement shall not, in the aggregate, exceed \$1,000,000.

7.3 The limitations, exclusions and allocations of liability contained in this Agreement represent the agreed and bargained-for understanding of the parties based upon the level of risk to ASV and Caterpillar associated with their respective obligations hereunder and the fees to be incurred by ASV and the payments to be made to Caterpillar. ASV acknowledges that Caterpillar's fees for the Services reflect such limitations, exclusions and allocations of liability. ASV shall in all events remain responsible for managing its business, including the effects upon its business of Caterpillar's performance or nonperformance under this Agreement. Each party shall use commercially reasonable efforts to mitigate the other party's liability under this Agreement.

## 8. Term.

8.1 This Agreement shall come into effect as of the date hereof and remain in effect indefinitely; provided, however, that:

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8.1.1 either party may terminate this Agreement without cause upon not less than six (6) months' prior written notice to the other party; and

8.1.2 If either party fails to perform this Agreement in any material respect (and does not remedy such failure to the complete satisfaction of the non-defaulting party, within sixty (60) days after written notice thereof has been sent to the other party) or becomes insolvent, bankrupt or consents to the appointment of a trustee or receiver, or if any trustee or receiver is appointed for the greater part of either party's properties without the consent of that party and such trustee or receiver is not discharged within sixty (60) days, or if any bankruptcy, reorganization, arrangement or liquidation proceedings are instituted by either party or if instituted against either party are consented to by it or permitted to remain undismissed for sixty (60) days, or if either party's shares, management, ownership or substantially all of any party's property is confiscated, nationalized, expropriated or otherwise taken by any government action, then, in such event, the other party may terminate this Agreement immediately upon written notice.

## 9. Confidential Information.

9.1 "Confidential Information" means all trade secrets, confidential knowledge, and proprietary data of any kind or nature whatsoever relating to this Agreement, or the businesses of either party and its Affiliates. Confidential Information also shall include any information prepared or developed by a party in connection with this Agreement, which reflects, interprets, evaluates, includes or is derived from the Confidential Information of another party. Confidential Information, by way of example, but not by way of limitation, shall include, but not be limited to, technical specifications, diagrams, discoveries, economic models, pro forma and other financial information, designs, business opportunities, cost and pricing data, records, customer lists, and engineering, manufacturing, and marketing know-how. Confidential Information does not include information which (i) was generally known or available to the public at the time of its disclosure hereunder, or which after such disclosure became generally known or available to the public, provided that such disclosure was made or occurred through no fault of the Receiving Party (defined below) or its Affiliates, or their officers, directors, or employees; (ii) was in the possession of the Receiving Party prior to its disclosure hereunder; (iii) was known by the Receiving Party at the time of its disclosure hereunder or was independently developed at any time by the Receiving Party without reference to the Disclosing Party's Confidential Information; (iv) is required to be furnished pursuant to law or legal process; or (v) is

rightfully obtained, subsequent to its disclosure hereunder, by the Receiving Party or its Affiliates from a third party who is lawfully in possession of such information and who is not under an obligation of confidentiality to the Disclosing Party (defined below).

9.2 The party that discloses Confidential Information shall be referred to as the "Disclosing Party".

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9.3 The party that receives Confidential Information shall be referred to as the "Receiving Party".

9.4 The parties shall maintain the secrecy of Confidential Information as follows:

9.4.1 In connection with performance of this Agreement, the parties may disclose to one another certain Confidential Information.

9.4.2 The Receiving Party shall hold the Disclosing Party's Confidential Information in strictest confidence and trust and shall use the Confidential Information only in connection with purposes of this Agreement. The Receiving Party shall not disclose Confidential Information provided by the Disclosing Party and/or its Affiliates, or the fact that it has been made available to the Receiving Party, except that the Receiving Party may disclose Confidential Information and the fact that it has been provided to those employees, officers, directors, agents, consultants and representatives of the Receiving Party and its Affiliates who have a reasonable need to know such information in connection with the purposes of this Agreement. The Receiving Party shall be liable for any breach of the confidentiality obligation hereunder by any of its Affiliates, or by any of the respective employees, officers, directors, agents, consultants and contractors of the Receiving Party and its Affiliates.

9.4.3 If the Receiving Party is required by law or legal process to disclose any of the Confidential Information of the Disclosing Party, the Receiving Party shall promptly notify the Disclosing Party in writing so that the Disclosing Party may seek an appropriate protective order or other remedy at the sole cost of the Disclosing Party. If no such protective order or other remedy is obtained, the Receiving Party shall furnish only that portion of such Confidential Information that is legally required and will exercise its reasonable efforts to obtain reliable assurances from all parties receiving the designated portions of such Confidential Information that confidential treatment will be accorded such Confidential Information. Notwithstanding any such disclosure, any such Confidential Information so disclosed shall, for all other purposes, continue to be treated as Confidential Information under this Agreement.

9.4.4 Nothing contained herein shall be construed to obligate either party to disclose to the other any Confidential Information. The

disclosure of Confidential Information pursuant to this Agreement, and any prior or future discussions, evaluations or other communications between the parties, shall not confer any right nor impose or create any obligation on the parties other than those expressly agreed to in this Agreement.

9.4.5 All reports, notes, data, memoranda, records, or other tangible expressions of Confidential Information of the other party, including any electronically stored data, will be returned to the Disclosing Party promptly upon request of such Disclosing Party.

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9.4.6 The confidentiality obligation shall survive expiration or termination of this Agreement for any reason for a period of five (5) years.

9.5 It is understood and agreed by the parties that each may be irreparably injured by a breach of this Section 9 and that monetary damages may not be a sufficient remedy for any actual or threatened breach of this Section 9. In addition to any remedies available at law, the non-breaching party may also be entitled to equitable relief, including injunction and specific performance.

10. Notices. When written notice is required by this Agreement, it shall be sent by registered mail, by courier or by such other method as will permit the sender to verify delivery, to the addresses set forth below:

For Caterpillar: Caterpillar Inc.  
Attn: Richard A. Benson, Vice President,  
Diversified Products Division  
100 Northeast Adams Street  
Peoria, Illinois 61629  
Telephone: (309) 675-1000  
Facsimile: (309) 675-4777

With a copy to: Caterpillar, Inc.  
Attn: Henry T. Ames, Associate General Counsel  
100 Northeast Adams Street  
Peoria, Illinois 61629-7310  
Telephone: (309) 675-5628  
Facsimile: (309) 675-6620

For ASV: A.S.V., Inc.  
Attn: Mr. Gary D. Lemke  
840 Lily Lane  
Grand Rapids, Minnesota 55744  
Telephone: (218) 327-3434  
Facsimile: (218) 326-5579

Written notice may also be sent by facsimile to the numbers listed above, but



such notice shall not be effective unless the sender receives a return facsimile acknowledging receipt of the notice. Notice shall be deemed received when actually delivered to the recipient as demonstrated by postal records. Facsimile notice shall be deemed received upon receipt by the sender of an acknowledgement as described above. The addresses and transmittal numbers set forth above can be changed only by written notice, which complies with the requirements of this Section 10.

11. Miscellaneous.

11.1 No Waiver. Any failure of any party to enforce at any time any of the provisions of this Agreement, or any rights or remedies with respect thereto, or to exercise any election herein provided, shall not constitute a waiver of any such provision, right, remedy or election or in any way affect the validity thereof or of this Agreement. The exercise by any party of any of its rights, remedies or elections under the terms of this Agreement shall not preclude or prejudice such party's right to exercise at any other time the same or any other right, remedy or election it may have under this Agreement. The rights of termination provided herein are in addition to any other right, remedy or election a party may have hereunder or at law or in equity, including the right to sue for breach without terminating this Agreement.

11.2 Force Majeure. No failure or omission by either party in the performance of any of its obligations under this Agreement shall be deemed a breach of this Agreement, nor create any liability or give rise to any right to terminate this Agreement, if the same shall arise from or as a consequence of a fire, flood, severe weather or other act of God, war, insurrection, civil disturbance, or any other cause beyond the reasonable control of such party, whether similar to or different from the causes above enumerated, and any such cause shall absolve the affected party from responsibility for such failure to perform said obligation.

11.3 Entire Amendment; Agreement. This Agreement, including the Exhibits attached hereto or referred to herein, constitutes the entire agreement between the parties and there are no prior understandings, agreements, representations or warranties between the parties relating hereto. No modification or amendment to this Agreement or any of its provisions shall be binding unless contained in a writing signed by both parties.

11.4 Survival. The provisions of this Agreement shall survive expiration or termination of this Agreement to the extent required for their full observation and performance.

11.5 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the remainder thereof.

11.6 Applicable Law. This Agreement shall be governed by and subject to

the laws of the State of Illinois, without regard to the conflict of laws provisions thereof.

11.7 Assignment. This Agreement may not be assigned by either party without the prior written consent of the other party, except that Caterpillar may assign this Agreement to a wholly-owned subsidiary with the consent of ASV, which consent shall not be unreasonably withheld.

11.8 Relationship. The relationship between Caterpillar and ASV shall be that of independent contractors, and nothing in this Agreement shall be construed to establish a fiduciary, partnership, agency, or joint venture relationship between the parties, or constitute

Caterpillar, its agents and employees as the agents or employees of ASV or to grant them any power or authority to act for, bind or otherwise create or assume any obligation on behalf of ASV for any purpose whatsoever.

11.9 Announcement. Neither party shall make any announcement concerning the nature and details of this Agreement without the express written consent of the other party.

11.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one and the same instrument.

11.11 Headings. The headings to the sections of this Agreement are solely for convenience of reference, and they shall not govern, limit or aid in the interpretation of any terms or provisions of this Agreement.

IN WITNESS WHEREOF, Caterpillar and ASV have caused this Agreement to be executed by their respective duly authorized representatives in the manner legally binding upon them as of the date first above written.

Caterpillar Inc.

A.S.V., Inc.

By: /s/ Richard Benson  
-----  
Richard A. Benson, Vice President

By: /s/ Gary Lemke  
-----  
Gary D. Lemke, President

MARKETING AGREEMENT  
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This Agreement, dated January 29, 1999 is between A.S.V., Inc., a Minnesota corporation with a principal place of business at 840 Lily Lane, Grand Rapids, Minnesota 55744 ("ASV") and Caterpillar Inc., a Delaware corporation with a principal place of business at 100 Northeast Adams, Peoria, Illinois 61620 ("Caterpillar").

WHEREAS, ASV is engaged in the design, manufacture and sale of all-terrain rubber tracked vehicles and desires to enhance marketing of its products throughout the world;

WHEREAS, pursuant to that certain Securities Purchase Agreement dated October 14, 1998, Caterpillar has agreed to purchase an equity interest in ASV and ASV has granted Caterpillar a warrant to purchase a controlling interest in ASV;

WHEREAS, Caterpillar possesses the skill, experience and resources to promote the sale of earth moving and construction equipment to users through Caterpillar's authorized dealers ("Dealers");

WHEREAS, initially, ASV wishes Caterpillar to promote the sale of its equipment and replacement parts therefor under the ASV name to the Dealers, and ASV desires to sell such equipment and parts directly to Dealers for resale to users;

WHEREAS, Caterpillar is willing to grant ASV the right to market its equipment sold through Caterpillar Dealers under the Caterpillar name and in Caterpillar trade dress in exchange for an appropriate trademark license fee if Caterpillar is satisfied, in its sole discretion, that ASV's products meet or exceed Caterpillar's quality and safety standards;

NOW, THEREFORE, the parties agree as follows:

1. Marketing, Distribution and Product Support.

1.1 Caterpillar's Responsibilities.

(a) Caterpillar shall promote the sale of ASV's products listed in Exhibit A ("Products") to Dealers. Caterpillar's obligation to promote shall be staged geographically, commencing with North America, and gradually extending throughout the world, consistent with the Joint Marketing Plan, as defined in Section 1.3.

(b) Caterpillar shall consult with ASV on a regular basis concerning

Dealer and user demand for Products.

(c) Caterpillar's promotions and recommendations of Products will be in accordance with ASV's sales materials and technical data timely provided by ASV at its own cost to Caterpillar.

(d) As soon as practicable after the date hereof, ASV and Caterpillar shall cooperate to establish software systems that will enable Caterpillar to take orders for complete machines (as described in Exhibit A) from Dealers using Caterpillar's order processing systems and retransmit such orders to ASV, sharing all costs of systems development, excluding hardware costs, on a 50/50 basis. Caterpillar's cost of processing each order shall be paid by ASV.

(e) As soon as practicable after the date hereof, Caterpillar shall be responsible for administering ASV's warranties for Products sold through Dealers. ASV shall reimburse Caterpillar all costs (including, but not limited to parts at the then existing Dealer net price, and labor at the then existing Caterpillar warranty service rate), incurred by Caterpillar, its Affiliates or Dealers in connection with the repair or replacement of any defect in workmanship or material of such Product.

"Affiliate" for purposes of this Agreement shall mean any person (individual, corporation, partnership, limited liability company or other entity) that directly or indirectly controls, is under common control of or is controlled by either party to this Agreement. "Control" means the ownership, direct or indirect, of fifty percent (50%) or more of the voting shares or capital of such person.

Claims Procedures. As soon as practicable after the date hereof, ASV and Caterpillar shall agree on written procedures for the handling of warranty claims and reimbursement. Without limiting their scope, such procedures shall provide:

(1) That ASV's warranties and warranty administration procedure shall be adapted to Caterpillar's existing system so that minimal changes to Caterpillar's system will be required;

(2) For Caterpillar to provide ASV with a periodic statement of such costs, including notice of specific Product failures, and summary information on the cause(s) of such failures;

(3) For review, at the request of Caterpillar or ASV, of the amount and manner of reimbursement, including any trend evidenced by Product failures, suggesting a change may be appropriate; and

(4) That failed Product shall not be returned to ASV unless ASV specifically requests such return at ASV's sole expense.

## 1.2 ASV's Responsibilities.

(a) After consultation with Caterpillar, ASV shall forecast demand for Product and schedule production accordingly.

(b) ASV shall be responsible for maintaining appropriate inventories of Product awaiting sale or shipment to Dealers.

(c) ASV shall notify Caterpillar of any design or engineering changes that affect the functionality or performance of any Product promptly after ASV's decision to implement such design or engineering changes.

(d) ASV shall be responsible for warranting to Dealers and users of Products that Products are free from defects in design, material and workmanship in accordance with ASV's standard warranty.

(e) ASV shall adequately inform itself of, and comply with, governmental and quasi-governmental safety, environmental protection, certification, approval and other requirements that relate to the sale or use of Products in effect where Products are sold or used.

(f) ASV shall, in cooperation with Caterpillar, conduct field follow-up and test programs.

(g) ASV shall maintain a level of quality for Products that is at least as good as the level of quality customers generally associate with ASV equipment currently.

(h) ASV shall provide required technical and service engineering support for Products to Caterpillar and Dealers, at a level acceptable to Caterpillar and comparable with the level of technical and product support customers generally expect with respect to Caterpillar equipment. To this end, ASV shall employ a suitable number of qualified engineers and technicians, and shall provide technical training instruction to Caterpillar and Dealers at locations and times reasonably requested by Caterpillar and mutually agreed upon.

(i) ASV shall develop and provide for the implementation of marketing, sales promotion, advertising and merchandising programs to enable Caterpillar and Dealers to successfully promote the sale of Product to customers. The costs of marketing, sales promotion, advertising and merchandising programs shall be the responsibility of ASV.

(j) For a commercially reasonable period of time, ASV may use its existing sales and service literature. After its existing literature is exhausted, ASV shall prepare, print and provide to Caterpillar and Dealers, sales and service literature for Products, including

parts books, service manuals, operator manuals, specification sheets and such other sales and service literature as Caterpillar may reasonably require. Such literature shall be prepared in a format specified by Caterpillar and shall be ready for printing and distribution. ASV will also provide Caterpillar the right to use any ASV-developed artwork in any Caterpillar-developed promotional material and literature relating to Product.

(k) With the cooperation of Caterpillar, ASV shall train Dealers for marketing and servicing Product. Such sales training shall concern the features, capabilities and appropriate applications for Product and shall be designed to enable Dealer sales personnel to successfully promote the sale of Product.

(l) Any costs incurred for ASV's obligations provided for in this Section 1.2 shall be borne by ASV.

1.3 Joint Marketing Plan. As soon as practical following Closing of the SPA, Caterpillar and ASV shall form a team to prepare a strategic marketing plan for the Products. The team shall study the worldwide market opportunity and develop a phased product introduction plan by geographic area. The parties shall each use their best reasonable efforts to implement the strategic marketing plan. Caterpillar shall make a good faith effort to encourage its Dealers to follow the recommendations of this strategic marketing plan.

## 2. Commission.

2.1 In consideration for Caterpillar's services, ASV shall pay Caterpillar a commission equal to five percent (5%) of the Dealer net price for complete machines as described in Exhibit A and three percent (3%) for replacement parts and ASV-branded attachments as described in Exhibit A, for all Products sold and delivered to Dealers by ASV, excluding shipping, taxes, returns and warranty parts.

2.2 ASV shall send to Caterpillar Attn: Treasurer, Peoria, IL 61629, a written report (to be received by Caterpillar not later than the last working day of January, April, July and October of each year) showing, with respect to Products sold pursuant to this Agreement, the model and serial number of each unit of complete machines, if any, the Dealer name, quantity purchased, and price paid for Product sold by ASV to Dealers during the three (3) immediately preceding calendar months. Each report shall also include the number of units of Product sold during the period covered by the report and the last serial number assigned.

2.3 All payments provided for herein shall be made in U.S. dollars by wire transfer to an account designated from time to time by Caterpillar. All payments due and payable by ASV to Caterpillar shall be free and clear of any deduction of tax assessment, other than taxes on Caterpillar's income, or other charges.

(a) Commissions are payable in U.S. dollars calculated using the foreign exchange rate, as published by the Wall Street Journal, in effect for such foreign currency on the last business day of each calendar quarter for which a report is required.

(b) All foreign taxes on commission payments imposed upon or required to be withheld by ASV shall be deducted from such payments, and evidence of such foreign taxes shall be delivered to Caterpillar as part of its periodic royalty reports.

2.4 ASV shall keep and maintain for three (3) years accurate and complete records in accordance with good accounting practices, showing, in reasonable detail, all pertinent information with respect to costs, credits, rebates and sale of Products by ASV to Dealers. Caterpillar, through its duly authorized representatives (including certified public accountants), shall, upon reasonable request, to have the right, at its own cost and expense, to examine such records at reasonable times for the purpose of determining the correctness of the reports and payments submitted by ASV to Caterpillar as required under this Agreement.

2.5 Upon any termination of this Agreement, ASV shall pay commissions as provided in this Agreement on all sales prior to the date of such termination.

3. Transition to Caterpillar Branding. As soon as practicable after the date of this Agreement, Caterpillar, in cooperation with ASV, shall begin evaluating Products against Caterpillar's quality and safety standards following Caterpillar's established product testing and validation procedures. All such evaluations shall be at ASV's expense. Once this evaluation is complete, Caterpillar shall communicate the results to ASV together with the changes Caterpillar in its sole discretion will require before Caterpillar will allow Products to be sold under the Caterpillar name, including without limitation, the required use of Caterpillar componentry and changes in appearance and trade dress. If ASV makes the changes Caterpillar requires and Caterpillar is satisfied in its sole discretion that ASV's products meet or exceed Caterpillar's quality and safety standards, Caterpillar shall grant ASV the right to sell Products under the Caterpillar name exclusively to Caterpillar Dealers pursuant to a trademark license agreement substantially in the form of Exhibit B attached to this Agreement.

#### 4. Termination.

4.1 Unless earlier terminated by mutual agreement of the parties or pursuant to Sections 4.2 or 4.3 below, this Agreement shall remain in effect for ten (10) years from the date hereof ("Initial Term"). Following expiration of the Initial Term, this Agreement shall remain in effect indefinitely; provided that either party may terminate without cause by giving notice of termination at least twelve (12) months prior to the intended effective date of termination.

4.2 If either party fails to perform this Agreement in any material respect (and does not remedy such failure to the complete satisfaction of the non-defaulting party, within sixty (60) days after written notice thereof has been sent to the other party) or becomes insolvent, bankrupt

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or consents to the appointment of a trustee or receiver, or if any trustee or receiver is appointed for the greater part of either party's properties without the consent of that party and such trustee or receiver is not discharged within sixty (60) days, or if any bankruptcy, reorganization, arrangement or liquidation proceedings are instituted by either party or if instituted against either party are consented to by it or permitted to remain undismissed for sixty (60) days, or if either party's shares, management, ownership or substantially all of any party's property is confiscated, nationalized, expropriated or otherwise taken by any government action, then, in such event, the other party may terminate this Agreement immediately upon written notice.

4.3 In the event of any Change in Control of ASV (as defined below), Caterpillar shall have the right to terminate this Agreement effective immediately.

For purposes of this Section 4.3, "Change in Control" shall mean, except pursuant to the terms of the SPA and the Warrant or with the prior written consent of Caterpillar:

(a) The acquisition by any third party or group of parties acting in concert of at least thirty percent (30%) of the outstanding shares of common stock of ASV; or

(b) A change of the majority of the directors of ASV occurring in a period of less than one year, excluding, to the extent no solicitation in opposition has theretofore been announced or commenced, changes in directors resulting from the election of directors at the next regularly scheduled annual meeting of ASV's shareholders; or

(c) The sale, exchange, transfer or other disposition to a third party of all or substantially all of the assets of ASV.

5. Confidentiality. The parties shall maintain the secrecy of Confidential Information as follows

"Confidential Information" means all trade secrets, confidential knowledge, and proprietary data of any kind or nature whatsoever relating to this Agreement, or the businesses of either party and its Affiliates. Confidential Information also shall include any information prepared or developed by a party in connection with this Agreement, which reflects, interprets, evaluates, includes or is derived from the Confidential Information of another party. Confidential Information shall include, but not be limited to, technical



specifications, diagrams, discoveries, economic models, pro forma and other financial information, designs, business opportunities, cost and pricing data, records, customer lists, and engineering, manufacturing, and marketing know-how. Confidential Information does not include information which (i) was generally known or available to the public at the time of its disclosure hereunder, or which after such disclosure became generally known or available to the public, provided that such disclosure was made or occurred through no fault of the Receiving Party (defined below) or its Affiliates, or its or their officers, directors, or employees; (ii) was in the possession of the Receiving Party prior to its disclosure hereunder; (iii) was known by the Receiving Party at the time of its

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disclosure hereunder or was independently developed at any time by the Receiving Party without reference to the Disclosing Party's (defined below) Confidential Information; (iv) is required to be furnished pursuant to law or legal process; or (v) is rightfully obtained, subsequent to its disclosure hereunder, by the Receiving Party or its Affiliates from a third party who is lawfully in possession of such information and who is not under an obligation of confidentiality to the Disclosing Party.

"Disclosing Party" means the party that discloses Confidential Information.

"Receiving Party" means the party that receives Confidential Information.

5.1 In connection with performance of this Agreement, the parties may disclose to one another certain Confidential Information.

5.2 The Receiving Party shall hold the Disclosing Party's Confidential Information in strictest confidence and trust and shall use the Confidential Information only in connection with the purposes of this Agreement. The Receiving Party shall not disclose Confidential Information provided by the Disclosing Party and/or its Affiliates, or the fact that it has been made available to the Receiving Party, except that the Receiving Party may disclose Confidential Information and the fact that it has been provided to those employees, officers, directors, agents, consultants and representatives of the Receiving Party and its Affiliates who have a reasonable need to know such information in connection with the purposes of this Agreement. The Receiving Party shall be liable for any breach of the confidentiality obligation hereunder by any of its Affiliates, or by any of the respective employees, officers, directors, agents, consultants and contractors of the Receiving Party and/or its Affiliates.

5.3 If the Receiving Party is required by law or legal process to disclose any of the Confidential Information of the Disclosing Party, the Receiving Party shall promptly notify the Disclosing Party in writing so that the Disclosing Party may seek an appropriate protective order or other remedy at the sole cost of the Disclosing Party. If no such protective order or other remedy is obtained, the Receiving Party shall furnish only that portion of such

Confidential Information that is legally required and will exercise its reasonable efforts to obtain reliable assurances from all parties receiving the designated portions of such Confidential Information that confidential treatment will be accorded to such Confidential Information. Notwithstanding any such disclosure, any such Confidential Information so disclosed shall, for all other purposes, continue to be treated as Confidential Information under this Agreement.

5.4 Nothing contained herein shall be construed to obligate either party to disclose to the other any Confidential Information. The disclosure of Confidential Information pursuant to this Agreement, and any prior or future discussions, evaluations or other communications between the parties, shall not confer any right nor impose or create any obligation on the parties other than those expressly agreed to in this Agreement.

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5.5 All reports, notes, data, memoranda, records, or other tangible expressions of Confidential Information of the other party, including any electronically stored data, will be returned to the Disclosing Party promptly upon request of such Disclosing Party.

5.6 The confidentiality obligation shall survive expiration or termination of this Agreement for any reason for a period of five (5) years.

5.7 It is understood and agreed by the parties that each may be irreparably injured by a breach of this Section 5 and that monetary damages may not be a sufficient remedy for any actual or threatened breach of this Section 5. In addition to any remedies available at law, the non-breaching party may also be entitled to equitable relief, including injunction and specific performance.

6. Licenses. ASV hereby grants Caterpillar an irrevocable (during the Term of this Agreement), non-exclusive, paid-up, worldwide license for the purposes of this Agreement under each ASV copyright applicable to any works of authorship fixed in any tangible medium of expression (including but not limited to drawings, manuals and specifications) furnished to Caterpillar in the course of this Agreement, to reproduce and distribute the copyrighted work (subject to the provisions of Section 5 hereof), and to prepare derivative works therefrom, all of which may be used by Caterpillar solely for the purposes of this Agreement.

7. Trademarks. The Products shall be sold by Dealers with the trademark(s) applied by ASV and Caterpillar shall not re-package, remark, or otherwise modify the Products, including any packaging, in any manner. Nothing in this Agreement shall be construed to allow ASV to use, or claim any rights to Caterpillar trademarks.

8. Indemnity. ASV shall defend, indemnify and hold Caterpillar, its Affiliates, Dealers and its and their directors, officers, employees, agents and

representatives harmless from and against any and all claims, demands, liabilities, loss, damage, cost and expense, of whatsoever nature, including attorneys' fees and costs, arising from or in any way connected with any litigation, administrative hearing or other proceeding relating to the Products, or injury or death of any person or loss of or damage to property resulting from or relating to the Products, except to the extent that such claims, etc. result from the negligence or willful misconduct of Caterpillar or its Affiliates. This paragraph shall not apply to any Products bearing the Licensed Trademark and Trade Dress (both defined in Exhibit B), and the parties' respective indemnification obligations with respect to such Products shall be as set forth in Exhibit B.

ASV shall defend, indemnify and hold Caterpillar, its Affiliates, Dealers, and its and their directors, officers, and employees, agents and representatives harmless against any and from all claims, demands, liabilities, loss, damage, cost and expense of whatsoever nature, including costs, attorneys' fees and expenses, which arise from or are in any way connected with any injury or death of any person or loss of or damage to property of any kind or nature, resulting from or allegedly resulting from or attributable to ASV's performance under this Agreement, except to

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the extent that such claims, etc. result from the negligence or willful misconduct of Caterpillar or its Affiliates.

Caterpillar shall defend, indemnify and hold ASV, its Affiliates, and its and their directors, officers, and employees, agents and representatives harmless against any and from all claims, demands, liabilities, loss, damage, cost and expense of whatsoever nature, including costs, attorneys' fees and expenses, which arise from or are in any way connected with any injury or death of any person or loss of or damage to property of any kind or nature, resulting from or allegedly resulting from or attributable to Caterpillar's performance under this Agreement, except to the extent that such claims, etc. result from the negligence or willful misconduct of ASV or its Affiliates.

ASV also shall defend, indemnify, and hold Caterpillar, its Affiliates and Dealers and its and their directors, officers, and employees, agents and representatives harmless against any and from all claims, demands, liabilities, loss, damage, cost and expense of whatsoever nature, including costs, attorneys' fees and expenses, which are a consequence of or attributable to any representation, misrepresentation or omission made by ASV or its Affiliates, or made by Caterpillar or its Affiliates and Dealers in reasonable reliance upon written information furnished by ASV or its Affiliates, including, but not limited to, representations, misrepresentations or omissions relating to the capability, use, application, function, durability, reliability, quality, serviceability, safety or any other characteristic or feature of Products.

Caterpillar shall defend, indemnify, and hold Apple, its Affiliates and their directors, officers, and employees, agents and representatives harmless

against and from all claims, demands, liabilities, loss, damage, cost and expense of whatsoever nature, including costs, attorneys' fees and expenses, which are a consequence of or attributable to any representation, misrepresentation or omission made by Caterpillar or its Affiliates, not in reasonable reliance upon written information furnished by ASV or its Affiliates, including, but not limited to, representations, misrepresentations or omissions relating to the capability, use, application, function, durability, reliability, quality, serviceability, safety or any other characteristic or feature of Products.

9. Patent Infringement. ASV undertakes and agrees to defend at its own expense any and all suits, actions, or proceedings brought against Caterpillar or its Affiliates or Dealers for actual or alleged infringement of any patents arising because or on account of the design, manufacture, use or sale of Products, or any combination thereof, and further agrees to pay any and all settlements, or pay and discharge any and all judgments or decrees which may be rendered against Caterpillar or its Affiliates or Dealers; provided ASV is given prompt notice of such suit, action, or proceeding and is given complete charge and control of the defense of any such suit, action, or proceeding. Caterpillar shall cooperate in such defense at ASV's request and expense. It is expressly understood that this section does not apply to any suit, action, or proceeding based upon actual or alleged infringement of patents by Caterpillar-supplied components or Caterpillar-supplied component parts. With respect to any such suit, action, or

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proceeding referred to in the prior sentence, Caterpillar shall, at its own cost and expense, provide complete defense for ASV and its Affiliates and shall indemnify and hold ASV and its Affiliates harmless from any loss, damage, cost, or expense relating thereto provided that prompt notice of such suit, action, or proceeding is given to Caterpillar, and provided further that Caterpillar is given complete charge and control of the defense of such suit, action, or proceeding.

10. Insurance.

10.1 ASV shall maintain at its sole cost throughout the entire term of this Agreement insurance coverage as described below with insurance companies acceptable to Caterpillar. The limits set forth are minimum limits and shall not be construed to limit ASV's liability. All cost and deductible amounts shall be for the sole account of ASV. All policies pursuant to this Agreement shall name Caterpillar as an additional insured (per ISO Endorsement #CG 2026 or its equivalent) [and waive subrogation rights in favor of Caterpillar], (subject to agreement by the parties prior to execution of this Agreement) except policies providing statutory Workers' Compensation and Professional Liability coverage. All policies required shall also be designed as primary coverage to any similar coverage carried by Caterpillar.

ASV shall have in force an annual renewable contract for Commercial General

Liability Insurance (occurrence coverage, including Products and Completed Operations) during the period of this Agreement. The policy limit shall be \$1,000,000 for any one occurrence or series of occurrences attributable to one source or original cause, and in relation to Commercial General Liability indemnity shall be limited to \$10,000,000 per occurrence or in the aggregate for any one policy year. ASV agrees to notify its insurer and take such other action as may be necessary to ensure that such policies shall provide coverage to Caterpillar and its Affiliates as additional insureds. ASV shall, on request, produce to Caterpillar for inspection any policy effected under this Section; and shall, upon request, supply certified copies thereof and evidence that the premiums payable in respect of such policy are paid.

On termination of this Agreement, ASV, while trading in its own name, shall continue to have in force such policies on the basis outlined above for a length of time to be decided by agreement of the parties. However, if ASV shall come under new ownership and cease to trade in its own name, then ASV shall, if the Agreement is terminated, arrange Commercial General Liability run off cover for a period of five years from date of said termination; provided, of course, it is available at said date of termination.

Each insurance policy required by this Agreement shall be endorsed to state that coverage shall not be suspended, voided, canceled by either party, reduced in coverage or in limits except after thirty (30) days prior written notice by certified mail, return receipt requested, has been given to Caterpillar.

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Caterpillar shall not insure nor be responsible for any loss or damage to property of any kind owned or leased by ASV (including any subcontractor), its employees, servants, or agents.

Irrespective of these insurance requirements, the insolvency, bankruptcy, or failure of any insurance company, or its failure to pay a claim, does not waive any of these provisions. [All the above-described policies, together with all other insurance policies now owned or purchased in the future shall contain provisions wherein the insurance companies will have no right of recovery or subrogation against Caterpillar or any of its Affiliates, or against any of its or their officers, directors, employees, agents, consultants, or business invitees] (subject to agreement by the parties prior to execution of this Agreement).

11. Notices. When written notice is required by this Agreement, it shall be sent by registered mail, by courier or by such other method as will permit the sender to verify delivery, to the addresses set forth below:

For Caterpillar: Caterpillar Inc.  
Attn: Richard A. Benson, Vice President,  
Diversified Products Division  
100 Northeast Adams Street  
Peoria, Illinois 61629

Telephone: (309) 675-1000  
Facsimile: (309) 675-4777

With a copy to:

Caterpillar, Inc.  
Attn: Henry T. Ames, Associate General Counsel  
100 Northeast Adams Street  
Peoria, Illinois 61629-7310  
Telephone: (309) 675-5628  
Facsimile: (309) 675-6620

For ASV:

A.S.V., Inc.  
Attn: Mr. Gary D. Lemke  
840 Lily Lane  
Grand Rapids, Minnesota 55744  
Telephone: (218) 327-3434  
Facsimile: (218) 326-5579

Written notice may also be sent by facsimile to the numbers listed above, but such notice shall not be effective unless the sender receives a return facsimile acknowledging receipt of the notice. Notice shall be deemed received when actually delivered to the recipient as demonstrated by postal records. Facsimile notice shall be deemed received upon receipt by the sender of an acknowledgement as described above. The addresses and transmittal numbers set forth above can be changed only by written notice, which complies with the requirements of this Section 11.

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12. No Waiver. Any failure of any party to enforce at any time any of the provisions of this Agreement, or any rights or remedies with respect thereto, or to exercise any election herein provided, shall not constitute a waiver of any such provision, right, remedy or election or in any way affect the validity thereof or of this Agreement. The exercise by any party of any of its rights, remedies or elections under the terms of this Agreement shall not preclude or prejudice such party's right to exercise at any other time the same or any other right, remedy or election it may have under this Agreement. The rights of termination provided herein are in addition to any other right, remedy or election a party may have hereunder or at law or in equity, including the right to sue for breach without terminating this Agreement.

13. Force Majeure. No failure or omission by either party in the performance of any of its obligations under this Agreement shall be deemed a breach of this Agreement, nor create any liability or give rise to any right to terminate this Agreement, if the same shall arise from or as a consequence of a fire, flood, severe weather or other act of God, war, insurrection, civil disturbance, or any other cause beyond the reasonable control of such party, whether similar to or different from the causes above enumerated, and any such cause shall absolve the affected party from responsibility for such failure to perform said obligation.

14. Entire Amendment; Agreement. This Agreement, including the Exhibits attached hereto or referred to herein, constitutes the entire Agreement between the parties and there are no prior understandings, agreements, representations or warranties between the parties relating hereto. No modification or amendment to this Agreement or any of its provisions shall be binding unless contained in a writing signed by both parties.

15. Survival. The provisions of this Agreement shall survive expiration or termination of this Agreement to the extent required for their full observation and performance.

16. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the remainder thereof.

17. Applicable Law. This Agreement shall be governed by and subject to the laws of the State of Illinois, without regard to the conflict of laws provisions thereof.

18. Assignment. This Agreement may not be assigned by either party without the prior written consent of the other party, except that Caterpillar may assign this Agreement to a wholly-owned subsidiary with the consent of ASV, which consent shall not be unreasonably withheld.

19. Relationship. The relationship between Caterpillar and ASV shall be that of independent contractors, and nothing in this Agreement shall be construed to establish a fiduciary, partnership, agency, or joint venture relationship between the parties, or constitute Caterpillar, its agents and employees as the agents or employees of ASV or to grant them any

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power or authority to act for, bind or otherwise create or assume any obligation on behalf of ASV for any purpose whatsoever.

20. Announcement. Neither party shall make any announcement concerning the nature and details of this Agreement without the express written consent of the other party.

21. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one and the same instrument.

22. Headings. The headings to the sections of this Agreement are solely for convenience of reference, and they shall not govern, limit or aid in the interpretation of any terms or provisions of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized representatives as of the date first above written.

By: /s/ Gary Lemke

By: /s/ Richard Benson

-----  
Gary D. Lemke, President

-----  
Richard A. Benson, Vice President



A.S.V., Inc. and Subsidiary  
Exhibit 11 - Computation of Earnings per Share  
Years Ended December 31, 1998, 1997 and 1996

<TABLE>  
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	1998	1997	1996
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Basic			
Earnings			
Net income	\$3,366,055	\$2,323,557	\$ 921,509
	=====	=====	=====
Shares			
Weighted average number of common shares outstanding	7,764,505	7,366,116	7,181,537
	=====	=====	=====
Earnings per common share	\$ .43	\$ .32	\$ .13
	=====	=====	=====
Diluted			
Earnings			
Net income	\$3,366,055	\$2,323,557	\$ 921,509
Add after tax interest expense applicable to 6.5% convertible debentures	233,188	206,700	49,635
	-----	-----	-----
Net income applicable to common stock	\$3,599,243	\$2,530,257	\$ 971,144
	=====	=====	=====
Shares			
Weighted average number of common shares outstanding	7,764,505	7,366,116	7,181,537
Assuming exercise of options and warrants reduced by the number of shares which could have been purchased with the proceeds from the exercise of such options and warrants	647,011	852,717	555,674
Assuming conversion of 6.5% convertible debentures	603,997	681,818	163,544
	-----	-----	-----
Weighted average number of common and common equivalent shares outstanding	9,015,513	8,900,651	7,900,755
	=====	=====	=====
Earnings per common share	\$ .40	\$ .28	\$ .12
	=====	=====	=====

</TABLE>

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our reports dated February 17, 1999, accompanying the consolidated financial statements and schedule included in the Annual Report of A.S.V., Inc. on Form 10-K for the year ended December 31, 1998. We hereby consent to the incorporation by reference of said reports in the Registration Statements of A.S.V., Inc. on Forms S-8 (File No. 33-94248, effective June 30, 1995, File No. 33-94250, effective July 3, 1995, File No. 33-43075, effective December 23, 1997, File No. 33-64291 effective September 25, 1998).

GRANT THORNTON LLP

Minneapolis, Minnesota  
March 22, 1999

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF EARNINGS FOUND ON PAGES F-1 AND F-2 OF THE COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998.

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<F1>\*\* Diluted EPS includes addback of after-tax effect of interest expense

for convertible debentures.

</FN>

</TABLE>