SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

COACHMEN INDUSTRIES INC

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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark one)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998.

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission file number 1-7160

COACHMEN INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Indiana	35-1101097
(State of incorporation or organization)	(IRS Employer Identification No.)

601 E. Beardsley Ave., Elkhart, Indiana 46514
(Address of principal executive offices) (Zip Code)

(219) 262-0123
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, Without Par Value	New York Stock Exchange
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has 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. X 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 hereto. X

While it is difficult to determine the number of shares owned by

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non-affiliates (within the meaning of such term under the applicable regulations of the Securities and Exchange Commission), the registrant estimates that the aggregate market value of the registrant's Common Stock on March 16, 1999 held by non-affiliates was $293.08 million (based upon the closing price on the New York Stock Exchange and an estimate that 90.3% of such shares are owned by non-affiliates).

As of March 16, 1999, 16,644,454 shares of the registrant's Common Stock were outstanding.

Documents Incorporated by Reference

Document	Parts of Form 10-K into which the Document is Incorporated
Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 29, 1999	Part III

Part I.

Item 1. Business

Coachmen Industries, Inc. (the "Company" or the "Registrant") was incorporated under the laws of the State of Indiana on December 31, 1964, as the successor to a proprietorship established earlier that year. All references to the Company include its wholly owned subsidiaries and divisions.

The Company is one of the largest full-line producers of recreational vehicles ("RVs") and is the largest builder of modular homes in the country. The Company's RVs are marketed under various brand names including Coachmen, Shasta, and Viking through approximately 1,300 independent dealers located in 49 states and internationally and through eight Company-owned dealerships. Modular homes are manufactured by the Company's All American Homes operation which sells homes through approximately 300 builders.

The Company maintains approximately 59 trademarks, which are up for renewal from 1999 through 2008, and approximately 8 patents due to expire between 2001 and 2015. There are no material licenses, franchises, or concessions and no material foreign operations.

The Company operates primarily in two business segments, vehicles and housing. The vehicle segment consists of the manufacture and distribution of Class A and Class C motorhomes, travel trailers, fifth wheel trailers, camping trailers, truck campers, van campers, van and truck conversions and related parts and supplies. The housing segment consists of factory produced modular homes.

The table below sets forth the composition of the Company's net sales for

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each of the last three years (dollar amounts in thousands):

	1998 Amount	%	1997 Amount	%	1996 Amount	%
Vehicles:						
Motorhomes	$400,953	53	$346,435	52	$327,802	54
Travel Trailers	150,632	20	134,045	20	119,268	20
Camping Trailers	25,686	3	22,527	4	19,013	3
Truck Campers	3,673	1	4,593	1	2,306	1
Parts and Supplies	44,804	6	39,941	6	39,327	6
Total Vehicles	625,748	83	547,541	83	507,716	84
Housing	130,282	17	114,050	17	98,758	16
Total	$756,030	100	$661,591	100	$606,474	100

Note: See Note 2 of Notes to Consolidated Financial Statements regarding segment information on page 27.

Vehicle Segment

The Vehicle Segment consists of recreational vehicles and parts and supplies. The recreational vehicles consists of five divisions: Coachmen Recreational Vehicle Company, Georgie Boy Mfg., Inc., Shasta Industries, Coachmen Automotive and Viking Recreational Vehicles, Inc. Recreational vehicles are either driven or towed and serve as temporary living quarters for camping, travel and other leisure activities. Recreational vehicles may be categorized as motorhomes, travel trailers, camping trailers or truck campers. A motorhome is a self-powered mobile dwelling built on a special heavy-duty chassis. A travel trailer is a mobile dwelling designed to be towed behind another vehicle. Camping trailers are smaller towed units constructed with sidewalls that may be raised up and folded out. Truck campers are designed to be mounted on the bed of a pickup truck.

The Company's principal brand names for its recreational vehicles are Coachmen, Shasta, Viking, Sportscoach, Santara, Catalina, Travelmaster, Cruise Air, Encounter, Cruise Master, Swinger, Pursuit, Custom Swinger, Starflyte, Dearborn, Jimmy, Greenbriar and Saratoga. Other brand names the Company has protected and used and anticipates using in the future include Normandy, Cross Country, Pathfinder and Frolic.

Parts and Supply consists of Viking Formed Products and The Lux Company, Inc. ("Lux") which provide a variety of products to the recreational vehicle and automotive industries, as well as other industries. Viking Formed Products is a diversified manufacturer of fiberglass and thermoplastic parts, including fiberglass van camper tops, raised roofs for van conversions and ground effects produced at its Prodesign operations. Additional products produced include plastic and fiberglass flared fenders, running boards and

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lower front and rear moldings. Lux manufactures seating products for the recreational vehicle, office and healthcare industries. The largest portion of Lux's sales are in the recreational vehicle seating category, including sofa beds, convertible pit groups, swivel chairs and ergonomic pilot seats. Lux also manufactures managerial, conference, guest and high-back executive chairs. Lux healthcare products encompass end-opening sofas and task chairs for laboratory and emergency care workers.

The Company currently produces recreational vehicles on an assembly line basis in Indiana, Michigan, Georgia and Oregon. Components used in the manufacture of recreational vehicles are primarily purchased from outside sources. However, in some cases (such as cushions, fiberglass products and furniture) where it is profitable for the Company to do so, or where the Company has experienced shortages of supplies, the Company has undertaken to manufacture its own supplies. The Company depends on the availability of chassis from a limited number of manufacturers. Occasionally, chassis availability has limited the Company's production. (See Note 11 of Notes to Consolidated Financial Statements on page 35 for information concerning the use of converter pool agreements to purchase vehicle chassis.)

The Company considers itself as being customer driven. Sales and service representatives regularly visit dealers in their regions, and respond quickly to questions and suggestions. Divisions host dealer advisory groups and conduct informative dealer seminars and specialized training classes in areas such as sales and service. Open forum meetings with owners are held at campouts, providing ongoing focus group feedback for product improvements. Engineers and product development team members are encouraged to travel and vacation in Company RVs to

gain a complete understanding and appreciation for the products.

The Company believes it has the ability to respond promptly to changes in market conditions. Most of the manufacturing facilities can be changed over to the assembly of other existing products in two to six weeks. In addition, these facilities may be used for other types of light manufacturing or assembly operations. This flexibility enables the Company to adjust its manufacturing capabilities in response to changes in demand for its products.

Recreational vehicles are generally manufactured against orders received from the Company's dealers. Sales are seasonal with the highest level of sales occurring during the spring and summer months. Agreements with most of its dealers are cancelable on short notice, provide for minimum inventory levels and establish sales territories. No dealer accounts for more than 5% of the Company's net sales.

Most dealers' purchases of RVs from the Company are financed through "floor plan" arrangements. Under these arrangements, a bank or other financial institution agrees to lend the dealer all or most of the purchase price of its RV inventory, collateralized by a lien on such inventory. The Company

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generally executes repurchase agreements at the request of the financing institution. These agreements provide that, for up to twelve months after a unit is financed, the Company will repurchase a unit which has been repossessed by the financing institution for the amount then due to the financing institution, which is usually less than 100% of the dealer's cost. Risk of loss resulting from these agreements is spread over the Company's numerous dealers and is further reduced by the resale value of the products repurchased. (See Note 11 of Notes to Consolidated Financial Statements on page 35.) In 1998 the Company terminated its arrangement to guarantee certain obligations of dealers to a financial institution for purchases of the Company's products and no such guarantees exist at December 31, 1998. Over the past three years, the Company has not reported any significant losses from the repurchase agreements or the guarantee arrangement. The Company does not finance retail consumer purchases of its products, nor does it generally guarantee consumer financing.

Housing Segment

The Company's principal brand name in its housing segment is All American Homes. This segment is the largest producer of modular homes in the country and is composed of five All American Homes ("All American") operations strategically located in Indiana, Iowa, North Carolina, Ohio and Tennessee. Together these plants serve approximately 300 builders in 19 states.

All American's modular homes are built to the same local building codes as site-built homes by skilled craftsmen in a factory environment unaffected by weather conditions. Nearly complete when they leave the plant, modular homes are delivered to their final location, typically in two to five sections, and are crane set onto a waiting basement or crawl space foundation. Production takes place on an assembly line, with components moving from workstation to workstation for framing, electrical, plumbing, drywall, roofing, and cabinet setting, among other operations. An average two-module home can be produced in just a few days.

All American regularly conducts builder meetings to review the latest in new design options and component upgrades. These meetings provide an opportunity for valuable builder input and suggestions from their customers at the planning stage.

Business Factors

Many RVs produced by the Company require gasoline for their operation. Gasoline has, at various times in the past, been difficult to obtain, and there can be no assurance that the supply of gasoline will continue uninterrupted, that rationing will not be imposed or that the price of, or tax on, gasoline will not significantly increase in the future. Shortages of gasoline and significant increases in gasoline prices have had a substantial adverse effect on the demand for RV's in the past and could have a material adverse effect on demand in the future.

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The vehicle and housing businesses are dependent upon the availability of and terms of the financing used by dealers and retail purchasers. Consequently, increases in interest rates and the tightening of credit through governmental action or other means have adversely affected the Company's business in the past and could do so in the future.

Competition and Regulation

The RV and housing industries are highly competitive, and the Company has numerous competitors and potential competitors in each of its classes of products, some of whom have greater financial and other resources. Initial capital requirements for entry into the manufacture of recreational vehicles or housing are comparatively small; however, codes, standards, and safety requirements introduced in recent years may deter potential competitors.

Recreational vehicles, the largest portion of the Company's business, generally compete in the lower to mid-price range markets. The Company believes it is a leader in the RV industry in its focus on quality. A quality product and a strong commitment to competitive pricing are emphasized by the Company in the markets it serves. The Company estimates that its current share of the recreational vehicle market is in excess of nine percent.

The Company continues to recognize its obligations to protect the environment insofar as its operations are concerned. To date, the Company has not experienced any material adverse effect from existing federal, state, or local environmental regulations.

Employees

At December 31, 1998, Coachmen employed 4,690 persons, of whom 887 were employed in office and administrative capacities. The Company provides group life, dental, vision service, hospitalization, and major medical plans under which the employee pays a portion of the cost. In addition, employees can participate in a stock purchase plan and certain employees can participate in the stock award and stock option plans. The Company considers its relations with employees to be good.

Research and Development

During 1998, the Company spent approximately $4,076,000 on research related to the development of new products and improvement of existing products. The amounts spent in 1997 and 1996 were approximately $3,521,000 and $2,721,000, respectively.

Item 2. Properties

The Registrant owns or leases 3,164,399 square feet of plant and office space, located on 1,178 acres, of which 2,246,853 square feet are used for

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manufacturing, 340,320 square feet are used for warehousing and distribution, 46,024 square feet are used for research and development, 69,644 square feet are used for customer service and 168,941 square feet are offices. 134,334 square feet are leased to others and 158,283 square feet are available for sale or lease. The Registrant believes that its present facilities, consisting primarily of steel clad, steel frame or wood frame construction and the machinery and equipment contained therein, are well maintained and in good condition.

The following table indicates the location, number and size of the Registrant's properties by segment as of December 31, 1998:

Location	Acreage	No. of Buildings	Building Area (Sq. Ft.)
Properties Owned and Used by Registrant:			
Vehicles			
Elkhart, Indiana	93.7	18	551,645
Middlebury, Indiana	518.6	33	763,230
Fitzgerald, Georgia	17.0	3	67,070
Centreville, Michigan	105.0	4	84,865
Edwardsburg, Michigan	83.0	12	303,254
Colfax, North Carolina	4.0	2	14,000
Stuart, Florida	4.4	1	26,216
Goshen, Indiana	18.0	1	80,000
Lake Park, Georgia	8.0	1	11,720
Melbourne, Florida	8.1	1	32,000
Grants Pass, Oregon	24.5	1	62,563
Marietta, Georgia	5.2	1	17,400
Subtotal	889.5	78	2,013,963
Housing			
Decatur, Indiana	43.3	4	286,500
Dyersville, Iowa	20.0	1	141,902
Springfield, Tennessee	45.0	1	131,453
Rutherfordton, North Carolina	37.8	1	131,497
Zanesville, Ohio	23.0	1	129,753
Subtotal	169.1	8	821,105
Total owned	1,058.6	86	2,835,068

Properties (continued)

Properties Leased and Used by Registrant:

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Vehicles			
Elkhart, Indiana	1.6	1	8,000
Wildwood, Florida	10.0	1	14,414
Banning, California	3.0	1	2,700
Ft. Myers, Florida	3.1	1	10,400
Colfax, North Carolina	1.5	1	1,200
Grants Pass, Oregon	9.4	-	-
Subtotal	28.6	5	36,714
Properties Owned by Registrant and Leased to Others:			
Vehicles			
Winter Garden, Florida	5.0	1	42,176
Crooksville, Ohio	10.0	2	39,310
Grapevine, Texas	5.0	4	52,848
Subtotal	20.0	7	134,334
Properties Owned by Registrant and Available for Sale or Lease:			
Vehicles			
Perris, California	15.5	-	-
Grapevine, Texas	4.0	-	-
Longview, Texas	9.2	-	-
Subtotal	28.7	-	-
Housing			
Montezuma, Georgia	42.6	2	158,283
Subtotal	71.3	2	158,283
Total	1,178.4	100	3,164,399

Item 3. Legal Proceedings

From time to time, the Company is involved in certain litigation arising out of its operations in the normal course of business. The Company believes that there are no claims or litigation pending, the outcome of which will have a material adverse effect on the financial position of the Company.

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

No matters were submitted during the quarter ended December 31, 1998 to a

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vote of security holders.

Executive Officers of the Registrant

The following table sets forth the executive officers of the Company, as of December 31, 1998:

Name	Position
*Claire C. Skinner....	Chairman of the Board and Chief Executive Officer
*Keith D. Corson......	President and Chief Operating Officer and Director
**Gary L. Groom........	Executive Vice President, Finance, Secretary and Director
*Gene E. Stout........	Executive Vice President, Corporate Development

* Member of Finance Committee
** Resigned effective March 22, 1999

Claire C. Skinner (age 44) has served as Chairman of the Board and Chief Executive Officer since August 1997. Before that, Vice Chairman of the Company since May 1995, and served as Executive Vice President from 1990 to 1995. From 1987 through July 1997, Ms. Skinner served as the President of Coachmen RV, the Company's largest division. Prior to that, she held several management positions in operations and marketing since 1983.

Keith D. Corson (age 63) has served as President and Chief Operating Officer of the Company since November 1991. From June 1991 to November 1991 he served in the position of Office of the President after rejoining the Company. Mr. Corson was owner and President of Koszegi Products, a soft case manufacturer for the eight years prior to June 1991. He was a co-founder of the Company in 1964, and served in several senior management positions from 1964 until 1982, including President of the Company from 1978 until 1982.

Gene E. Stout (age 65) has served as Executive Vice President, Corporate Development of the Company since May 1983. From April 1982 to May 1983 he was Senior Vice President Corporate Planning and Industry Relations. Between 1971 and 1982 he held various management positions with the Company.

Part II

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

The following table discloses the high and low closing prices for Coachmen's common stock during the past two years as reported on the New York Stock Exchange, along with information on dividends paid per share during the same

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periods.

	High & Low Closing Prices 1998	High & Low Closing Prices 1997	Dividends Paid 1998	Dividends Paid 1997
1st Quarter	$28.75 - $20.375	$29.875 -$18.25	$.05	$.05
2nd Quarter	30.00 - 23.4375	19.625 - 15.50	.05	.05
3rd Quarter	27.9375 - 17.3125	19.625 - 16.625	.05	.05
4th Quarter	26.250 - 16.00	22.625 - 19.00	.05	.05

The Company's common stock is traded on the New York Stock Exchange. The number of shareholders of record as of January 31, 1999 was 1,718.

Item 6. Selected Financial Data

Five-Year Summary of Selected Financial Data
-Year Ended December 31-

	1998	1997	1996	1995	1994
Net sales	$756,029,526	$661,591,185	$606,474,128	$515,862,065	$394,023,774
Net income	33,062,608	24,762,624	29,630,813*	17,549,400	14,784,094
Net income per share:					
Basic	1.93	1.44	1.94*	1.18	1.00
Diluted	1.92	1.42	1.91*	1.17	1.00
Cash dividends per share	.20	.20	.185	.14	.12
At year end:					
Total assets	268,476,286	259,062,026	227,447,572	150,248,757	125,021,282
Long-term debt	10,191,476	12,591,144	14,841,262	12,117,756	7,023,394

*Net income and net income per share for 1996 includes $2,293,893 and $.15, respectively, for the cumulative effect of an accounting change (see Note 2 of Notes to Consolidated Financial Statements).

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

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The following discussion should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements.

OVERVIEW

The Company was founded in 1964 as a manufacturer of RVs and began manufacturing modular homes in 1982. Since that time, the Company has evolved into a market leader in both business segments through a combination of internal growth and strategic acquisitions.

The Company's new plant openings have been an important component of its internal growth strategy. In May 1995, the Company opened a new modular housing plant in Tennessee and in May 1996, the Company expanded its modular housing production capacity with the construction of a new facility for the North Carolina housing operation. The construction of a new modular housing facility in Ohio, which began in late 1997, became fully operational in July 1998. Increases in production capacity in 1998 also included an addition to the modular housing plant in Iowa. In March 1996, the Company increased its RV production capacity by opening a new fifth wheel and conventional travel trailer plant in Oregon. Additional travel trailer plants in Indiana became operational in December 1996 and May 1997. These additional plants helped capitalize on the growing market share of value-priced travel trailers. Construction began in 1998 for a new manufacturing facility in Indiana for Class A motorhomes. This new facility is expected to be operational in May 1999.

The Company's business segments are cyclical and subject to certain seasonal demand cycles and changes in general economic and political conditions. Demand in the RV and modular housing industries generally declines during the winter season, while sales and profits are generally highest during the spring and summer months. Inflation and changing prices have had minimal direct impact on the Company in the past in that selling prices and material costs have generally followed the rate of inflation.

RESULTS OF OPERATIONS

Comparison of 1998 to 1997

Consolidated net sales for 1998 were $756.0 million, an increase of 14.3% over the $661.6 million reported in 1997. The Company's vehicle segment, which includes the parts and supply businesses, experienced a sales increase of 14.3%, while the modular housing segment increased by 14.2%. Sales increases in the vehicle segment are attributed to improvements in capacity utilization, as well as, additions to capacity and overall growth in the recreational vehicle market. Increased capacity in the Company's housing segment also resulted in continued sales growth. The Company's RV and housing segments experienced increases in both the number of units sold and the average sales price per unit. Historically, the Company's first and fourth quarters are the slowest for sales in both segments. See Note 12 of Notes to Consolidated Financial Statements for unaudited interim financial information.

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Gross profit for the year increased to $109.9 million, or 14.5% of net sales, from $92.8 million, or 14.0% of net sales in 1997. The increase in gross profit for 1998 was primarily attributable to the increase in net sales. The increase in the gross profit percentage represents higher gross margins from improvements in 1998 over the higher expenses associated with capacity start-up costs incurred in the vehicle segment and costs associated with the implementation of a 7-day work week production schedule at the Company's largest housing facility in 1997.

Operating expenses, which include selling, delivery, general and administrative expenses, were $64.0 million, or 8.5% of net sales in 1998, compared with $57.5 million, or 8.7% of net sales in 1997. Selling and delivery expenses were $36.0 million, or 4.8% of net sales, in 1998 compared with $31.6 million, and 4.8% in 1997. As a percentage of net sales, both selling and delivery expenses remained relatively unchanged. The increase in the cost dollars of selling and delivery expense is substantially due to increased sales. General and administrative expenses were $28.0 million, or 3.7% of net sales in 1998, compared with $25.9 million, or 3.9% of net sales in 1997. The administrative cost percentage decrease is primarily the result of increasing the Company's bad debt expense in 1997 by approximately $1.5 million to reflect a slowdown in the overall van conversion industry. The higher administrative cost dollars for 1998 are associated with three acquired dealerships and to the ongoing implementation of an enterprise computer system.

Operating income was $45.9 million in 1998 compared with $35.3 million in 1997, an increase of 30.3%. This increase is consistent with the overall increase in gross profit of $17.2 million which was partially offset by the $6.5 million increase in operating expenses. The Company's vehicle segment produced operating income of $36.1 million, or 5.8% of vehicle net sales, compared with operating income of $26.7 million, or 4.9% of vehicle net sales in 1997. The modular housing segment generated operating income of $11.4 million in 1998 and $9.7 million in 1997, or 8.7% and 8.5%, respectively, of housing net sales.

Interest expense decreased in 1998 to $1.7 million from $2.5 million in 1997. Investment income decreased to $4.8 million from $5.0 million in 1997. The decrease in interest expense is substantially due to the settlement of examinations by the Internal Revenue Service during 1997. Interest expense varies with the amount of long-term debt and the increase in cash surrender value of life insurance contracts. These life insurance contracts, which were purchased a number of years ago, fund obligations under deferred compensation agreements with executives and other key employees. The interest costs associated with deferred compensation obligations and with the borrowings against the cash surrender value of the insurance policies are partially offset by increases in cash surrender values. The slight decrease in investment income was partially due to interest income from the favorable settlement of open state income tax examinations in 1997. The balance of the decrease in investment income is due to decreased cash and temporary cash investments which were used in investing activities throughout 1998 and the

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open market purchase of common shares for the treasury.

The net gain on the sales of properties decreased to $46,302 in 1998 from $137,246 in 1997. The variance reflects the result of the amount of gain or loss recognized upon the disposition of various small properties. Assets are continually analyzed and every effort is made to sell or dispose of properties that are determined to be unproductive.

Pretax income was $50.3 million in 1998 compared with $38.8 million in 1997, an increase of 29.5%. The Company's vehicle segment produced pretax income of $36.2 million, or 5.8% of vehicle net sales, compared with pretax income of $26.5 million, or 4.8% of vehicle net sales in 1997. The modular housing segment generated pretax income of $11.2 million in 1998 and $9.3 million in 1997, or 8.6% and 8.2%, respectively, of housing net sales (see Note 2 of Notes to Consolidated Financial Statements).

The provision for income taxes was $17.2 million for 1998 and $14.1 million for 1997, representing an effective tax rate of 34.3%, and 36.2%, respectively. The lower effective rate in 1998 resulted from a large amount of preferred stock dividend income subject to partial exclusion from taxation and an increase in nontaxable Company-owned life insurance proceeds. The Company's effective tax rate also fluctuates based upon the states where sales occur and also with the level of export sales.

Net income for the year ended December 31, 1998 was $33.1 million compared with $24.8 million for the prior year.

Comparison of 1997 to 1996

Consolidated net sales increased $55.1 million, or 9.1% to $661.6 million in 1997 from $606.5 million in 1996. The Company's vehicle segment, which includes the parts and supply group of companies, experienced a net sales increase of 7.8% while the housing segment had a net sales increase of 15.5%. Sales increases in the vehicle segment reflected continued market share gains in all product categories. The increased capacity in the Company's housing segment also resulted in continued sales growth, as well as, gains in market share. Both vehicles and housing experienced increases in unit sales and in the average sales price per unit during 1997.

Gross profit was $92.8 million and was 14.0% of net sales in 1997 compared to $88.5 million and 14.6% reported for 1996. The increase in gross profit for 1997 was primarily due to the increase in net sales. The decrease in the gross profit percentage represented lower gross margins associated with the housing segment from the Tennessee plant and the North Carolina expansion, as well as, implementation of a 7-day workweek at the housing operation in Indiana.

Operating expenses, consisting of selling, delivery, general and administrative expenses, were $57.5 million and $48.8 million, or as a

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percentage of net sales, 8.7% and 8.1% for 1997 and 1996, respectively. Selling and delivery expenses were $31.6 million in 1997, or 4.8% of net sales, compared with $27.7 million, or 4.6% in 1996. The slight increase in selling expense was primarily due to increased dealer volume sales incentives attributable to increased sales in the housing segment. As a percentage of net sales, delivery expenses remained relatively unchanged. General and administrative expenses were $25.9 million in 1997, or 3.9% of net sales, compared with $21.1 million or 3.5% of net sales in 1996. In 1997, general and administrative expenses included a $1.5 million increase in the bad debt expense reflecting the downturn in the van conversion industry. The Company's parts and supply group primarily supplies componets to this industry.

Operating income was $35.3 million in 1997 compared with $39.7 million in 1996, a decrease of 11.1%. This decrease was consistent with the

$4.2 million increase in gross profit and the overall increase of $8.7 million in operating expenses. The Company's vehicle segment produced operating income of $26.7 million, or 4.9% of vehicle net sales, compared with operating income of $29.9 million, or 5.9% of vehicle net sales in 1996. The modular housing segment generated 1997 operating income of $9.7 million in both 1997 and 1996, or 8.5% and 9.8%, respectively, of housing net sales.

Interest expense for 1997 increased to $2.5 million, or .4% of net sales, from $1.6 million, or .3% of net sales in 1996. Investment income for 1997 increased to $5.0 million from $1.6 million in 1996. The increase in interest expense was substantially due to the settlement of examinations by the Internal Revenue Service during the year, and was mostly offset with an increase in investment income from the favorable settlement of state income tax examinations. The balance of the increase in investment income was basically due to increased cash and short-term investments which were generated by operating activities throughout 1997 and the sale of 2,070,000 shares of common stock in November 1996.

The gain on sale of properties decreased to $137,000 for 1997 from $726,000 for 1996.

Pretax income for the year ended 1997 was $38.8 million compared with $41.5 million for 1996. The Company's vehicle segment produced $26.5 million and $30.3 million of pretax income in 1997 and 1996, respectively. The housing segment produced pretax income of $9.3 million in 1997 and $9.5 million in 1996 (see Note 2 of Notes to Consolidated Financial Statements).

The provision for income taxes was $14.1 million for both 1997 and 1996, representing an effective tax rate of 36.2% and 34.1%, respectively. The lower effective tax rate in 1996 was due to the reversals of federal and state income tax accruals of $250,000 and $550,000, respectively, resulting from favorable settlements of tax examinations.

Net income for the year ended December 31, 1997 was $24.8 million compared to

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$29.6 million for 1996. The prior year was favorably impacted by a $2.3 million cumulative effect of an accounting change for Company-owned life insurance. See Note 10 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

The Company generally relies on funds from operations as its primary source of working capital and liquidity. In addition, the Company maintains an unsecured committed line of credit, which totaled $30 million at December 31, 1998, to meet its seasonal working capital needs. There were no borrowings against this line of credit during 1998, 1997 and 1996. The Company's operating activities and the sale of common stock in 1996 have been the principal source of cash flows in each of the last three years. Operating cash flows were $14.0 million, for each of these years, net income, adjusted by certain noncash items such as depreciation, was a significant factor in generating operating cash flows. In 1998, net income and depreciation were significantly offset by an $18.8 million increase in inventories. This increase in inventories was directly related to the 14.3% increase in annual sales, including an 11.0% increase in fourth quarter sales volume, as well as,

the acquisition of three dealerships during 1998. In 1997, an increase in accounts payable and other current liabilities was basically offset by increases in receivables. In 1996, net income was utilized to fund the increased inventory levels associated with higher sales and production. Investing activities used cash of $42.1 million, $27.1 million and $15.7 million in 1998, 1997 and 1996, respectively. In 1998 and 1997, purchases of marketable securities, net of sales, used $16.3 million and $15.5 million of cash flows. Acquisitions of businesses consumed cash of $9.0 million in 1998 (see Note 9 of Notes to Consolidated Financial Statements). Otherwise the principal use of cash for investing activities in each of the last three years has been property, plant and equipment acquisitions. Major capital expenditures during 1998 included acquisitions, construction of and additions to production facilities for both the vehicle and housing segments, as well as the capitalized cost of hardware and software associated with the ongoing implementation of an enterprise computer system. Major capital expenditures during 1997 were acquisitions of production facilities for the vehicle segment, including properties previously leased, and initiating the construction of a new facility in Ohio for the housing segment. Major capital expenditures during 1996 included an expansion in North Carolina (financed in part by a $5.0 million industrial revenue bond) for the housing segment and a plant opening in Oregon for the vehicle segment. In 1998, the principal use of cash flows from financing activities was the $16.8 million used to purchase common shares under the Company's share repurchase programs. Other financing activities, which used cash in each of the years, were payments of long-term debt and cash dividends. These negative cash flows were partially offset by the issuance of common shares under stock option and stock purchase plans. Financing cash flows for 1996 included $48 million of proceeds from a public sale of the Company's common shares and $5 million of proceeds from

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the industrial revenue bond mentioned above. For a more detailed analysis of the Company's cash flows for each of the last three years, see the Consolidated Statements of Cash Flows. The Company's cash and temporary cash investments at December 31, 1998 were $23.0 million, or a decrease of $48.4 million from 1997. The Company anticipates that available funds, together with anticipated cash flows generated from future operations and amounts available under its line of credit will be sufficient to fund the Company's planned capital expenditures and other operating cash requirements through the end of 1999. In addition, the Company has $31.3 million of marketable securities, which are invested in public utility preferred stocks under a dividend capture program. These marketable securities can be converted to cash in a short time period.

In 1998, working capital decreased $.6 million, from $140.3 million to $139.7 million. The $4.5 million decrease in current assets at December 31, 1998 versus December 31, 1997 was primarily due to the decrease in cash. The $4.0 million decrease in current liabilities is substantially due to decreases in trade payables.

Year 2000

The Year 2000 issue relates to the way computer systems, software and some equipment define calendar dates; they could fail or make miscalculations due to interpreting a date including "00" to mean 1900, not 2000. In 1997, the Company determined that certain of its computer software was originally programmed using two digits rather than four to define the applicable year. As a result, this software could have been unable to process transactions beyond December 31, 1999. If correction

or replacement of the software was not completed in a timely manner, the Year 2000 issue could have a material impact on the Company's operations and could result in an interruption in, or failure of, certain normal business activities or operations.

The assessment phase of the Company's software, systems and equipment began in 1997. It was initially determined that the systems most likely to be affected by the Year 2000 issue were the general accounting systems and payroll. To remedy the Year 2000 issue with regard to these areas, the Company began devoting significant resources to replace the affected software with a new enterprise computer system. It was decided that this enterprise computer system should also be implemented for the manufacturing processes. The Company estimates the implementation status of general accounting systems and payroll to be 100% complete for the testing phase and approximately 95% complete for the implementation phase at December 31, 1998. As of this date, the implementation status for manufacturing processes is estimated to be approximately 70% complete for the vehicle segment and approximately 50% complete for the housing segment. Full testing and implementation of the new computer system for all divisions of the Company is occurring on an ongoing basis throughout 1999 and is expected to be complete in adequate time to

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enable proper processing of transactions throughout the Company before January 1, 2000.

The Company also initiated a senior management focus team in 1998 to identify and review other possible business system failures that could occur and to assess the need for contingency plans. The focus team is in the process of determining if the Company's equipment with embedded systems is Year 2000 compliant. The focus team does not believe the Company's equipment is, for the most part, calendar-date sensitive. Nonetheless, it has initiated an inventory of all such equipment, including telecommunications equipment and facilities. Those business systems considered most critical to continued operations are being given the highest priority.

The Company believes the key risk factors associated with Year 2000 are those from outside the Company that it cannot directly control, such as the readiness of its key material suppliers, dealers, customers, financial institutions and public infrastructure suppliers. The Company relies on third parties to provide goods and services necessary for the manufacture and distribution of its products. The focus team is in the process of identifying and communicating with third-party suppliers about the status of their compliance with Year 2000. As of December 31, 1998, the Company has not received sufficient response from its thrid-party suppliers to determine the status of their readiness. The Company sells its products to numerous independent dealers. Management believes the risk associated with Year 2000 compliance by the dealers is minimized since the risk is spread among the dealers. Due to the uncertainty of the Year 2000 readiness of third parties, the Company is currently unable to determine whether the consequences of Year 2000 failures of third parties will have a material impact on the Company's operations. While the Company is working diligently to obtain assurance from its mission critical third parties that they will be compliant, there can be no assurance that the systems of any third party on which the Company's operations rely will be timely compliant. Nevertheless, the Company does not anticipate a material impact on its operations from direct interfaces with third parties. The focus team is in the process of assessing the risk and the need to develop contingency plans to address potential disruptions that could be caused by third parties.

The Company believes the worst case scenario for Year 2000 issues would be the disruption or unavailability of utility services. This could hinder or stop the performance of normal business functions, such as manufacturing and selling, and might disrupt retail demand. However, due to the multiple business locations of the Company, its manufacturing facilities, and its owned and independent retail outlets, normal business functions could continue at those locations where utility disruptions or unavailability did not occur. If they do occur, it is expected they will be temporary, and some utility services may be available from remote locations, as through electric grids. The focus team is in the process of determining whether a contingency plan is feasible to mitigate worst case disruptions.

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The worst case scenario could include halting of production due to the inability of a single source supplier to deliver a critical product or component. The Company is implementing a contingency plan to identify replacement suppliers if a key supplier is unable to adequately assure the Company that it will be compliant, and to closely monitor inventory levels of critical components. The largest exposure appears to be the Company's interface with chassis manufacturers for order processing. The Company believes these order processing systems to be Year 2000 compliant based on statements from representatives of the companies involved. The chassis suppliers have also advised the Company that the chassis are Year 2000 compliant.

Based on a review of its products by segment, vehicles and housing, the Company has determined that the products it has sold and will continue to sell should not require remediation to be Year 2000 compliant. Accordingly, the Company does not believe that the Year 2000 presents a material exposure as it relates to the Company's products.

The objective of the Company and each of its operating subsidiaries is to have all of their significant business systems, including those that affect facilities and manufacturing activities, functioning properly with respect to Year 2000, before January 1, 2000. The total cost is currently estimated to be in excess of $5.0 million, of which approximately $3.4 million has been incurred as of December 31, 1998. Of the amount incurred, $.8 million has been expensed and $2.6 million has been capitalized for new systems and equipment. All costs are being funded through operating cash flows. These costs do not include any costs associated with the implementation of contingency plans. If determined to be feasible, the Company intends to create its contingency plans by September 1999.

Forward Looking Statements

This annual report contains certain statements that are "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. These forward looking statements involve risks and uncertainties, and are dependent on factors which may include, but are not limited to, the availability of gasoline, which can impact sales of recreational vehicles; availability of chassis, which are used in the production of many of the Company's recreational vehicle products; interest rates, which affect the affordability of the Company's products; and also on the state of the recreational vehicle and modular housing industries in the United States. Other factors affecting forward-looking statements include competition in these industries and

the Company's ability to maintain or increase gross margins which are critical to the profitability whether there are or are not increased sales; and the Company's ability to make its software and equipment year 2000 compliant.

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At times, the Company's actual performance differs materially from its projections and estimates regarding the economy, the recreational vehicle and housing industries and other key performance indicators. Readers of this Report are cautioned that reliance on any forward-looking statements involves risks and uncertainties. Although the Company believes that the assumptions on which the forward-looking statements contained herein are reasonable, any of those assumptions could prove to be inaccurate given the inherent uncertainties as to the occurrence or nonoccurrence of future events. There can be no assurance that the forward-looking statements contained in this Report will prove to be accurate. The inclusion of a forward-looking statement herein should not be regarded as a representation by the Company that the Company's objectives will be achieved.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, operations of the Company are exposed to fluctuations in interest rates. These fluctuations can vary the costs of financing and investing yields. The Company has not utilized its line of credit facilities during the past three years and, accordingly, changes in interest rates would only impact the Company's long-term debt. At December 31, 1998, the Company had $12.3 million of long-term debt, consisting of industrial development revenue bonds and promissory notes, all of which have variable or floating rates. The Company's marketable securities consist of public utilities preferred stocks which pay quarterly fixed rate dividends. These financial instruments are subject to market risk in that changes in interest rates would impact the market value of the preferred stocks. As discussed in Note 1 of the Notes to Consolidated Financial Statements, the Company utilizes U.S. Treasury bond future options as a protection against the impact of increases in interest rates on the fair value of the Company's investments in these fixed rate preferred stocks. Outstanding options are marked to market with market value changes recognized in current earnings. The U.S. Treasury bond futures options generally have terms ranging from 90 to 180 days. Based on the Company's overall interest rate exposure at December 31, 1998, including variable or floating rate debt and derivatives used to hedge the fair value of fixed rate preferred stocks, a hypothetical 10 percent change in interest rates applied to the fair value of the financial instruments as of December 31, 1998, would have no material impact on earnings, cash flows or fair values of interest rate risk sensitive instruments over a one-year period.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements   Page

Financial Statements:

Report of Independent Accountants 17
Consolidated Balance Sheets at December 31, 1998 and 1997 18-19
Consolidated Statements of Income and Retained Earnings

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for the years ended December 31, 1998, 1997 and 1996 20
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996 21-22
Notes to Consolidated Financial Statements 23-36

Financial Statement Schedule:
II - Valuation and Qualifying Accounts for the years ended December 31, 1998, 1997 and 1996 37

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Coachmen Industries, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Coachmen Industries, Inc. and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 10 to the consolidated financial statements, effective January 1, 1996 the Company changed its method of accounting for its investments in life insurance contracts.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

South Bend, Indiana
January 29, 1999

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Coachmen Industries, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 1998 and 1997

Assets

	1998	1997
CURRENT ASSETS		
Cash and temporary cash investments	$ 23,009,502	$ 71,427,918
Marketable securities	31,279,433	15,852,718
Trade receivables, less allowance for doubtful receivables 1998 - $768,000 and 1997 - $1,354,000	27,584,551	25,212,595
Other receivables	1,838,171	2,980,257
Refundable income taxes	3,741,000	1,761,000
Inventories	93,349,453	68,416,006
Prepaid expenses and other	1,341,175	1,247,973
Deferred income taxes	3,268,000	3,040,000
Total current assets	185,411,285	189,938,467
PROPERTY AND EQUIPMENT, at cost		
Land and improvements	11,016,684	9,041,817
Buildings and improvements	53,761,414	39,950,161
Machinery and equipment	19,712,798	16,874,788
Transportation equipment	11,175,667	10,159,168
Office furniture and fixtures	8,850,146	5,712,961
	104,516,709	81,738,895
Less, Accumulated depreciation	41,444,585	35,137,268
	63,072,124	46,601,627
OTHER ASSETS		
Real estate held for sale	2,622,218	4,188,063
Rental properties	1,371,915	2,000,218
Intangibles, less accumulated amortization 1998 - $516,913 and 1997 - $516,469	4,553,105	4,927,807
Deferred income taxes	579,000	569,000
Other	10,866,639	10,836,844
	19,992,877	22,521,932
TOTAL ASSETS	$268,476,286	$259,062,026

The accompanying notes are a part of the consolidated financial statements.

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Liabilities and Shareholders' Equity

	1998	1997
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 2,125,175	$ 2,258,519
Accounts payable, trade	18,997,193	22,818,303
Accrued wages, salaries and commissions	4,357,878	4,876,790
Accrued dealer incentives	3,783,628	3,226,255
Accrued warranty expense	6,138,081	6,013,528
Accrued income taxes	1,509,429	1,529,543
Accrued insurance	1,862,811	2,319,518
Other accrued liabilities	6,943,999	6,633,762
Total current liabilities	45,718,194	49,676,218
LONG-TERM DEBT	10,191,476	12,591,144
OTHER	7,108,956	6,658,872
Total liabilities	63,018,626	68,926,234
COMMITMENTS AND CONTINGENCIES (Note 11)		
SHAREHOLDERS' EQUITY		
Common shares, without par value: authorized 60,000,000 shares; issued 1998 - 20,842,568 shares and 1997 - 20,689,214 shares	89,105,324	87,519,740
Additional paid-in capital	3,866,398	3,012,596
Retained earnings	145,613,994	115,984,289
Treasury shares, at cost, 1998 - 4,257,985 shares and 1997 - 3,387,648 shares	(33,128,056)	(16,380,833)
Total shareholders' equity	205,457,660	190,135,792
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$268,476,286	$259,062,026

Coachmen Industries, Inc. and Subsidiaries
Consolidated Statements of Income and Retained Earnings
for the years ended December 31, 1998, 1997 and 1996

	1998	1997	1996
Net sales	$756,029,526	$661,591,185	$606,474,128
Cost of goods sold	646,118,708	568,836,172	517,966,127
Gross profit	109,910,818	92,755,013	88,508,001
Operating expenses:			

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Selling and delivery	35,973,828	31,605,666	27,719,131
General and administrative	28,009,137	25,889,028	21,116,814
	63,982,965	57,494,694	48,835,945
Operating income	45,927,853	35,260,319	39,672,056
Nonoperating income (expense):			
Interest expense	(1,738,608)	(2,544,021)	(1,572,092)
Investment income	4,831,102	4,975,360	1,615,442
Gain on sale of properties, net	46,302	137,246	726,023
Other income, net	1,223,959	996,720	1,041,401
	4,362,755	3,565,305	1,810,774
Income before income taxes and cumulative effect of accounting change	50,290,608	38,825,624	41,482,830
Income taxes	17,228,000	14,063,000	14,146,000
Income before cumulative effect of accounting change	33,062,608	24,762,624	27,336,830
Cumulative effect of accounting change for Company-owned life insurance policies	-	-	2,293,983
Net income	33,062,608	24,762,624	29,630,813
Retained earnings, beginning of year	115,984,289	94,670,593	67,824,816
Cash dividends (per common share: 1998 - $.20, 1997 - $.20 and 1996 - $.185)	(3,432,903)	(3,448,928)	(2,785,036)
Retained earnings, end of year	$145,613,994	$115,984,289	$ 94,670,593
Earnings per common share:			
Income before cumulative effect of accounting change:			
Basic	$ 1.93	$ 1.44	$ 1.79
Diluted	1.92	1.42	1.76
Net income:			
Basic	1.93	1.44	1.94
Diluted	1.92	1.42	1.91

The accompanying notes are a part of the consolidated financial statements.

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Coachmen Industries, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
for the years ended December 31, 1998, 1997 and 1996

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 33,062,608	$ 24,762,624	$ 29,630,813
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	7,573,730	6,696,517	5,487,528
Amortization and write-off of intangibles	374,702	136,106	135,592
Provision for (recovery of) doubtful receivables	(175,085)	1,616,801	158,024
Net realized and unrealized losses on marketable securities and derivatives	902,073	194,663	-
Gain on sale of properties, net	(46,302)	(137,246)	(726,023)
Gain on insurance settlement	-	-	(393,014)
Cumulative effect of accounting change	-	-	(2,293,983)
Increase in cash surrender value of life insurance policies	(955,983)	(1,017,007)	(1,087,678)
Deferred income taxes	(238,000)	171,000	(240,000)
Other	(202,691)	236,388	113,666
Changes in certain assets and liabilities, net of effect of acquisitions:			
Receivables, excluding current portion of notes	(1,545,151)	(7,280,485)	(875,253)
Inventories	(18,847,990)	394,046	(11,077,327)
Prepaid expenses and other	(93,202)	(317,729)	640,248
Accounts payable, trade	(3,821,110)	8,285,355	(3,902,614)
Income taxes - accrued and refundable	(2,000,114)	1,005,492	(1,711,749)
Other current liabilities	16,544	1,987,375	1,447,503
Net cash provided by operating activities	14,004,029	36,733,900	15,305,733
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of marketable securities	152,125,749	36,534,842	-
Sale of properties	4,103,886	1,644,501	925,452
Insurance settlement	-	-	2,821,014
Acquisitions of:			
Marketable securities	(168,454,538)	(52,082,223)	-
Property and equipment	(22,196,199)	(14,202,539)	(14,919,168)
Real estate held for sale and rental properties	-	-	(1,861,458)

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Businesses	(9,001,812)	-	(1,852,596)
Collections (advances) on notes receivable, net	97,906	553,399	(1,136,340)
Other	1,232,961	417,304	305,732
Net cash (used in) investing activities	(42,092,047)	(27,134,716)	(15,717,364)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	-	-	5,000,000
Payments of long-term debt	(2,533,012)	(2,270,118)	(2,092,447)
Sale of common stock, net of offering expenses	-	-	47,970,779
Issuance of common shares under stock option and stock purchase plans	1,585,584	1,271,698	1,126,061
Tax benefit from stock options exercised	814,175	654,681	620,431
Cash dividends paid	(3,432,903)	(3,448,928)	(2,785,036)
Purchases of common shares for treasury	(16,764,242)	(827,500)	-
Net cash provided by (used in) financing activities	(20,330,398)	(4,620,167)	49,839,788

Consolidated Statements of Cash Flows (Concluded)
for the years ended December 31, 1998, 1997 and 1996

	1998	1997	1996
Increase (decrease) in cash and temporary cash investments	(48,418,416)	4,979,017	49,428,157
CASH AND TEMPORARY CASH INVESTMENTS			
Beginning of year	71,427,918	66,448,901	17,020,744
End of year	$23,009,502	$ 71,427,918	$ 66,448,901
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 1,708,500	$ 1,272,000	$ 2,018,000
Income taxes	19,070,700	13,142,000	15,628,000

The accompanying notes are a part of the consolidated financial statements.

Coachmen Industries, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS AND ACCOUNTING POLICIES.

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Nature of Operations - Coachmen Industries, Inc. and its subsidiaries (the "Company") manufacture a full line of recreational vehicles and van conversions through seven divisions with manufacturing facilities located in Indiana, Georgia, Michigan and Oregon. These products are marketed through a nationwide dealer network. The Company's housing segment, with locations in Indiana, Iowa, North Carolina, Ohio and Tennessee, supply modular housing to builder/dealers in nineteen adjoining states.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Coachmen Industries, Inc. and its subsidiaries, all of which are wholly owned.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - Sales are recognized as revenue upon shipment.

Cash Flows and Noncash Activities - For purposes of the consolidated statements of cash flows, cash and temporary cash investments include cash, cash investments and any highly liquid investments purchased with original maturities of three months or less. In connection with business acquisitions in 1998, the Company assumed $800,000 of liabilities of the sellers (see Note 9). For each of the three years in the period ended December 31, 1998, the Company issued common shares with a market value of $56,646, $67,276 and $55,665, respectively, in lieu of cash compensation. The Company recognizes a tax benefit in additional paid-in capital from exercise of stock options (see Note 6).

Concentrations of Credit Risk - Financial instruments which potentially subject the Company to credit risk consist primarily of cash and temporary cash investments and trade receivables.

At December 31, 1998 and 1997, cash and temporary cash investments include approximately $11.5 million and $42.8 million, respectively, invested in variable rate demand notes with a seven-day put option. In addition, cash and temporary cash investments include $9.6 million and $28.1 million invested in a money market mutual fund at December 31, 1998 and 1997, respectively.

The Company has a concentration of credit risk in the recreational vehicle industry, although there is no geographic concentration of credit risk. The Company performs ongoing credit evaluations of its customers' financial condition and sales to its recreational vehicle dealers are generally subject to preapproved dealer floor plan financing whereby the Company is paid upon delivery or shortly thereafter. The Company generally requires no collateral from its customers. Future credit losses are provided for currently through

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the allowance for doubtful receivables and actual credit losses are charged to the allowance when incurred.

1. NATURE OF OPERATIONS AND ACCOUNTING POLICIES, Continued.

Marketable Securities - Marketable securities consist of public utility preferred stocks which pay quarterly cash dividends. The preferred stocks are part of a dividend capture program whereby preferred stocks are bought and held for the purpose of capturing the quarterly preferred dividend. The securities are then sold and the proceeds reinvested again in preferred stocks. The Company's dividend capture program is a tax planning strategy to maximize dividend income which is 70% excludable from taxable income under the Internal Revenue Code and related state tax provisions. As a result, a dividend recapture program generally provides a higher after-tax return than other short-term investment alternatives. The Company accounts for its marketable securities under Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires certain securities to be categorized as either trading, available-for-sale or held-to-maturity. The Company's marketable securities at December 31, 1998 and 1997 are classified as availabale-for-sale and, accordingly, are carried at fair value with net unrealized appreciation (depreciation) recorded as a separate component of shareholders' equity. At December 31, 1998 and 1997, the cost of marketable securities approximated their fair value and, accordingly, the Company recognized no unrealized appreciation (depreciation). The cost of securities sold is determined by the specific identification method.

The Company utilizes U.S. Treasury bond futures options as protection against the impact of increases in interest rates on the fair value of the Company's investments in marketable securities (fixed rate preferred stocks). The options are marked to market with market value changes recognized in the statements of income in the period of change.

Investment income consists of the following:

	1998	1997	1996
Interest income	$3,184,394	$4,602,030	$1,615,442
Dividend income on preferred stocks	2,548,781	567,993	-
Net realized gains (losses) on sale of preferred stocks	(119,806)	206,569	-
Net realized losses on closed U.S. Treasury bond futures options	(596,691)	(401,232)	-
Unrealized losses on open U.S. Treasury bond futures options	(185,576)	-	-

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Total	$4,831,102	$4,975,360	$1,615,442

Fair Value of Financial Instruments - The carrying amounts of cash and temporary cash investments, receivables and accounts payable approximated fair value as of December 31, 1998 and 1997, because of the relatively short maturities of these instruments. The carrying amount of long-term debt, including current maturities, approximated fair value as of December 31, 1998 and 1997, based upon terms and conditions currently available to the Company in comparison to terms and conditions of the existing long-term debt. The Company has investments in life insurance contracts to fund obligations under deferred compensation agreements (see Note 7). At December 31, 1998 and 1997, the carrying amount of these policies, which equaled their fair value, was $10.6 million and $9.9 million, respectively (cash surrender values of $24.3 million and $22.6 million, net of $13.7 million and $12.7 million of policy loans, respectively).

1. NATURE OF OPERATIONS AND ACCOUNTING POLICIES, Continued.

At December 31, 1998, the carrying amounts of U.S. Treasury bond futures options, which aggregated $131,485, represented fair value since these futures options are marked to market at the end of each reporting period.

Inventories - Inventories are valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment - Depreciation is computed by the straight-line method on the costs of the assets, at rates based on their estimated useful lives as follows: land improvements 3-15 years; buildings and improvements 10-30 years; machinery and equipment 3-10 years; transportation equipment 2-7 years; and office furniture and fixtures 2-10 years. Upon sale or retirement of property and equipment, including real estate held for sale and rental properties, the asset cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is included in income.

Real Estate Held For Sale - Real estate held for sale represents real properties which are carried at the lower of estimated realizable value or cost less accumulated depreciation. As of December 31, 1998 and 1997, the carrying value of real estate held for sale (and the related accumulated depreciation) aggregated $2,742,169 ($119,951) and $4,451,596 ($263,533), respectively.

Rental Properties - Rental properties represent owned facilities which are currently leased to others under lease agreements with expiring terms through August 31, 2002. Certain of the lease agreements contain options for the lessee to renew the lease or purchase the facilities. Lease income for the

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years ended December 31, 1998, 1997 and 1996 aggregated $239,103, $302,931 and $256,855, respectively. Future minimum annual lease income under these lease agreements is as follows: 1999 - $337,250, 2000 - $186,000, 2001 - $186,000 and 2002 - $124,000. The rental properties are carried at cost less accumulated depreciation, which is not in excess of net realizable value. The rental properties are depreciated by the straight-line method over the estimated useful lives of the assets (15 - 20 years). At December 31, 1998 and 1997, the cost of rental properties (and the related accumulated depreciation) aggregated $2,259,991 ($888,076) and $2,859,991 ($859,773), respectively.

Intangibles - Intangibles represent the excess of cost over the fair value of net assets of businesses acquired ("goodwill"), and are being amortized over a 40-year period by the straight-line method.

Evaluation of Impairment of Long-Lived Assets - In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of," the Company evaluates the carrying value of long-lived assets whenever significant events or changes in circumstances indicate the carrying value of these assets may be impaired. The Company evaluates potential impairment of long-lived assets by comparing the carrying value of the assets to the expected net future cash inflows resulting from use of the assets. During the year ended December 31, 1998, the Company determined because of recurring losses and a forecast of negative undiscounted future cash flows that the carrying value of goodwill of one of its Company-owned dealerships was impaired. Accordingly, the Company charged-off the $238,596 of remaining unamortized goodwill.

1. NATURE OF OPERATIONS AND ACCOUNTING POLICIES, Concluded.

Income Taxes - The provision for income taxes is based on income recognized for financial statement purposes and includes the effects of temporary differences between such income and that recognized for tax return purposes. Deferred tax assets and liabilities are established for the expected future tax consequences of events that have been included in the financial statements or tax returns using enacted tax rates in effect for the years in which the differences are expected to reverse.

Research and Development Expenses - Research and development expenses charged to operations were approximately $4,706,000, $3,521,000 and $2,721,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

Warranty Expense - The Company accrues an estimated warranty liability at the time the warranted products are sold.

Stock-Based Compensation - The Company has adopted the disclosure only

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provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and, accordingly, accounts for its stock option plan under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Comprehensive Income - The Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income," effective January 1, 1998. The adoption of SFAS No. 130 had no impact on the Company's consolidated financial statements since there are no components of comprehensive income that are not already included in net income.

Business Segments - In 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," and changes how segments are defined for disclosure purposes to reflect the way internal information is used by management to make operating decisions and assess performance of the enterprise's reportable segments. The adoption of SFAS No. 131 did not affect results of the operations or finanacial position but did affect the disclosure of segment information (see Note 2).

New Accounting Pronouncement - On June 15, 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999 (January 1, 2000 for the Company). SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company utilizes U.S. Treasury bond futures options, which are derivative instruments, and changes in market value are recognized in current earnings. Accordingly, management of the Company anticipates that, due to its limited use of derivative instruments and the fact that changes in fair value are currently recognized in earnings, that the adoption of SFAS No. 133 will not have a significant effect on the Company's financial statements.

2. SEGMENT INFORMATION.

In 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting, which disaggregates its business by product category. The Company's two reportable segments are: Vehicles (recreational, vans and specialized), including related parts and supplies, and Housing (modular). The Company evaluates the performance of its segments and allocates resources

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to them based on pretax income. The accounting policies of the segments are the same as those described in Note 1 and there are no inter-segment revenues. Differences between reported segment amounts and corresponding consolidated totals represent corporate expenses for administrative functions and costs or expenses relating to property and equipment that are not allocated to segments.

The table below presents information about segments used by the chief operating decision maker of the Company for the years ended December 31:

	1998	1997	1996
Net sales:			
Vehicles	$625,747,168	$547,540,761	$507,715,622
Housing	130,282,358	114,050,424	98,758,506
Consolidated total	$756,029,526	$661,591,185	$606,474,128
Pretax income:			
Vehicles	$ 36,155,968	$ 26,489,637	$ 30,315,135
Housing	11,163,896	9,332,259	9,475,743
Other reconciling items	2,970,744	3,003,728	1,691,952
Consolidated total	$ 50,290,608	$ 38,825,624	$ 41,482,830
Total assets:			
Vehicles	$141,657,538	$114,171,173	$109,701,864
Housing	38,948,016	30,161,106	31,406,963
Other reconciling items	87,870,732	114,729,747	86,338,745
Consolidated total	$268,476,286	$259,062,026	$227,447,572

The following specified amounts are included in the measure of segment pretax income or loss reviewed by the chief operating decision maker:

	1998	1997	1996
Interest expense:			
Vehicles	$ 474,377	$ 554,739	$ 569,491
Housing	354,564	423,641	259,928
Other reconciling items	909,667	1,565,641	742,673
Consolidated total	$ 1,738,608	$ 2,544,021	$ 1,572,092
Depreciation:			
Vehicles	$ 4,216,336	$ 3,657,050	$ 2,931,270
Housing	2,582,548	2,477,634	2,140,587
Other reconciling items	774,846	561,833	415,671
Consolidated total	$ 7,573,730	$ 6,696,517	$ 5,487,528

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3. INVENTORIES.

Inventories consist of the following:

	1998	1997
Raw materials	$29,691,805	$ 19,437,977
Work in process	11,511,459	9,327,308
Finished goods	52,146,189	39,650,721
Total	$93,349,453	$ 68,416,006

4. SHORT-TERM BORROWINGS.

At December 31, 1998 and 1997, the Company has an unsecured bank line of credit aggregating $30 million with interest on outstanding borrowings payable monthly at a rate of LIBOR plus a margin of .50% to .75%. There were no outstanding borrowings under this bank line of credit during 1998, 1997 and 1996.

5: LONG-TERM DEBT.

Long-term debt consists of the following:

	1998	1997
Obligations under industrial development revenue bonds, variable rates, with various maturities through 2011	$ 8,500,000	$ 9,807,836
Promissory notes payable, issued or assumed in the acquisition of a business, principal payable in annual installments through January 2001, interest payable monthly at the prime rate (7.75% at December 31, 1998), unsecured	3,816,651	5,041,827
Total	12,316,651	14,849,663
Less, Current maturities	2,125,175	2,258,519
Long-term debt	$10,191,476	$12,591,144

Aggregate maturities of long-term debt for each of the next five years ending December 31 are as follows: 1999 - $2,125,175; 2000 - $1,825,174; 2001 - $1,766,302; 2002 - $400,000 and 2003 - $400,000.

In connection with four of its industrial development revenue bond obligations, the Company obtained, as a credit enhancement for the bondholders, irrevocable letters of credit in favor of the bond trustees.

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The agreements relating to these letters of credit contain, among other provisions, certain covenants relating to required amounts of working capital and net worth and the maintenance of certain required financial ratios.

6. COMMON STOCK MATTERS AND EARNINGS PER SHARE.

Stock Offering

In November 1996, the Company completed a public stock offering consisting of 2,070,000 shares of its common stock at $24.50 per share. Net of underwriting fees and offering expenses, proceeds to the Company aggregated $48 million.

6. COMMON STOCK MATTERS AND EARNINGS PER SHARE, Continued.

Stock Award Program

On October 19, 1998, the Board of Directors approved a Stock Award Program which provides for the awarding to key employees of up to 109,000 shares of common stock from shares reserved under the Company's stock option plan. On December 1, 1998, the Company awarded 63,600 shares to certain employees, subject to the terms, conditions and restrictions of the award program. The shares are issuable in four annual installments of 25% beginning one year from the date of grant. The Company will recognize compensation expense over the term of the awards.

Stock Option Plan

The Company's stock option plan provides for the granting of options to eligible key employees to purchase common shares. Under terms of the plan, the Company may grant incentive stock options or non-qualified stock options. The option price for options granted to key employees is an amount per share of not less than the fair market value per share on the date of granting the option. No such options may be exercised during the first year after grant, and are exercisable cumulatively in four installments of 25% each year thereafter.

The following table summarizes stock option activity:

	Number of Shares	Weighted-Average Exercise Price
Outstanding, January 1, 1996	574,900	$ 6.95
Granted	251,800	12.61
Canceled	(14,100)	7.65

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Exercised	(165,500)	5.88
Outstanding, December 31, 1996	647,100	9.36
Granted	222,550	19.53
Canceled	(47,700)	11.81
Exercised	(147,425)	6.94
Outstanding, December 31, 1997	674,525	13.07
Granted	176,900	24.46
Canceled	(51,875)	11.05
Exercised	(138,412)	9.19
Outstanding, December 31, 1998	661,138	16.77

Options outstanding at December 31, 1998 are exercisable at prices ranging from $6.44 to $27.13 per share and have a weighted average remaining contractual life of 2.74 years. The following table summarizes information about stock options outstanding at December 31, 1998.

6. COMMON STOCK MATTERS AND EARNINGS PER SHARE, Continued.

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 1998	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 1998	Weighted-Average Exercise Price
$ 6.44 - 9.00	138,700	.9	$ 8.01	114,600	$ 8.01
9.01 - 15.00	120,975	2.1	11.03	60,488	11.03
15.01 - 25.00	237,763	3.2	19.40	67,578	19.35
25.01 - 27.13	163,700	4.1	24.62	250	27.13
	661,138			242,916	

At December 31, 1997 and 1996, there were exercisable options to purchase 209,181 and 178,638 shares at weighted-average exercise prices of $8.97 and $6.62, respectively. The weighted-average grant-date fair value of options granted during the years ended December 31, 1998, 1997 and 1996 was $6.99, $4.81 and $3.08, respectively. As of December 31, 1998, 423,625 shares were reserved for the granting of future stock options and awards, compared with 612,250 shares at December 31, 1997.

Had the Company adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and net income per share would have been:

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	1998	1997	1996
Pro forma net income	$32,656,000	$24,533,000	$29,512,000
Pro forma net income per share:			
Basic	1.91	1.42	1.93
Diluted	1.89	1.41	1.90

The pro forma amounts and the weighted-average grant-date fair-value of options granted were estimated using the Black-Scholes option-pricing model with the following assumptions:

	1998	1997	1996
Risk free interest rate	5.04%	6.00%	6.00%
Expected life	2.75 years	2.75 years	2.75 years
Expected volatility	37.9%	30.7%	30.7%
Expected dividends	1.0%	1.2%	1.2%

Stock Purchase Plan

The Company has an employee stock purchase plan under which a total of 547,141 shares of the Company's common stock are reserved for purchase by full-time employees through payroll deductions, cash payments, or a combination of both at a price equal to 90% of the market price of the Company's common stock on the purchase date. As of December 31, 1998, there were 317 employees actively participating in the plan. Since its inception, a total of 252,859 shares have been purchased by employees under the plan. Certain restrictions in the plan limit the amount of payroll deductions and cash payments an employee may make in any one quarter. There are also limitations as to the amount of ownership in the Company an employee may acquire under the plan.

6. COMMON STOCK MATTERS AND EARNINGS PER SHARE, Continued.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding plus the dilutive effect of stock options and stock awards. The number of shares used in the computation of basic and diluted earnings per share are as follows:

	1998	1997	1996
Basic	17,131,846	17,238,353	15,280,578
Diluted	17,260,768	17,401,402	15,494,731

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Changes in Common Shares, Additional Paid-In Capital and Treasury Shares

	Common Shares	Additional Paid-in Capital	Treasury Shares
Balance, January 1, 1996	$37,151,202	$ 1,664,889	$(15,603,679)
Sale of 2,070,000 common shares, net of offering expenses	47,970,779	-	-
Issuance of 9,472 common shares under employee stock purchase plan	152,646	-	-
Issuance of 4,008 common shares from treasury	-	28,423	27,242
Issuance of 165,500 common shares upon the exercise of stock options	973,415	-	-
Tax benefit from exercise of stock options	-	620,431	-
Balance, December 31, 1996	86,248,042	2,313,743	(15,576,437)
Issuance of 14,145 common shares under employee stock purchase plan	249,144	-	-
Issuance of 3,348 common shares from treasury	-	44,172	23,104
Issuance of 147,425 common shares upon the exercise of stock options	1,022,554	-	-
Acquisition of 50,000 common shares for treasury	-	-	(827,500)
Tax benefit from exercise of stock options	-	654,681	-
Balance, December 31, 1997	87,519,740	3,012,596	(16,380,833)

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6. COMMON STOCK MATTERS AND EARNINGS PER SHARE, Concluded.

	Common Shares	Additional Paid-in Capital	Treasury Shares
Issuance of 14,942 common shares under employee stock purchase plan	312,949	-	-
Issuance of 2,491 common shares from treasury	-	39,627	17,019
Issuance of 138,412 common shares upon the exercise of stock options	1,272,635	-	-
Acquisition of 872,828 common shares for treasury	-	-	(16,764,242)
Tax benefit from exercise of stock options	-	814,175	-
Balance, December 31, 1998	$89,105,324	$ 3,866,398	$(33,128,056)

Shareholder Rights Plan

On January 19, 1990, the Board of Directors adopted a shareholder rights plan and declared a dividend distribution of one common share purchase right on each outstanding common share. Such rights only become exercisable, or transferable apart from the common shares, (i) ten days after a person or group of persons ("Acquiring Person") acquires or obtains the right to acquire beneficial ownership of 20% or more of the Company's common shares or (ii) ten business days (or such later date established by the Board) following the commencement of a tender offer or exchange offer for 20% or more of the Company's common shares. Upon the occurence of certain events and after the rights become exercisable, each right would, subject to certain adjustments and alternatives, entitle the rightholder to purchase the number of common shares of the Company or the acquiring company having a market value of twice the $15 exercise price of the right (except that the Acquiring Person would not be able to purchase common shares of the Company on these terms). The rights are nonvoting, may be redeemed by the Company at a price of $.005 per right at any time prior to the date on which an Aquiring Person acquires 20% or more of the Company's common shares and expire February 15, 2000.

7. INCENTIVE AND DEFERRED COMPENSATION PLANS.

The Company has incentive compensation plans for its officers and other key management personnel. The amounts charged to expense for the years ended December 31, 1998, 1997 and 1996 aggregated $3,345,719, $2,870,270 and $2,662,668, respectively.

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The Company has established a deferred compensation plan for executives and other key employees. The plan provides for benefit payments upon termination of employment, retirement, disability, or death. The Company recognizes the cost of this plan over the projected service lives of the participating employees based on the present value of the estimated future payments to be

7. INCENTIVE AND DEFERRED COMPENSATION PLANS, Concluded.

made. The plan is funded by insurance contracts on the lives of the participants, and investments in insurance contracts (included in other assets) aggregated $10.6 million and $9.9 million as of December 31, 1998 and 1997, respectively. The deferred compensation obligations, which aggregated $7,323,221 and $6,913,896 as of December 31, 1998 and 1997, respectively, are included in other non-current liabilities, with the current portion ($335,351 and $341,514 at December 31, 1998 and 1997, respectively) included in other accrued liabilities.

All full-time employees of the Company (subject to certain eligibility restrictions) are eligible to participate in the Coachmen Assisted Retirement For Employees (C.A.R.E.) program which provides a mechanism for each eligible employee to establish an individual retirement account and receive matching contributions from the Company based on the amount contributed by the employee, the employee's years of service and the profitability of the Company. Company matching contributions charged to expense under the C.A.R.E. program aggregated $856,689, $724,541 and $704,173 for the years ended December 31, 1998, 1997 and 1996, respectively.

8. INCOME TAXES.

Income taxes are summarized as follows:

	1998	1997	1996
Federal:			
Current	$16,040,000	$12,765,000	$13,553,000
Deferred	(209,000)	150,000	(210,000)
	15,831,000	12,915,000	13,343,000
State:			
Current	1,426,000	1,127,000	833,000
Deferred	(29,000)	21,000	(30,000)
	1,397,000	1,148,000	803,000
Total	$17,228,000	$14,063,000	$14,146,000

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The following is a reconciliation of the provision for income taxes computed at the federal statutory rate (35%) to the reported provision for income taxes:

	1998	1997	1996
Computed federal income tax at federal statutory rate	$17,602,000	$13,589,000	$14,519,000
Changes resulting from:			
Increase in cash surrender value of life insurance contracts	(245,000)	(356,000)	(381,000)
Foreign Sales Corporation subject to lower tax rate	(315,000)	(396,000)	(310,000)
State income taxes, net of federal income tax benefit	908,000	746,000	522,000
Preferred stock dividend exclusion	(548,000)	(139,000)	-
Other, net	(174,000)	619,000	(204,000)
Total	$17,228,000	$14,063,000	$14,146,000

8. INCOME TAXES, Concluded.

The components of the net deferred tax assets are as follows:

	1998	1997
Current deferred tax asset (liability):		
Accrued warranty expense	$2,495,000	$2,455,000
Receivables	138,000	(126,000)
Other	635,000	711,000
Net current deferred tax asset	$3,268,000	$3,040,000
Noncurrent deferred tax asset (liability):		
Receivables	$ (335,000)	$ -
Deferred compensation	2,929,000	2,765,000
Property and equipment	(1,347,000)	(1,584,000)
Intangible assets	(668,000)	(612,000)
Net noncurrent deferred tax asset	$ 579,000	$ 569,000

9. ACQUISITIONS.

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On February 3, 1998, the Company acquired certain assets and the operations of three retail recreational vehicle dealerships, two located in Florida and one in Georgia. The assets acquired consisted of new and used unit inventories, parts inventories, real and personal property and other miscellaneous assets. The purchase price, which aggregated $9.8 million and approximated the fair value of the acquired assets, consisted of $9.0 million in cash and the assumption of certain liabilities of the sellers. The acquisitions were accounted for as a purchase and the operating results of the acquired businesses are included in the Company's consolidated financial statements from the date of acquisition. Pro forma financial information has not been presented as it is not materially different from the Company's historical results.

In September 1996, the Company acquired a recreational vehicle dealership for $1.9 million cash, which approximated the fair value of the acquired assets. The acquisition, which has been accounted for as a purchase, was immaterial to the Company's consolidated financial statements.

10. ACCOUNTING CHANGE.

Effective January 1, 1996, the Company changed its method of accounting for its investments in life insurance contracts which were purchased to fund liabilities under deferred compensation agreements with executives and other key employees. Prior to January 1, 1996, the Company accounted for its investments in life insurance contracts by capitalizing premiums under the ratable charge method (a method of accounting which was acceptable when the insurance contracts were originally acquired and continued to be acceptable for contracts acquired prior to November 14, 1985). Effective January 1, 1996, the Company changed to the cash surrender value method of accounting which is the preferred method under generally accepted accounting principles, as this method more accurately reflects the economic value of the contracts. On January 1, 1996, the Company recorded a $2.3 million noncash credit for the cumulative effect of this accounting change ($.15 per share for both basic and diluted earnings per share for the year ended December 31, 1996)

11: COMMITMENTS AND CONTINGENCIES.

Lease Commitments

The Company leases various manufacturing and office facilities under noncancelable agreements which expire at various dates through November 2006. Several of the leases contain renewal options and options to purchase and require the payment of property taxes, normal maintenance and insurance on the properties. Certain office and delivery equipment are also leased under

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various noncancelable agreements. The above described leases are accounted for as operating leases.

Future minimum annual lease commitments at December 31, 1998 aggregated $1,088,000 and are payable as follows: 1999 - $426,000; 2000 - $317,000; 2001 - $128,000; 2002 - $78,000; 2003 - $55,000 and thereafter - $84,000. Total rental expense for the years ended December 31, 1998, 1997 and 1996 aggregated $1,149,000, $1,472,000 and $1,754,000, respectively.

Obligation to Purchase Consigned Inventories

The Company obtains vehicle chassis for its recreational and specialized vehicle products directly from automobile manufacturers under converter pool agreements. The agreements generally provide that the manufacturer will provide a supply of chassis at the Company's various production facilities under the terms and conditions as set forth in the agreement. Chassis are accounted for as consigned inventory until either assigned to a unit in the production process or 90 days have passed. At the earlier of these dates, the Company is obligated to purchase the chassis and it is recorded as inventory. At December 31, 1998 and 1997, chassis inventory, accounted for as consigned inventory, approximated $9.5 million and $12.6 million, respectively.

Repurchase Agreements

The Company is contingently liable to banks and other financial institutions on repurchase agreements in connection with financing provided by such institutions to most of the Company's independent dealers in connection with their purchase of the Company's recreational vehicle products. These agreements provide for the Company to repurchase its products from the financial institution in the event that they have repossessed them upon a dealer's default. Although the estimated contingent liability approximates $250 million at December 31,1998 ($190 million at December 31, 1997), the risk of loss resulting from these agreements is spread over the Company's numerous dealers and is further reduced by the resale value of the products repurchased. There have been no significant losses under these agreements in prior years.

Share Repurchase Programs

On May 1, 1997 the Board of Directors authorized the repurchase of up to one million shares of the Company's outstanding common stock and on October 19, 1998 the Board of Directors authorized the repurchase of an additional one million shares. Shares may be purchased from time to time, depending on market conditions and other factors, on the open market or through privately negotiated transactions. As of December 31, 1998, the Company has acquired 922,828 shares under the share repurchase programs.

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11: COMMITMENTS AND CONTINGENCIES, Concluded.

Self-Insurance

The Company is self-insured for a portion of its product liability and certain other liability exposures. Depending on the nature of the claim and the date of occurrence, the Company's maximum exposure ranges from $250,000 to $500,000 per claim. The Company accrues an estimated liability based on various factors, including sales levels and the amount of outstanding claims. Management believes the liability recorded is adequate to cover the Company's self-insured risk.

Litigation

The Company is involved in various legal proceedings which are ordinary routine litigations incidental to the industry and which are covered in whole or in part by insurance. Management believes that any liability which may result from these proceedings will not be significant.

12: UNAUDITED INTERIM FINANCIAL INFORMATION.

Certain selected unaudited quarterly financial information for the years ended December 31, 1998 and 1997 is as follows:

	1998 Quarter Ended			
	March 31	June 30	September 30	December 31
Net sales	$175,637,459	$201,069,322	$202,593,063	$176,729,682
Gross profit	23,376,389	30,194,890	31,015,143	25,324,396
Net income	6,299,415	9,323,024	10,186,544	7,253,625
Net income per common share:				
Basic	.36	.54	.59	.44
Diluted	.36	.53	.59	.43

	1997 Quarter Ended			
	March 31	June 30	September 30	December 31
Net sales	$158,105,811	$169,368,233	$174,885,358	$159,231,783
Gross profit	20,335,371	23,239,398	26,423,429	22,756,815
Net income	4,419,034	6,429,629	7,593,252	6,320,709
Net income per common share:				
Basic	.26	.37	.44	.37
Diluted	.25	.37	.44	.36

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The sum of quarterly diluted earnings per share for the four quarters may not equal annual diluted earnings per share due to changes in the diluted potential common shares.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

Description	Balance At Beginning Of Period	Charged To Costs And Expenses	Deductions- Describe		Balance At End Of Period
Allowance for doubtful receivables - deducted from trade receivables in the consolidated balance sheets:					
For the year ended December 31, 1998	$1,354,000	$ (175,000)	$ (411,000)	(A)	$ 768,000
For the year ended December 31, 1997	$ 919,000	$1,617,000	$(1,182,000)	(A)	$1,354.000
For the year ended December 31, 1996	$ 844,000	$ 158,000	$ (83,000)	(A)	$ 919,000

(A) Write-off of bad debts, less recoveries.

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

Not Applicable

Part III.

Item 10. Directors and Executive Officers of the Registrant

(a) Identification of Directors

Information for Item 10(a) is contained on page 3 of the Company's Proxy Statement dated March 22, 1999 and is incorporated herein by reference.

(b) Executive Officers of the Company

See "Executive Officers of the Registrant" on page 7.

Item 11. Executive Compensation

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Information for Item 11 is contained under the heading "Compensation of Executive Officers and Directors" in the Company's Proxy Statement dated March 22, 1999 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information for Item 12 is contained on pages 2 and 3 of the Company's Proxy Statement dated March 22, 1999 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Not Applicable

Part IV.

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

(a) The following financial statements and financial statement schedule are included in Item 8 herein.

1. Financial Statements

   Report of Independent Accountants
   Consolidated Balance Sheets at December 31, 1998 and 1997
   Consolidated Statements of Income and Retained Earnings 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

2. Financial Statement Schedules

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

3. Exhibits

   See Index to Exhibits

(b) Reports on Form 8-K

No reports on Form 8-K were required to be filed during the last quarter of the period covered by this report.

SIGNATURES

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

COACHMEN INDUSTRIES, INC.

Date: March 26, 1999

/s/ C. C. Skinner

C. C. Skinner
(Chief Executive Officer)

/s/ W. M. Angelo

W. M. Angelo
(Vice President and Chief Accounting Officer)

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 as of March 26, 1999.

/s/ C. C. Skinner	s/s K. D. Corson
C. C. Skinner (Director)	K. D. Corson (Director)
/s/ T. H. Corson	/s/ W. P. Johnson
T. H. Corson (Director)	w. P. Johnson (Director)
/s/ R. J. Harring	/s/ E. W. Miller
R. J. Harring (Director)	E. W. Miller (Director)
/s/ P. G. Lux	/s/ R. J. Deputy
P. G. Lux (Director)	R. J. Deputy (Director)

INDEX TO EXHIBITS

Number Assigned In Regulation S-K, Item 601	Description of Exhibit
(3)	No exhibit

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(4)	No exhibit
(9)	No exhibit
(10)	No exhibit
(12)	No exhibit
(13)	No exhibit
(16)	No exhibit
(18)	No exhibit
(21)	Registrant and Subsidiaries of the Registrant
(22)	No exhibit
(23)	Consent of Independent Accountants
(24)	No exhibit
(27)	Financial Data Schedule (EDGAR filing only)
(99)	No exhibit

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Exhibit 21

Registrant and Subsidiaries of the Registrant

	State of Incorporation	Percent of Voting Securities Owned By the Registrant
Coachmen Industries, Inc. (Registrant)	Indiana	
The Lux Co., Inc.	Indiana	100%
Michiana Easy Livin' Country, Inc.	Indiana	100%
All American Homes, Inc.	Indiana	100%
Clarion Motors Corporation	Indiana	100%
Coachmen Foreign Sales Corporation	U.S. Virgin Islands	100%
Viking Recreational Vehicles, Inc.	Michigan	100%
Northwoods RV Country, Inc.	Michigan	100%
Georgie Boy Mfg., Inc.	Indiana	100%
Coachmen Industries of Texas, Inc.	Texas	100%
Coachmen Industries of Oregon, Inc.	Oregon	100%
Coachmen Industries of California, Inc.	California	100%
Freeway Easy Livin' Country, Inc.	California	100%
Gulf Coast Easy Livin' Country, Inc.	Florida	100%
VFP Composites, Inc.	Florida	100%
Rover, Inc.	Ohio	100%
All American Homes of Iowa, Inc.	Iowa	100%
Southern Ambulance Builders, Inc.	Georgia	100%
Colfax Country RV, Inc.	North Carolina	100%
All American Homes of North Carolina, Inc.	North Carolina	100%
All American Homes of Tennessee, Inc.	Tennessee	100%
All American Homes of Ohio, Inc.	Ohio	100%

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Exhibit 23

(Letterhead of PricewaterhouseCoopers LLP)

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Coachmen Industries, Inc. on Form S-8 (File No. 33-59251, No. 2-45373, No. 2-47923, No. 2-56027 and No. 2-64572) and in the related Prospectus of our report dated January 29, 1999, on our audits of the consolidated financial statements and financial statement schedule of Coachmen Industries, Inc. and subsidiaries at December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, which report is included in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

South Bend, Indiana
March 23, 1999

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This schedule contains summary financial information extracted from the consolidated statement of income and consolidated balance sheet and is qualified in its entirety by reference to such financial statements.
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