

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**  
SEC Accession No. **0000908834-96-000337**

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FILER

**STARCRAFT CORP /IN/**

CIK: **906473** | IRS No.: **351817634** | State of Incorporation: **IN** | Fiscal Year End: **1003**  
Type: **10-K** | Act: **34** | File No.: **000-22048** | Film No.: **96688028**  
SIC: **3716** Motor homes

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20547

FORM 10-K

(Mark One)

X Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 29, 1996

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: 0-22048

STARCRAFT CORPORATION  
(Exact name of Registrant as specified in its charter)

Indiana	35-1817634
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

P.O. Box 1903, 2703 College Avenue, Goshen, Indiana	46526
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number including area code: (219) 533-1105

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

None

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

Common Stock, without par value  
(Title of Class)

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. YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the issuer's voting stock held by non-affiliates, as of December 27, 1996, was \$14,415,100.

The number of shares of the Registrant's Common Stock, without par value, outstanding as of December 27, 1996, was 4,118,600 shares.

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PART I

Item 1. BUSINESS.

Overview

The Company is a leading second-stage manufacturer of custom van, sport utility vehicle ("SUV") and pickup truck conversions. Starcraft has historically specialized in upscale custom vehicles. With the addition of the Imperial Group ("Imperial") in 1994, the Company offers a full range of conversion vehicles at every consumer price point. The Company believes it is one of the five largest van conversion manufacturers in the U.S. The Company sells its products to an extensive network of approximately 1,000 authorized automotive dealers throughout the continental U.S. and overseas. The Company believes the Starcraft name has a long-standing reputation in the vehicle conversion industry for high quality.

Starcraft traces its history to 1903 when Star Tank Company was founded in Goshen, Indiana as a maker of metal farm equipment. Over the course of the century the Company's predecessor became a leading manufacturer of aluminum boats and recreational vehicles and, in the late 1970's, led the automotive conversion industry by producing luxury van conversions for middle and upper income consumers. In 1987, the predecessor's management completed a leveraged buyout and, in 1988, sold the boat manufacturing business. The resulting entity was highly leveraged and eventually sought protection from creditors in a bankruptcy reorganization proceeding in late 1990. On January 18, 1991, the Company purchased the assets of the automotive and recreational vehicle divisions (except for Canadian operations) from Starcraft Van Conversions Corporation and its affiliates, as debtors-in-possession (the "Predecessor"), with bankruptcy court approval. The Company simultaneously sold the RV division to a third party. In July 1994, the Company's wholly owned subsidiary, Imperial Automotive Group, Inc. acquired substantially all of the assets of Imperial Industries, Inc. In December 1995, the Company expanded its manufacturing capabilities with a new plant in McGregor, Texas, operated by Starcraft Southwest, Inc., a wholly owned subsidiary.

The Company was incorporated in Indiana in 1990 to acquire the assets of the Predecessor. Its executive offices are located at 2703 College Avenue, Goshen, Indiana, 46526; telephone (219)533-1105. The Company has three wholly-owned operating subsidiaries: Starcraft Automotive Group, Inc.; Imperial Automotive Group, Inc. and Starcraft Southwest, Inc.

Starcraft's principal manufacturing facilities are in Goshen, Indiana,

and, as of December 1995, McGregor, Texas, and it produces upholstery components at a facility in Emma, Indiana. The Company consolidated its Elkhart facility into its Goshen facility in December 1996. See "Item 2. Properties."

#### Industry Information

The custom conversion industry developed during the early 1970's. Starcraft's Predecessor was a leader in transforming the industry from one

oriented toward younger recreational users to one oriented toward more mature automotive customers. The Company believes retail prices of custom vans in the United States for the 1996 model year generally ranged from \$20,000 to \$40,000. Retail mark-ups vary widely among dealers and are not within the Company's control.

According to the Recreational Vehicle Industry Association ("RVIA"), the average domestic wholesale price to dealers of a van conversion, pickup truck conversion and SUV conversion (including chassis) during the first nine calendar months of 1996 were \$24,000, \$20,200 and \$29,000, respectively. Because the Company emphasizes high-end, luxury vehicles, Starcraft's average domestic wholesale price to dealers during fiscal 1996, was \$25,700, assuming an average cost of chassis to dealers of \$18,000. Imperial's and Lonestar's average wholesale price to dealers during fiscal 1996 were \$21,000 and \$22,000, respectively assuming an average cost of chassis to dealers of \$17,500.

According to RVIA statistics, approximately 151,000 custom vans were sold by United States conversion manufacturers during calendar 1995 compared to 182,000, 192,000, and 179,000 units in 1994, 1993 and 1992, respectively. RVIA reported sales of 119,000 units through September 1996 and estimates sales of custom vans for calendar 1996 will total 144,000, a 5% decrease from prior year levels. In 1995, RVIA began tracking pickup truck and SUV conversions. For the nine months ended September 1996, 58,400 of such vehicles were sold by the conversion industry compared to 54,500 in 1995.

RVIA statistics are based on reports of its member manufacturers and its estimates with respect to non-member manufacturers. The Company believes RVIA members produce 80%-85% of conversions produced in the United States.

The conversion industry is cyclical and is affected by the general trends of the economy and consumer preferences and consumer confidence and trends of the automotive and recreational vehicle industries. The level of disposable consumer income affects the Company's sales because its products are generally considered discretionary expenditures by consumers. In difficult economic times, consumers tend to spend less of their income on discretionary items. Other economic factors affecting the demand for the Company's products include the availability and price of gasoline, the level of interest rates and the availability of consumer financing. Reduced gasoline availability could adversely affect the demand for the Company's products. A significant increase in the price of gasoline could reduce demand for the Company's products because it would increase the cost of operating these products. Because many consumers finance their purchase of vehicle conversions, the availability of financing and level of interest rates can affect a consumer's purchasing decision. A decline in general economic conditions or consumer confidence can be expected to affect Starcraft's sales adversely. The Company is dependent upon the OEMs to supply its requirements for vehicle chassis. Labor stoppages, supply shortages and a variety of other factors that influence OEM production can affect the availability or timely delivery of vehicle chassis to the Company. In 1996 the Company's sales were adversely impacted by the availability of certain OEM chassis.

#### Company Products

The Company converts fullsize vans manufactured by each of the major original equipment manufacturers ("OEMs"): GMC Truck, Chevrolet, Dodge and Ford. The Company manufactures minivan conversions on the GMC Safari, the Chevrolet Astro and the Dodge Caravan. Starcraft also customizes Chevrolet and GMC SUV's, along with several pickup truck models for GMC, Chevrolet, Ford and Dodge. The Company currently offers several fullsize van and minivan models. Each vehicle model contains a principal set of conversion features and a variety of optional accessories designed by the Company in each model year to meet prevailing customer preferences. Starcraft van models fall principally into three price ranges (conversion cost to dealer): from \$4,000-\$6,000, \$6,000-\$9,000, and \$9,000 and above. Imperial and Lonestar models fall into the following price ranges: \$2,000-3,000, \$3,000-4,000, over \$4,000. These price ranges provide marketing flexibility allowing for different demographics and varying dealer

marketing objectives. Certain SUV and pickup truck conversion packages may be priced below these ranges.

Operating Data

The following sets forth information respecting the Company's gross sales by product type (including Imperial after July 5, 1994 and Lonestar after December 1, 1995) for the fiscal periods indicated.

GROSS SALES BY PRODUCT(1)

<TABLE>  
<CAPTION>

	September 29, 1996 (52 weeks)				Period Ended October 1, 1995 (52 weeks)				October 2, 1994 (52 weeks)			
	Units	Average Price/Unit	Gross Sales	% of Sales	Units	Average Price/Unit	Gross Sales	% of Sales	Units	Average Price/Unit	Gross Sales	% of Sales
----- (Sales in Thousands) -----												
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Fullsize vans	8,085	\$6,600	\$53,300	50.1%	9,041	\$7,500	\$67,600	54.8%	7,888	\$7,800	\$61,800	63.3%
Minivans	4,676	8,200	38,300	36.0	4,894	8,300	40,700	33.0	3,045	7,600	23,200	23.7
Trucks and SUVs	3,345	3,200	10,700	10.0	3,009	3,400	10,300	8.4	2,078	4,300	9,000	9.2
Parts	N/A	N/A	4,200	3.9	N/A	N/A	4,700	3.8	N/A	N/A	3,700	3.8
Total	16,106		\$106,500	100.0%	16,944		\$123,300	100.0%	13,011		\$97,700	100.0%
----- =====												

</TABLE>

(1) Gross dollar sales represent the price to dealers of the conversion before discounts and exclude the cost of the chassis.

Company Strategy

The Company believes it can continue to grow by expanding its domestic van conversion business, increasing its sales of pickup truck and SUV conversions and further developing international sales opportunities.

Domestic Van Sales. The Company will continue to focus on core van conversion products and, through aggressive marketing and promotion, will seek to expand U.S. sales of custom vans. While Starcraft product lines will continue to emphasize upscale custom van conversions, Imperial will continue a complementary emphasis on mid- and low-price point conversion packages. The Company will continue to seek to further differentiate its Starcraft lines from its competition by emphasizing total value versus unit price. With the Imperial acquisition, the Company is in position to participate in the rapidly growing price-sensitive segment of its van conversion market. By offering both the Starcraft and Imperial product lines, the Company is able to offer dealers a full price range of conversion vehicles from a single manufacturer. The establishment of the Lonestar facility offers the opportunity for strategic development in the Southwest, particularly Texas. The Company believes this operation creates a competitive price advantage by reducing freight costs.

The Company will continue to focus on innovative product development to enhance customer appeal and vehicle quality and safety. The Company will continue to seek to differentiate itself from its competition by virtue of the resources it devotes to training dealer personnel in selling, product knowledge, service and compliance. Starcraft utilizes a specially equipped service van, videos, manuals, other visual aids, and classroom instruction at its main facility and at dealer locations throughout the country. The Company maintains a strong customer service area which includes warranty claims and approval, parts ordering and processing and customer information. The Company maintains records of Starcraft units sold as far back as 1978 and Imperial maintains records back to 1991, which was the inception of the predecessor company, Imperial Industries, Inc. Starcraft is expanding its use of regional service clinics, regional and dealer-specific sales seminars and dealer plant visits.

Domestic Truck and SUV Conversions. Although the Company's conversions of General Motors' Suburban, other SUV and pickup trucks have proven to be a popular line of products, limited chassis availability has inhibited the Company's sales of these products. The Company intends to expand its sales of non-van custom vehicles, especially luxury custom pickup trucks, and has

designed conversion packages especially for these vehicles. In 1996, the Company added the GMC Jimmy, Chrysler Jeep and a variety of pickup truck lines. The general market in the U.S. for pickup trucks and SUVs has been strong in the last three model years. The Company expects this strong market to continue and is working with the OEMs to help assure the availability of chassis in sufficient quantity to meet its expanding requirements. In particular, the Company is exploring opportunities to develop and produce special SUV upfit packages for General Motors and the other OEMs. See "Chassis and Other Suppliers." Starcraft Southwest will address the increasing market demand for SUVs, pickup trucks and Suburbans in the southwest with increased chassis allocation of such vehicles.

International Vehicle Sales. The Company intends to further promote Starcraft vehicles overseas, especially in Central/Northern Europe and Japan. The Company has an European parts center owned and operated by a

German corporation affiliated with Starcraft's Norwegian dealer to improve its service to German customers. The Company maintains a distribution agreement with General Motors and Mitsui & Co. (U.S.A.), Inc. which the Company believes makes Mitsui the sole distributor of General Motors vans in Japan. Under this agreement Mitsui agreed to use its best efforts to promote Starcraft vans in Japan and Starcraft agreed to sell van conversions in Japan solely through Mitsui.

#### Chassis and Other Suppliers

Historically, most of the Company's van conversions have been General Motors products. In 1991, approximately 92% of its unit sales were represented by General Motors. Approximately one-half of the Company's General Motors units are received from each of the Chevrolet Motors and GMC Truck divisions. Between calendar years 1991 and 1995, Ford and Chrysler products collectively increased from 8% to 26% of domestic unit sales and were 33% of domestic unit sales in 1996. The increase in the proportion of the Company's sales represented by Ford and Chrysler products was due primarily to dealers reducing General Motors fullsize vans as well as aggressive promotional activities carried on by Ford and Chrysler.

The OEMs supply incomplete chassis to Starcraft or other manufacturers or dealers for restricted use. The Company obtains substantially all of its chassis acquired for domestic sale from the OEMs pursuant to consignment or restricted sale contracts. Under these contracts each OEM maintains strict control over the disposition of chassis delivered to the Company for modification and the Company is prohibited from delivering a converted chassis provided by the OEM to any person except an authorized dealer for that OEM. All of the Company's consignment and restricted sale contracts with chassis suppliers are terminable by either party on short notice without cause.

Under restricted sale contracts with the OEMs, the OEM retains the certificate of origin and the Company has no right to obtain it or any other evidence of title. These contracts state that vehicle title technically passes to the Company upon acceptance of a chassis and the Company pays state property taxes on chassis, but the Company can only sell the chassis back to the OEM for resale to an authorized dealer. Except for demonstration vehicles, the Company is prohibited from making modifications to chassis under these contracts until it matches them with a dealer order. The Company has obtained waivers of this limitation to permit accumulation of GMC or Chevrolet inventory in connection with model year changes or other periods of anticipated increasing demand. Prior to matching a chassis to a dealer order, the Company finances the chassis through the OEM's financing affiliates at nominal rates. Once the Company notifies the OEM that it has matched a chassis with a dealer, the OEM "repurchases" the chassis, crediting the Company's account with the OEM's financing affiliate and invoicing its dealer (the Company's customer) for the price of the chassis. Upon receiving the converted vehicle, the dealer is obligated to

pay the Company for the improvements the Company has made. If the Company fails to match a chassis with a dealer order within 90 days, the finance charge the Company must pay increases. The past 90-day finance charge is currently the prime rate plus 1%.

Historically, Starcraft's international conversion sales have been chassis originally manufactured by General Motors. Generally, the foreign purchaser is an authorized dealer for General Motors and Starcraft. The dealer submits an order to General Motors' overseas sales affiliate (the "GM Export Affiliate") for the chassis together with specifications for a Starcraft

conversion. The GM Export Affiliate purchases the chassis from General Motors and forwards it to Starcraft for second stage manufacturing. Starcraft invoices the GM Export Affiliate for the completed conversion, and the GM Export Affiliate arranges for shipment of the unit, at the GM Export Affiliate's expense, from Starcraft to the foreign dealer.

Starting in 1997, General Motors has changed its chassis system for the Company's sales to Europe. The Company will be the "Manufacturer of Record" for units imported into Europe and will be required to arrange and be responsible for all U.S. export and shipping requirements. The Company will continue to sell only to authorized General Motors dealers. The Company does not believe this new system will have a significant impact on its European sales.

A variety of factors govern chassis ordering and availability. Chassis are ordered from the OEM based on the Company's annual sales plan. The plan is broken down by OEM and vehicle model. Vehicle specifications are determined on the basis of historical trend analysis and analysis of the backlog of orders. The Company's chassis order forecast is shared with each OEM to determine chassis availability. The OEMs confirm chassis availability and timing on an annual basis. After confirmation by the OEM, the Company orders a 90-day supply prioritized through a central computerized system. On a weekly basis, the Company releases the actual orders it requires and the OEMs schedule delivery dates for the orders. Chassis allocation to the Company from the OEMs is based on credit lines, prior usage and wholesale and retail sales rates.

The following table sets forth for the periods indicated the number of chassis received by the Company and the dollar value thereof, and, as of the end of such periods, the number of chassis held over 90 days and the dollar value in thousands thereof.

<TABLE>  
<CAPTION>

	Period Ended		
	September 29, 1996 (52 weeks)	October 1, 1995 (52 weeks)	October 2, 1994 (52 weeks)
	(Dollars in thousands)		
<S>	<C>	<C>	<C>
Chassis Received	17,179	17,419	13,647
Value of Chassis Received(1)	\$305,300	\$309,800	\$223,800
Chassis over 90 days (at period end)	262	491	155
Value of Chassis held over 90 days(1)	\$ 4,615	\$ 8,712	\$ 2,713

</TABLE>

The conversion process begins after a chassis is inspected and accepted and the Company has received a confirmed order from an authorized dealer that is compatible with the chassis. Generally, the order is scheduled for production typically four to five days before work on the vehicle commences to allow for completion of components to be installed in the chassis. The Company completes the conversion process in an average of seven to eight days from the date that the vehicle is first scheduled for production.

The Company is dependent upon the OEMs to supply its requirements for vehicle chassis. Labor stoppages, supply shortages and a variety of other factors that influence OEM production can affect the availability or timely delivery of vehicle chassis to the Company. The impact of these factors was significant in 1996. If vehicle chassis are unavailable, or if the Company must accept delivery earlier or later than it otherwise would prefer, sales could be adversely affected and financing expenses could increase. The Company must also comply with its consignment and restricted sale contracts with the OEMs pursuant to which the OEMs impose certain specifications for the Company's vehicle conversions, including gross vehicle weight standards. Such contracts also restrict the Company's ability to dispose of completed chassis and prohibit the transfer of chassis to unauthorized U.S. and foreign dealers. All of the Company's consignment and restricted sale contracts with chassis suppliers are terminable by either party on short notice without cause. The availability of the OEM financing rates is dependent upon the Company's compliance with its OEM contracts and its ability to maintain satisfactory credit relationships with the OEM's finance subsidiaries. Adverse changes in the Company's financial condition or results of operations could cause such financing subsidiaries to seek to adversely change the Company's financing terms or to terminate such financing arrangements. Such a change or termination could have a material adverse effect on the Company's financial condition and results of operations.

General Motors introduced a newly redesigned fullsize van in early calendar 1996. The Company believes dealers reduced their inventory levels in 1995 in anticipation of the new chassis thereby negatively impacting the Company's sales to dealers. In addition, the Company believes the

availability of the newly redesigned General Motors fullsize van restricted and negatively impacted the Company's 1996 sales. At the end of 1996, the availability of this chassis to the Company was adequate.

Vehicle converters can be penalized by the OEM for manufacturing overweight vehicles and the National Highway Traffic Safety Administration ("NHTSA") could require overweight vehicles to be recalled. See "Safety and Regulation." Such standards are imposed by the OEMs in part to help assure that vehicle weight does not exceed the capacity of the OEM's braking system.

The export of completed vehicles to unauthorized foreign dealers has been a significant issue in the conversion industry in recent years, especially for General Motors. In the past, some automotive dealers have sold vehicles to brokers who, in turn, have sold them to unauthorized dealers overseas. General Motors' financing subsidiary has indicated an intention to penalize or terminate financing arrangements with any firm deemed responsible for unauthorized exports. The Company makes an effort to assure itself that none of its vehicles are exported in an unauthorized manner including obtaining written assurances from certain dealers. General Motors has significantly increased its efforts to curtail such activity. The Company has no control over the eventual disposition of its vehicles by dealers, however, so it cannot eliminate the possibility of unauthorized export. These efforts nevertheless should help assure that the Company will not be deemed responsible for any unauthorized export.

Supplies for the components and materials the Company utilizes in its vehicle conversions are generally available from several sources. From time to time the Company experiences delays in delivery of certain components or materials from suppliers, but such delays have not historically had any material effect on the Company's production.

#### Manufacturing

The incomplete van chassis Starcraft receives directly from the OEMs have no seats or floor covering or other interior components. Starcraft modifies the exterior and interior of the chassis body to provide passenger comfort and enhance safety. SUVs and pickup trucks received have full interior OEM components. The Company modifies these components and performs certain exterior enhancements.

Vehicle Modification and Assembly. After a chassis is inspected and accepted, the Company begins the conversion process by modifying the chassis exterior, installing tinted vista bay windows, raised roof, decorative decals and ground effects. Star-structure steel bracing is installed for added structural support, followed by rust proofing, wiring, insulation and vibration dampening materials.

After exterior seals are tested for leaks, the vehicle is lined with fabric and wood-accented sidewalls and headliners. The Company's associates assemble the complete vehicle interior in multiple production lines using the Company's own manufactured components and parts supplied by

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others. The Company's distinctive hardwood features, contoured seats, carpeting, curtains and other amenities are installed in each vehicle, along with the customer's selection from over 100 optional accessories, including a wide variety of electronic components such as rear heating and air-conditioning, television, video cassette player and other audio equipment.

Vehicle Components. The Company manufactures its own woodwork, upholstery and wiring harnesses, among other components. Starcraft's distinctive hardwood interior appointments are manufactured at the Goshen facility in its 45,000 square-foot woodshop. The Company planes, joins, shapes, sands and finishes rough-cut teak and walnut lumber in a process that combines automation and hand craftsmanship. A wood-burning laser is utilized which can transfer any image directly onto wood components for added customization.

Vehicle seating and upholstery are primarily manufactured at the Company's Emma, Indiana, facility, located 15 miles from its Goshen, Indiana plant and 25 miles from the Imperial Elkhart facility, although interior sidewall and headliner coverings are tailored at the Goshen and Elkhart facilities. Company associates cut and sew interior wall coverings, headliners, curtains and seat upholstery from leather, cloth and vinyl materials. The seat padding and upholstery are then assembled on pre-fabricated frames. Some of Starcraft's wire harnesses are manufactured at the Goshen plant. The Company

also paints and finishes all of its custom fiberglass and polymer vehicle body components, such as raised roofs, running boards and other ground effects which are manufactured to the Company's design specifications by others. The Company maintains an enclosed painting system to provide fiberglass and polymer components with high quality base coat and clear coat finishes. This water-filtered, down draft system is similar to those of the major automotive manufacturers and is designed to control environmentally harmful emissions.

By manufacturing many of its own components, the Company is able to exercise significant control over the quality and supply of components built into its custom vehicles and to accommodate a wide range of customization demands. The Company is also able to provide consumers with ongoing service and repair capabilities by maintaining a record of, and access to supplies of, paint, upholstery and other materials used to modify each vehicle.

Imperial does not manufacture many of its internal components and is primarily an assembler. To compete in the price-sensitive market segment Imperial's strategy has been to purchase components from suppliers to reduce its fixed costs. Imperial purchases some seating and interior shades from Starcraft.

Lonestar purchases substantially all of its components.

Production Associates. The Company periodically employs associate training that may include classroom instruction, job certification and technical and personal skills training. The principal objective of the

training is to develop associates into more effective members of a team dedicated to continuous improvement in all facets of the Company's business. Starcraft production line associates are compensated on an hourly basis with additional incentive tied to quality and productivity. Imperial's and Lonestar's employees are divided into departments whose compensation include incentives based primarily on productivity.

The Goshen facility produced 45 custom vehicles per eight-hour shift during peak production periods in 1996 and (prior to the reorganization described below) has capacity to produce up to 70 units in one shift. The 110,000-square-foot Imperial facilities in Elkhart, Indiana produced approximately 35 vehicles per shift during peak periods in 1996 and have capacity to produce up to 50 units per shift. The new McGregor, Texas facility has a capacity of 30 units per shift and produced 15 units per shift during peak times in 1996.

In October 1996 the Company finalized its plan to consolidate the operations of Imperial into Starcraft's manufacturing complex in Goshen, Indiana. The Goshen facility has been reorganized to allow a production capacity of Starcraft and Imperial units of 95 units per day on one shift. The plan is designed to further enhance profitable growth by reducing excess production capacity, personnel count and fixed overhead expenses. The Company estimates that a \$700,000 pretax restructuring charge in connection with this plant consolidation will be recorded in the first quarter of fiscal year 1997. The charge includes employee termination costs, leasehold asset write-offs and the recognition of contractual lease obligations.

#### Sales and Marketing

Domestic. The Company sells its custom vehicles to approximately 1,000 automobile dealers throughout the continental U.S. and overseas. Custom vehicles are sold through a network of regional exclusive sales representatives and associate representatives. Each of its U.S. dealers is an authorized dealer for General Motors, Ford or Chrysler and most sell and service a full complement of cars, SUVs and vans. Starcraft's top 50 dealers accounted for approximately 59%, 51% and 45% of unit sales in fiscal 1996, 1995 and 1994, respectively. Imperial's top 50 dealers accounted for approximately 67% of unit sales in fiscal 1996 compared to 71% in fiscal 1995. During the past two years, the geographic areas of the U.S. where the Company's sales have been strongest include (i) the Great Lakes region (i.e., Illinois, Indiana, Michigan, New York, Ohio, Pennsylvania, and Wisconsin), (ii) Oklahoma and Texas and (iii) Northern California.

The Company's direct sales efforts to dealers are supplemented by a variety of advertising and promotional programs including shows and promotions designed to appeal to the retail market, media advertising, dealer incentive programs and participation in various automobile shows. The Company is also refining a targeting approach to better utilize advertising expenditures by expanding its team selling efforts and developing new marketing materials, including videos.

International. Starcraft's Predecessor, in conjunction with General Motors dealers overseas, began selling custom vans overseas in 1987. Starcraft now exports converted vehicles to 17 countries around the world and employs a senior vice president who is exclusively responsible for the development of international sales. International sales fluctuate from country to country and over time depending on import taxes and tariffs and fluctuations in currency exchange rates as well as local economic conditions. Starcraft's primary overseas markets are Japan, Korea and northern Europe. The Company exported 2,543, 2,195 and 1,329 conversions in fiscal 1996, 1995 and 1994, respectively.

The Company intends to further promote Starcraft and Imperial vehicles overseas. The Company maintains a European parts center owned and operated by a German corporation affiliated with Starcraft's Norwegian dealer to improve its service to German customers. The Company maintains a distribution agreement with General Motors and Mitsui by which the Company believes makes Mitsui the sole distributor of General Motors vans in Japan. This agreement will continue from year-to-year unless terminated on three months notice prior to the end of any such year.

Imperial and Lonestar currently have minimal export sales.

#### Research and Development

The Company continues to devote efforts and resources in the area of research and development to improve the appeal and safety of its products. Starcraft believes it has a strong record of innovative product development to enhance customer appeal and vehicle quality. For example, it introduced the "Star-Effects" package in September 1992. Star-Effects employs an impact-resistant polymer to produce van ground effects (running boards and adjacent areas) with more appealing streamlined styling.

The Company has a patent on a system called the Integrated Belting System ("IBS"). Upon a rear-end collision in excess of 20 m.p.h., passenger seats in many vehicles can collapse backward, increasing the risk of injury to vehicle occupants. IBS is designed to reduce significantly the risk of seat back collapse by restraining the seat back. A new seat belt integrated with the conventional seat belt system is anchored to the vehicle roof or wall and traverses the seat back. In the event of collision, the seat back is secured in place.

IBS has been successfully tested by an independent testing firm. The Company believes that only one other automotive manufacturer currently offers seats with a safety feature designed to prevent collapse on rear impact. Eventually, the Company intends to license the use of IBS by other manufacturers. There is no assurance, however, as to the extent IBS will be employed by other manufacturers.

To meet new NHTSA standards, the Company developed its "Star-structure" steel bracing system. "Star-structure" is installed throughout a van's roof and sidewalls and is designed to absorb impact in the event of a collision. The extent of potential impact absorption varies between OEM chassis. See "Patents and Trademarks" and "Safety and Regulation."

The Company has product research and development teams devoted to design and safety improvements. During fiscal 1996, 1995 and 1994, the Company spent approximately \$893,000, \$726,000 and \$792,000, respectively, on product research and development.

#### Competition

The United States vehicle conversion market is very competitive with five principal national manufacturers and numerous local and regional manufacturers, many of which are relatively small companies serving local dealers. The Company believes it is one of the five largest van conversion companies in the United States. The others are Glaval Inc., Mark III Industries, Inc., Tiara Motor Coach and Explorer Van Company. The Company's Starcraft lines generally feature high-end, luxury custom vehicles competing most directly with Explorer and Tiara. The Imperial product lines compete more directly in the price-sensitive segment of the van conversion market. According to the OEMs, the number of authorized converters declined 8% in 1996. The Company believes the number of competitors will continue to decline as increased quality, financial and engineering standards are imposed by the OEMs.

In international markets, the Company competes with numerous foreign manufacturers that produce vehicles comparable to converted vans, although custom vans such as the Company's tend not to be widely produced within its foreign markets.

The Company's Starcraft lines will continue to be focused on luxury vehicle modifications and will seek to increase its market share of high-end van

conversions for which Starcraft vehicles have an established reputation. Starcraft will also continue to be sensitive to changes in consumer preferences. The Imperial product lines enable the Company to participate more fully in the rapidly growing price-sensitive segment of the conversion market and offer its dealers a full price range of conversion vehicles from one manufacturer. The Company believes competitive factors in its industry include price, quality and variety of product line, service and warranty, dealer network and safety. The Company maintains a leading position in the conversion industry through high quality workmanship, innovation, versatility in meeting customization requirements and the diversity of its product line.

#### Backlog and Seasonality

At September 29, 1996, the Company had a backlog of 1,067 unit orders compared with a backlog of 1,016 unit orders at October 1, 1995. The Company considers such orders to be reasonably firm. All of the Company's

products are subject to certain seasonal sales influences and sales tend to be stronger during March through July. The Company uses off-season sales promotions to market its products with a view to reducing seasonal swings in sales.

#### Warranties

The Company provides a three-year, 36,000 mile limited warranty on its conversions. In 1997, the Starcraft products will offer a 5-year, 60,000 mile warranty. The OEMs provide their own standard warranties of the chassis and engine. At the time of sale of its products, the Company estimates the costs to be incurred for product warranties and establishes reserves for warranty claims. The Company believes that such reserves will adequately cover any such warranty claims. The Company provides complete owners' manuals to retail customers covering the conversion package as well as parts, warranty and service manuals for dealers. The Company keeps a record of the paint, upholstery and stylings included in each vehicle conversion so that, when necessary, it can re-create matching replacement parts.

#### Patents and Trademarks

IBS. In 1996, the Company received a U.S. patent on IBS, which is designed to reduce significantly the risk of seat back collapse in the event of a rear-end collision by restraining the seat back. A new seat belt integrated with the conventional seat belt system is anchored to the vehicle roof or wall and traverses the seat back. In the event of collision, the seat back is secured in place. See "Research and Development."

Trademarks. The Company's Predecessor manufactured boats, motor homes and other recreational vehicles under the name "Starcraft."(R) The boat manufacturing business was sold by the Predecessor to Brunswick Corporation in 1988. The Company initially acquired the recreational vehicle business in the Predecessor's 1991 reorganization proceeding, but immediately sold it to Jayco, Inc. The Predecessor's Canadian conversion business was acquired by a Canadian firm. Brunswick Corporation has independently registered and owns the "Starcraft" and related trademarks for use with boats and marine products and thus Starcraft has no control over the quality of boats produced and sold under the "Starcraft" mark. The Company retains ownership of "Starcraft" and related registered marks for use with automotive and recreational vehicle products. It licenses the owners of the Predecessor's RV business and Canadian van conversion business to use these trademarks. While it has some control over the quality of its licensees' products, it does not control all aspects of their businesses. The Canadian entity is required to pay a royalty to the Company and to purchase its components from the Company (or from others with the Company's approval). The Company does not export to Canada and its Canadian licensee does not export to the United States.

Because of these considerations, there is a risk that the distinctiveness of the "Starcraft" mark could become diluted or that its reputation for quality could be adversely affected if the quality of another manufacturer's products sold under the mark declines. The Company believes, however, that customers are sufficiently discerning when making a purchase as significant as a vehicle conversion that confusion between the Company and makers of other "Starcraft" products is unlikely. It also believes its licensees are currently in compliance with their obligations under their license agreements.

#### Safety and Regulation

The manufacture, distribution and sale of the Company's products are subject to governmental regulations in the United States at the federal, state

and local levels. The most extensive regulations are promulgated under the National Traffic and Motor Vehicle Safety Act which, among other things, empowers NHTSA to require a manufacturer to remedy vehicles containing "defects related to motor vehicle safety" or vehicles which fail to conform to all applicable federal motor vehicle safety standards.

Federal Motor Vehicle Safety Standards were promulgated by the NHTSA in 1992. Many of the Company's conversion components were affected by these standards. Starcraft engaged a testing company, which also performs testing for NHTSA, to test the Company's components. The Company's components subject to the new standards have been determined to meet or exceed them. Promulgation of additional safety standards in the future could require the Company to incur additional testing and engineering expenses which could adversely affect the Company's results of operations. NHTSA is likely to promulgate new standards in the future respecting one or more of the following matters, among others: occupant protection in vehicle rollovers, mandatory installation of air bags and side impact protection.

NHTSA can require automotive manufacturers to recall products. The Company has not experienced any material recalls.

The Company's international sales are subject to foreign tariffs and taxes, changes in which are difficult to predict and which can adversely affect Starcraft sales. Starcraft's products must also comply with government safety standards imposed in its foreign markets. For example, in Japan and Germany each vehicle conversion is individually inspected by local authorities before the vehicle is registered in the country.

Both federal and state authorities have various environmental control standards relating to air, water and noise pollution that affect the business and operations of the Company. In particular, the Company generates paint, varnish and other finishing wastes that it is required to dispose of in compliance with environmental regulations. The Company

believes that it has complied in all material respects with applicable environmental regulations and standards and does not currently expect that any failure of compliance will have any material adverse effect on the Company.

Like other automotive manufacturers, the Company may be subject to claims that its products caused or contributed to damage or injury sustained in vehicle accidents or may be required to recall products deemed unsafe. Any such claims in excess of the Company's insurance coverage or material product recall expenses could adversely affect the Company's financial condition and results of operations.

#### Employees

As of September 29, 1996, the Company employed 899 people. Of these, approximately 694 were production line associates and 205 were salaried sales, engineering and administrative staff. During peak production periods, the Company may increase its work force. Historically, the available labor force has been adequate to meet such periodic requirements. The Company considers its relationships with its personnel to be satisfactory.

The Company maintains a training and education process. The principal goal of this program is to build a team-based learning organization that develops the combined skills of associates. Management believes this approach promotes a culture conducive to participation and teamwork that breeds innovation and improved performance. The process includes personal and practical skills training, and technical and development training. The Company has applied for and received matching grants from the State of Indiana for part of this training effort.

#### Item 2. PROPERTIES.

The Company owns its properties in Goshen, and Emma, Indiana and leases the Elkhart properties, as further described below.

Location	Size of facility	Type of operation
Goshen, Indiana	454,400 Sq. ft.	Executive Offices (20,420 sq. ft.); Manufacturing and Assembly
Emma, Indiana	42,700 Sq. ft.	Sewing and Upholstery Manufacturing
Elkhart, Indiana (Imperial)	110,000 Sq. ft.	Offices (20,900 sq. ft.); Manufacturing and Assembly
Elkhart, Indiana (Imperial Truck Plant)	12,500 Sq. ft.	Offices (1,500 sq. ft.) Manufacturing and Assembly

The Goshen and Emma production facilities were constructed in the 1960's. They have been maintained and improved upon from time to time and are presently in satisfactory condition and sufficient for the Company's current requirements. The Company also stores chassis on a 37-acre lot it owns near its Goshen production facility. The Goshen facility produced 45 units per day during peak production periods in 1996 (and, prior to the reorganization described below, has estimated capacity to produce approximately 70 units per day). See "Manufacturing."

The first Elkhart facility, on approximately 17 acres of land, is leased for five years through February 15, 1998, with two, one-year renewal options at the Company's discretion. The lease contains an option to purchase for \$3.45 million. Monthly rent is \$23,900 and the Company is responsible for property taxes and building insurance. The second Elkhart facility is leased for 2 years through June 1997. Rent in the first year is \$2,500 per month and is \$3,000 per month in the second year. The McGregor facility is leased for one year with nine, one-year options to renew at the Company's discretion.

In October 1996 the Company finalized its plan to consolidate the operations of Imperial into Starcraft's manufacturing complex in Goshen, Indiana. The Goshen facility has been reorganized to allow a production capacity of Starcraft and Imperial units of 95 units per day on one shift. The plan is designed to further enhance profitable growth by reducing excess production capacity, personnel count and fixed overhead expenses. The Company estimates that a \$700,000 pretax restructuring charge in connection with this plant consolidation will be recorded in the first quarter of fiscal year 1997. The charge includes employee termination costs, leasehold asset write-offs and the recognition of contractual lease obligations.

Item 3. LEGAL PROCEEDINGS.

The Company does not anticipate that any pending legal proceeding to which it is party will have any material adverse effect on its financial condition or results of operations. The Company is subject to product liability claims arising from traffic accidents. The Company maintains product liability insurance which it currently considers adequate.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Starcraft commenced its initial public offering of Common Stock on July 21, 1993. Its Common Stock is quoted on the Nasdaq Stock Market, National Market, under the symbol "STCR." As of December 27, 1996, there were 87 shareholders of record of Starcraft's Common Stock.

The following table sets forth the high and low bid prices per share of Common Stock for the periods indicated.

Quarter Ended	High	Low
January 1, 1995	\$ 8.500	\$6.000
April 2, 1995	9.000	6.875
July 1, 1995	8.000	4.500
October 1, 1995	6.750	5.125
Dec. 31, 1996	6.750	3.875
March 31, 1996	5.375	4.250
June 30, 1996	5.437	3.750
Sept. 29, 1996	5.000	3.750

Source: Media General Financial Services.

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

Dividend Policy. The Company has paid no cash dividends since its initial public offering. The Company currently intends to retain earnings for use in the operation and expansion of its business and therefore does not anticipate paying cash dividends on Common Stock in the foreseeable future. The payment of dividends is within the discretion of the Board of Directors and will be dependent, among other things, upon earnings, capital requirements, any financing agreement covenants and the financial condition of the Company.

Stock Repurchase. In March 1995, the Company's Board of Directors approved the repurchase of up to 500,000 shares of the Company's outstanding shares of common stock. During 1996 the company repurchased 53,000 common shares in the open market for \$246,000. As of December 27, 1996, 153,000 shares have been repurchased and additional shares may be acquired during the remainder of fiscal 1997 if in the opinion of the management the Company's stock continues to be undervalued by the market.

Anti-Takeover Provisions. Indiana law and the Company's Articles of Incorporation and Code of By-laws contain provisions that restrict the acquisition of control of the Company. Such provisions can affect the rights of shareholders acquiring substantial interests in the Company's shares. For

example, a shareholder who acquires more than 10% of the Company's shares without prior board approval will be limited in the timing and terms of any transaction it may enter into with the Company and will be subject to related provisions. Any shareholder who effects an acquisition after which such shareholder holds more than 20% of the Company's outstanding shares will have no voting rights in the shares acquired in such acquisition, unless such rights are conferred by the disinterested shareholders at the next annual meeting (or earlier special meeting).

Item 6. SELECTED FINANCIAL DATA.

<TABLE>  
<CAPTION>

(dollars in thousands, except per share data)	Year Ended				
	Sept. 29, 1996	Oct. 1, 1995	Oct 2, 1994	Oct 3, 1993	Sept. 27, 1992 (1)
INCOME STATEMENT DATA					
Net sales:					
Domestic	\$ 73,317	\$ 91,652	\$ 81,640	\$ 75,278	\$ 69,284
Export	25,648	21,408	10,734	10,001	7,169
	98,965	113,060	92,374	85,279	76,453
Cost of goods sold	83,669	92,692	73,775	68,262	61,101
Gross profit	15,296	20,368	18,599	17,017	15,352
Operating expenses	15,049	15,864	12,505	11,099	9,970
Operating income	247	4,504	6,094	5,918	5,382
Interest (expense)	(293)	(208)	99	(373)	(257)
Other, net	176	214	104	31	100
Income before taxes	130	4,510	6,297	5,576	5,225
Income taxes/pro forma income taxes (2)	20	1,753	2,517	2,241	2,090
Net income/pro forma net income	\$ 110	\$ 2,757	\$ 3,780	\$ 3,335	\$ 3,135
Weighted common shares outstanding	4,142	4,261	4,193	3,512	3,583
Earnings per share	\$ 0.03	\$ 0.65	\$ 0.90	\$ 0.95	\$ 0.87
BALANCE SHEET DATA					
Working capital	\$ 8,476	\$ 8,693	\$ 8,140	\$ 9,072	\$ 6,822
Total assets	36,524	34,213	32,772	24,590	18,973
Long-term debt	0	323	196	209	5,576
Shareholders' equity	21,552	21,688	19,556	14,866	5,558

</TABLE>

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- (1) Unaudited information.
- (2) For all periods up through July 21, 1993, the Company was an S Corporation for federal and state income tax purposes and, accordingly, was not subject to such taxes. The pro forma information has been computed as if the Company were subject to federal and state income taxes for all periods presented, based on the tax laws in effect during the respective periods.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

The consolidated statements of income summarize operating results for the last three years. This section of Management's Discussion highlights the main factors affecting the changes in operating results during the three-year period.

1996 Versus 1995  
NET SALES

Net sales for 1996 were \$99.0 million, down 12.5% from 1995. Domestic sales decreased 20.0% to \$73.3 million while export sales increased 19.8% to \$25.6 million. Unit sales decreased 4.9% to 16,106 in 1996.

Domestic sales were hampered early in the year by the availability of General Motors products, primarily attributable to the OEM strike, production issues on the minivan and the delayed introduction of the newly redesigned fullsize van. As the Company historically relies heavily on General Motors products, the Company's unit van shipments declined 12.7% in 1996 compared to the industry's decline of 6.5% as reported by the Recreational Vehicle Industry Association. Van conversion sales are being negatively impacted by the growing popularity of OEM sport utility vehicles ("SUVs"). The Company's shipments of converted pickup trucks and SUVs increased 11.3% in 1996. International sales in 1996 benefited from the early build of 1997 model minivans for Japan totaling \$6 million. Sales to Japan in 1997 are estimated to be \$4 million lower as a result of this early build.

The average conversion price declined 9.3% in 1996 due to a change in product sales mix toward pickup trucks and SUVs and the percentage increase of Imperial and Lonestar units which compete primarily in the entry level price range.

GROSS PROFIT

Gross profit margin for 1996 was 15.5% compared to 18.0% in the prior year. The 1996 decline is due to the impact of fixed overhead on the lower sales and approximately \$200,000 of project expenses incurred on the start-up of the new Texas facility.

SELLING AND PROMOTION EXPENSE

Selling and promotion expense for 1996 decreased 11.2% to \$8.3 million, primarily attributable to the reduced sales. Selling and promotion expense as a percent of sales was 8.4% in 1996 compared to 8.2% in the prior year.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense was \$6.8 million in 1996, a 3.4% increase from 1995. The increase is due to approximately \$360,000 of expenses to start-up the new Texas facility, offset by the successful implementation of several expense-containment strategies including personnel reductions.

INCOME TAX EXPENSE

The effective tax rate on income for 1996 was 15.4% compared to 38.9% in the prior year. The effective rate in 1996 benefited from the implementation of a foreign sales corporation subsidiary.

<TABLE>

<CAPTION>

(dollars in thousands)	1996	1995	1995 to 1996 Change		
<S>	<C>	<C>	<C>		
Net sales	\$ 98,965	100.0%	\$113,060	100.0%	(12.5%)
Cost of goods sold	83,669	84.5%	92,692	82.0%	(9.7%)

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Gross profit	15,296	15.5%	20,368	18.0%	(24.9%)
Selling and promotion expense	8,252	8.4%	9,292	8.2%	(11.2%)
General and administrative expense	6,797	6.9%	6,572	5.8%	3.4%
Operating income	247	0.2%	4,504	4.0%	(94.5%)
Interest expense	(293)	(0.3%)	(208)	(0.2%)	40.9%
Other income, net	176	0.2%	214	0.2%	(17.8%)
Income before taxes	130	0.1%	4,510	4.0%	(97.1%)
Income taxes	20	0.0%	1,753	1.6%	(98.9%)
NET INCOME	\$ 110	0.1%	\$ 2,757	2.4%	(96.0%)
	=====	===	=====	===	=====

</TABLE>

#### 1995 VERSUS 1994 NET SALES

The Company's net sales for 1995 increased by 22.4% to \$113.1 million from \$92.4 million in the prior year. Unit shipments increased to 16,940 in 1995 from 13,000 in 1994. This sales improvement was attributable to the Imperial Automotive Group ("Imperial Group") acquisition, which added \$20.2 million in sales on 5,230 incremental unit shipments and additional export sales of \$10.7 million on 870 incremental units, offset by an \$11.0 million sales decline on 2,160 less units in Starcraft Automotive Group's ("Starcraft Group") domestic business.

The Company's average conversion price decreased 6.3% reflecting the impact of the Imperial Group acquisition, which competes in a more price-sensitive segment of the market. This decline was partially offset by the increased export sales, which carried a higher average conversion price. Starcraft Group's average conversion price in 1995 was \$8,500 compared to \$3,700 for Imperial Group.

Industry domestic conversion shipments declined 12.3% in 1995 as reported by the Recreational Vehicle Industry Association. The industry decline in conjunction with Starcraft Group dealers reducing inventory levels by 34.0% during 1995 resulted in a decrease of 22.5% in Starcraft Group's domestic unit sales volume. The Company believes General Motors dealers reduced inventory levels primarily in anticipation of the 1996 introduction of the newly designed GMT 600 fullsize van chassis. The retail sales of Starcraft Group units from domestic dealers to consumers declined 3.7% in 1995.

#### GROSS PROFIT

Gross profit for 1995 increased by 9.5% to \$20.4 million from \$18.6 million in the prior year. Gross profit as a percentage of net sales was 18.0% for 1995 compared to 20.1% for 1994.

The decrease in margin rate was the result of the increased sales from Imperial Group, which carries a lower margin rate. Additionally, Imperial Group's costs to move to a new facility reduced the margin rate by 0.4% of net sales.

#### SELLING AND PROMOTION EXPENSE

Selling and promotion expense as a percentage of net sales increased to 8.2% in 1995 from 8.0% in the prior year. Starcraft Group's advertising expense increased 0.2% of net sales due to additional direct mail programs and sponsorships.

#### GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense for 1995 increased to \$6.6 million from \$5.1 million in the prior year primarily due to the Imperial Group acquisition. As a percentage of net sales, such expenses increased to 5.8% from 5.5% in the prior year due to increased insurance and legal costs.

#### INTEREST

Net interest expense for 1995 was \$208,000 compared to \$99,000 in net interest income for 1994. The increase in expense is primarily due to interest incurred on additional borrowings incurred to pay the purchase price of the Imperial Group acquisition.

#### INCOME TAX EXPENSE

The effective income tax rate for 1995 was 38.9% compared to 39.9% for 1994. The decrease is primarily attributable to a change in federal and state

permanent timing differences.

<TABLE>  
<CAPTION>

(dollars in thousands)	1995		1994		1994 to 1995 Change
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$ 113,060	100.0%	\$92,374	100.0%	22.4%
Cost of goods sold	92,692	82.0%	73,775	79.9%	25.6%
Gross profit	20,368	18.0%	18,599	20.1%	9.5%
Selling and promotion expense	9,292	8.2%	7,393	8.0%	25.7%
General and administrative expense	6,572	5.8%	5,112	5.5%	28.6%
Operating income	4,504	4.0%	6,094	6.6%	(26.1%)
Interest (expense) income	(208)	(0.2%)	99	0.1%	---
Other income, net	214	0.2%	104	0.1%	105.8%
Income before taxes	4,510	4.0%	6,297	6.8%	(28.4%)
Income taxes	1,753	1.6%	2,517	2.7%	(30.4%)
NET INCOME	\$ 2,757	2.4%	\$3,780	4.1%	(27.1%)

</TABLE>

#### SEASONALITY AND TRENDS

The Company's sales and profits are dependent on the automotive markets in the United States and Japan and the OEM's ability to supply chassis. Although the Company currently does not face such issues, during 1996 the Company's sales were adversely impacted by chassis availability from the OEMs. The business tends to be seasonal with stronger sales in March through July and is influenced by a number of factors including atypical weather for any sales region and OEM programs affecting the price, supply and delivery of vehicle chassis. General Motors' chassis represented 72% of the Company's total unit shipments in 1996.

The Company's retail dealers had approximately 5,300 units on hand at the end of 1996 compared to 5,600 at the end of the prior year. Both these levels remain significantly lower than the 1994 level of 7,200. The lower levels appear to be the result of dealer caution in stocking the newly redesigned General Motors fullsize van and the trend of dealers to stock more SUVs.

#### LIQUIDITY AND CAPITAL RESOURCES

Operating activities provided cash of \$1.9 million compared to \$1.1 million in the prior year. This improvement came principally from a favorable change in working capital. Receivables increased \$2.8 million due to the increase in international receivables which carry longer payment terms. The increase in accounts payable of \$2.9 million in 1996 is attributable to the ramp up of production in September 1996 for the increased international business and improved vendor payment terms. Operating cashflows were applied primarily to fund capital expenditures, repurchase the Company's Common Stock and reduce outstanding indebtedness.

At the end of 1996 long-term debt was zero. The Company maintains a \$15 million bank revolving credit line. In addition to the availability of bank financing, the Company has restricted sales agreements with General Motors Acceptance Corporation, Chrysler Financial Corporation and Ford Motor Credit Company. Pursuant to these agreements, the Company obtains vehicle chassis from the OEMs for 90 days at nominal rates. If the Company fails to match a chassis with a dealer order within 90 days after delivery of the chassis to the Company, carrying charges increase to prime rate plus 1%.

In 1995 the Board of Directors approved the repurchase of up to 500,000 shares of the Company's outstanding shares of Common Stock. During 1996 the Company repurchased 53,000 common shares in the open market for \$246,000. As of December 27, 1996, 153,000 common shares have been repurchased under this program. Additional shares may be acquired in 1997 if, in the opinion of management, the Company's stock continues to be undervalued by the market.

In October 1996, the Company finalized its plan to consolidate the operations of the Imperial Automotive Group manufacturing operation, located in Elkhart, Indiana, into Starcraft Automotive Group's manufacturing complex in Goshen, Indiana, during December 1996. This plan is designed to enhance profitable growth by reducing excess production capacity, personnel count and fixed overhead expenses. The Company estimates that a \$700,000 pretax

restructuring charge in connection with this plant consolidation will be recorded in the first quarter of 1997. The charge includes employee termination costs, leasehold asset write-offs and the recognition of contractual lease obligations.

The Company believes that cash flows from operations, funds available under its bank revolving credit agreement, and the continued use of OEM financing arrangements to manage its chassis inventory will be sufficient to satisfy its anticipated operating needs and capital improvements for 1997.

#### DISCUSSION OF FORWARD-LOOKING INFORMATION

From time to time, Starcraft may make oral or written forward-looking statements regarding its anticipated sales, costs, expenses, earnings and matters affecting its condition and operations. Such forward-looking statements are subject to a number of material factors which could cause the statements or projections contained therein to be materially inaccurate. Such factors include, without limitation, the following:

**General Operating Contingencies.** The Company may not be able to attract and retain sufficient employees with sufficient skills to conduct its operations efficiently and may from time to time be subject to work slow-downs or stoppages. The Company may be adversely affected by delay or unavailability of supply of numerous component parts. The Company will not always be able to satisfy its capital requirements with internally generated funds and may, from time to time, need to rely on bank financing and other third party capital resources. There is no assurance that such resources will always be available to the Company or as to the terms that will apply to any financing.

**Acquisitions.** The Company expects to be engaged in negotiations from time to time regarding prospective acquisitions of van conversion or other businesses. Such acquisitions could be material to the Company and, if effected, could have

a material effect on the Company's financial condition or results of operations. There is no assurance as to when or whether the Company will be able to effect acquisitions, whether it will be able to generate requisite funding to effect such acquisitions, or as to the terms on which such acquisitions may be effected.

**Economic Conditions.** The van conversion industry is cyclical and is affected by the general trends of the economy and consumer preferences and consumer confidence and trends of the automotive and recreational vehicle industries. The level of disposable consumer income affects the Company's sales because its products are generally considered discretionary expenditures by consumers. In difficult economic times, consumers tend to spend less of their income on discretionary items. Other economic factors affecting the demand for the Company's products include the availability and price of gasoline, the level of interest rates and the availability of consumer financing. Reduced gasoline availability could adversely affect the demand for the Company's products. A significant increase in the price of gasoline could reduce demand for the Company's products because it would increase the cost of operating these products. Because many consumers finance their purchase of vehicle conversions, the availability of financing and level of interest rates can affect a consumer's purchasing decision. A decline in general economic conditions or consumer confidence can be expected to affect Starcraft's sales adversely.

**Supply and Financing of Vehicle Chassis.** The Company is dependent upon the OEMs to supply its requirements for vehicle chassis. Labor stoppages, supply shortages and a variety of other factors that influence OEM production can affect the availability or timely delivery of vehicle chassis to the Company. The impact of these factors was significant in 1996. If vehicle chassis are unavailable, or if the Company must accept delivery earlier or later than it otherwise would prefer, sales could be adversely affected and financing expenses could increase. The Company must also comply with its consignment and restricted sale contracts with the OEMs pursuant to which the OEMs impose certain specifications for the Company's vehicle conversions, including gross vehicle weight standards. Such contracts also restrict the Company's ability to dispose of completed chassis and prohibit the transfer of chassis to unauthorized U.S. and foreign dealers. All of the Company's consignment and restricted sale contracts with chassis suppliers are terminable by either party on short notice without cause. The availability of the OEM financing rates is dependent upon the Company's compliance with its OEM contracts and its ability to maintain satisfactory credit relationships with the OEM's finance subsidiaries. Adverse changes in the Company's financial condition or results of operations could cause such financing subsidiaries to seek to change adversely the Company's financing terms or to terminate such financing arrangements. Such a change or termination could have a material adverse effect on the Company's financial condition and results of operations.

**Regulation.** The Company is subject to various foreign, federal, state and local regulations. In particular, conversion components produced by the Company

are required to comply with Federal Motor Vehicle Safety Standards and similar safety standards imposed in its foreign markets. Promulgation of additional safety standards in the future could require the Company to incur additional testing and engineering expenses which could adversely affect the Company's results of operations. The Company's international sales can be adversely affected by changes in foreign import tariffs and taxes and fluctuations in exchange rates. The Company must comply with certain Federal and state regulations relating to the disposition of hazardous wastes generated in its production processes. The Company's failure to comply with applicable regulations or changes in current regulations, including the adoption of new safety or environmental standards, could have material adverse effect on the Company's results of operations.

Competition. The United States vehicle conversion industry is very competitive with several principal nationwide manufacturers and numerous local and regional competitors. There is no assurance the Company will be able to maintain its current competitive position in the vehicle conversion market or that it will be able to expand its sales of custom truck and SUV conversions.

Potential Product Liability. Like other automotive manufacturers, the Company may be subject to claims that its products caused or contributed to damage or injury sustained in vehicle accidents, "lemon law" claims or may be required to recall products deemed unsafe. Any such claims in excess of the Company's insurance coverage or material product recall expenses could adversely affect the Company's financial condition and results of operations.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Starcraft Corporation

We have audited the accompanying consolidated balance sheet of Starcraft Corporation and Subsidiaries as of September 29, 1996 and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Starcraft Corporation and Subsidiaries as of October 1, 1995 and for each of the two years in the period then ended were audited by other auditors whose report dated November 3, 1995 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Starcraft Corporation and Subsidiaries as of September 29, 1996 and the consolidated results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

November 7, 1996  
Fort Wayne, Indiana

[Logo]  
McGLADREY & PULLEN, LLP  
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Starcraft Corporation  
Goshen, Indiana

We have audited the accompanying consolidated balance sheet of Starcraft Corporation and Subsidiaries as of October 1, 1995, and the related consolidated statements of income, shareholders' equity, and cash flows for the periods ended

October 1, 1995, and October 2, 1994. These consolidated financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Starcraft Corporation and Subsidiaries as of October 1, 1995, and the results of their operations and their cash flows for the periods ended October 1, 1995 and October 2, 1994, in conformity with generally accepted accounting principles.

/s/ McGLADREY & PULLEN, LLP

Elkhart, Indiana  
November 3, 1995

Consolidated Balance Sheets

	September 29, 1996	October 1, 1995
	-----	-----
ASSETS		
CURRENT ASSETS:		
<TABLE>		
<CAPTION>		
(in thousands, except share data)		
<S>	<C>	<C>
Cash and cash equivalents	\$ 1,366	\$ 1,255
Trade receivables, less allowance for doubtful accounts: (1996 - \$51; 1995 - \$57)	9,165	6,045
Manufacturers rebates receivable	1,079	1,389
Inventories	11,508	11,713
Other	330	493
	-----	-----
Total current assets	23,448	20,895
PROPERTY AND EQUIPMENT:		
Land, buildings, and improvements	6,033	5,702
Machinery and equipment	4,430	3,871
	-----	-----
	10,463	9,573
Less accumulated depreciation	2,697	1,898
	-----	-----
	7,766	7,675
GOODWILL, at amortized cost	5,140	5,365
	-----	-----
OTHER ASSETS	170	278
	\$36,524	\$34,213
	=====	=====
LIABILITIES AND		
SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 9,330	\$ 6,383
Accrued expenses:		
Warranty	1,600	1,785
Compensation and related expenses	882	1,143
Taxes	1,280	929
Other	1,557	1,352
Current portion of long-term debt:	323	610
	-----	-----
Total current liabilities	14,972	12,202
LONG-TERM DEBT, less current portion	--	323
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value: 2,000,000 shares authorized but unissued	--	--
Common stock, no par value: Authorized shares - 10,000,000 shares		
Issued and outstanding shares 1996 - 4,118,600; 1995 - 4,171,600	13,971	14,104
Additional paid-in capital	1,008	1,008
Retained earnings	6,573	6,576

-----	-----
21,552	21,688
-----	-----
\$36,524	\$34,213
=====	=====

</TABLE>

Consolidated Statements of Income

<TABLE>  
<CAPTION>

(in thousands, except share data)	Year Ended		
	September 29, 1996	October 1, 1995	October 2, 1994
NET SALES			
<S>	<C>	<C>	<C>
Domestic	\$ 73,317	\$ 91,652	\$ 81,640
Export	25,648	21,408	10,734
	-----	-----	-----
	98,965	113,060	92,374
COST OF GOODS SOLD	83,669	92,692	73,775
	-----	-----	-----
Gross profit	15,296	20,368	18,599
OPERATING EXPENSES			
Selling and promotion	8,252	9,292	7,393
General and administrative	6,797	6,572	5,112
	-----	-----	-----
	15,049	15,864	12,505
	-----	-----	-----
Operating income	247	4,504	6,094
NON-OPERATING (EXPENSE) INCOME:			
Interest, net	(293)	(208)	99
Other income, net	176	214	104
	-----	-----	-----
	(117)	6	203
	-----	-----	-----
Income before income taxes	130	4,510	6,297
FEDERAL AND STATE INCOME TAXES	20	1,753	2,517
	-----	-----	-----
Net Income	\$ 110	\$ 2,757	\$ 3,780
	=====	=====	=====
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	\$ 0.03	\$ 0.65	\$ 0.90
	=====	=====	=====
AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	4,142,402	4,260,915	4,193,003
	=====	=====	=====

</TABLE>

Consolidated Statements of Cash Flows

<TABLE>  
<CAPTION>

(in thousands)	Year Ended		
	September 29, 1996	October 1, 1995	October 2, 1994
OPERATING ACTIVITIES			
<S>	<C>	<C>	<C>
Net income	\$ 110	\$ 2,757	\$ 3,780
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,087	1,006	613
Other	51	93	60
Change in operating assets and liabilities			
Receivables	(2,810)	(229)	(1,013)
Inventories	205	(1,346)	2,457
Other	163	176	53
Accounts payable	2,947	(696)	126
Accrued expenses	110	(703)	863
	-----	-----	-----
Net cash provided by operating activities	1,863	1,058	6,939
INVESTING ACTIVITIES			

Purchase of property and equipment	(932)	(1,630)	(1,451)
Purchase of assets of Imperial Industries, Inc.	--	--	(3,900)
Other	36	45	(146)
	-----	-----	-----
Net cash used in investing activities	(896)	(1,585)	(5,497)
FINANCING ACTIVITIES			
Proceeds from revolving credit agreement	7,800	5,100	700
Payments on revolving credit agreement	(7,800)	(5,100)	(700)
Payments on long-term debt	(610)	(512)	(466)
Repurchase of common stock	(246)	(625)	--
	-----	-----	-----
Net cash used in financing activities	(856)	(1,137)	(466)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	111	(1,664)	976
Cash and cash equivalents at beginning of year	1,255	2,919	1,943
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 1,366	\$ 1,255	\$ 2,919
	=====	=====	=====
Supplemental information:			
Interest paid	\$ 304	\$ 222	\$ 15
Income taxes paid	\$ 60	\$ 2,205	\$ 2,484

</TABLE>

#### Consolidated Statements of Shareholders Equity

<TABLE>

<CAPTION>

(in thousands, except share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Common Stock Repurchased	Total
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, October 3, 1993	\$ 13,932	\$ 4,608	\$ 326	\$ (4,000)	\$ 14,866
Net income	--	--	3,780	--	3,780
Issuance of 130,000 shares of common stock	910	--	--	--	910
Retirement of 738,400 shares of repurchased common stock	(400)	(3,600)	--	4,000	--
	-----	-----	-----	-----	-----
BALANCE, October 2, 1994	14,442	1,008	4,106	--	19,556
Net income	--	--	2,757	--	2,757
Repurchase and retirement of 100,000 shares of common stock	(338)	--	(287)	--	(625)
	-----	-----	-----	-----	-----
BALANCE, October 1, 1995	14,104	1,008	6,576	--	21,688
Net income	--	--	110	--	110
Repurchase and retirement of 53,000 shares of common stock	(133)	--	(113)	--	(246)
	-----	-----	-----	-----	-----
BALANCE, September 29, 1996	\$ 13,971	\$ 1,008	\$ 6,573	\$-	\$ 21,552
	=====	=====	=====	====	=====

</TABLE>

#### NOTES TO FINANCIAL STATEMENTS

##### 1. Nature of Business and Significant Accounting Policies

###### Nature of Business and Principles of Consolidation

Starcraft Corporation and Subsidiaries (Company) are second-stage manufacturers of custom van, pickup truck, and sport utility vehicle conversions. The consolidated financial statements include the accounts of Starcraft Corporation and its wholly owned subsidiaries: Starcraft Automotive Group, Inc., Imperial Automotive Group, Inc. and Starcraft Southwest, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company's customers operate in the automotive industry. The Company sells conversion units throughout the United States, and export sales are

principally to locations in Japan, Korea, and northern Europe. Credit is extended to customers based on an evaluation of the customer's financial condition, and when credit is extended collateral is generally not required. Sales to the Company's largest customer for the years ended September 29, 1996, October 1, 1995, and October 2, 1994 were \$18,526,000, \$15,185,000 and \$5,009,000, respectively.

#### Significant Accounting Policies

##### Cash Equivalents

Cash equivalents include all highly-liquid investments with a maturity of three months or less.

The Company maintains deposits in one or more financial institutions which, at times, may be in excess of FDIC insurance limits.

##### Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for certain inventories (\$8,408,000 at September 29, 1996) and by the first-in, first-out (FIFO) method for all other inventories (\$3,100,000 at September 29, 1996).

##### Property and Equipment

Property and equipment are stated at cost. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. The Company is depreciating buildings over a period of 50 years, building improvements over periods of 5 to 20 years, and equipment over periods of 3 to 12 years.

##### Goodwill

Goodwill is amortized by the straight-line method over a period of 25 years and is stated net of accumulated amortization of \$482,000 and \$257,000 at September 29, 1996 and October 1, 1995, respectively.

##### Warranties

The Company follows the policy of accruing an estimated liability for warranties at the time the warranted products are sold.

##### Revenue Recognition

The Company generally manufactures products based on specific orders from customers. Shipments are generally made by common carrier after receiving authorization from the customer, and revenue is generally recognized upon shipment. Net sales do not include the cost of chassis (see Note 7).

##### Stock Based Compensation

The Company periodically grants stock options for a fixed number of shares to employees. The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

##### Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### Accounting Changes

In March 1995, the Financial Accounting Standards Board issued Statement No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which required impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Company's long-lived assets are assessed for potential impairment whenever existing facts and circumstances indicate the carrying value of those assets may not be recoverable. The adoption of SFAS 121 in fiscal 1996 had no effect on the Company's financial statements.

##### Seasonality

The Company's business is seasonal. Sales are generally higher during the spring and summer months of the year.

Fiscal Year

The Company's fiscal year ends on the Sunday closest to September 30. The years ended September 29, 1996, October 1, 1995, and October 2, 1994 each contain 52 weeks.

2. Inventories

The composition of inventories at September 29, 1996 and October 1, 1995 is as follows:

(in thousands)	1996	1995
Raw materials	\$ 7,126	\$ 6,808
Work-in-process	1,786	2,340
Finished goods	2,596	2,565
	-----	-----
	\$ 11,508	\$ 11,713
	=====	=====

The use of the LIFO method of determining the cost of inventories did not have a material effect on inventories at September 29, 1996 and October 1, 1995 or net income for the years then ended.

3. Debt Arrangements

The Company has a bank line of credit totaling \$15 million, none of which was outstanding at September 29, 1996. Borrowings under this line of credit bear interest at the prime rate of the lending bank (8.25% at September 29, 1996), or at the Company's option, LIBOR plus 1.25%, and are unsecured. This facility expires in January 1998.

At September 29, 1996, the Company has a note payable to Imperial Industries, Inc. for \$323,000 resulting from additional consideration paid as part of the acquisition of its assets (see Note 6). The note is due in monthly installments of \$55,178 including interest at 8% with the final installment due March 1997.

Interest expense for the years ended September 29, 1996, October 1, 1995, and October 2, 1994, was approximately \$305,000, \$224,000, and \$15,000, respectively.

4. Income Taxes

Federal and state income taxes, all of which were domestic, consist of the following:

Year Ended (in thousands)	Sept. 29, 1996	Oct. 1, 1995	Oct. 2, 1994
Current:			
Federal	\$ (103)	\$ 1,272	\$ 2,011
State	55	378	457
	-----	-----	-----
	(48)	1,650	2,468
Deferred:			
Federal	54	83	41
State	14	20	8
	-----	-----	-----
	68	103	49
	-----	-----	-----
	\$ 20	\$ 1,753	\$ 2,517
	=====	=====	=====

The provisions for income taxes are different from amounts that would otherwise be computed by applying a federal statutory rate of 34% to income taxes. A reconciliation of the differences is as follows:

Year Ended (in thousands)	Sept. 29, 1996	Oct. 1, 1995	Oct. 2, 1994
Rate applied to pre-tax income	\$ 44	\$ 1,533	\$ 2,141
State taxes, net of federal benefit	46	182	372
Foreign sales corporation	(205)	--	--
Other, net	135	38	4

-----	-----	-----
\$ 20	\$ 1,753	\$ 2,517
=====	=====	=====

The composition of the deferred tax assets and liabilities at September 29, 1996 and October 1, 1995 is as follows:

(in thousands)	1996	1995
-----	-----	-----
Deferred tax liabilities:		
Accelerated depreciation	\$ (330)	\$ (247)
Inventory basis difference	(64)	(127)
Other	(84)	(59)
	-----	-----
	(478)	(433)
Deferred tax assets:		
Nondeductible accruals:		
Warranty	378	450
Other	175	126
	-----	-----
	553	576
	-----	-----
Net deferred tax assets	\$ 75	\$ 143
	=====	=====

#### 5. Compensation Plans

The Company sponsors a qualified profit-sharing plan, more commonly known as a 401(k) plan, for all of its employees with over six months of service. The plan provides for a matching contribution by the Company of the employee's salary deduction, up to 6% of compensation. In addition, the plan provides for a discretionary contribution annually as determined by the Board of Directors. The amounts charged to expense for the years ended September 29, 1996, October 1, 1995, and October 2, 1994 for this plan were approximately \$107,000, \$470,000, and \$364,000, respectively.

The Company sponsors a qualified stock option plan with 380,000 shares of common stock reserved for options to key employees and directors. Under the plan, options may not be granted at prices below 85% of the current market value

of the stock at the date of the grant. All options awarded through September 29, 1996 have been at fair market value on the date of grant. For the year ended September 29, 1996, the effect of the stock options in computing earnings per common share was antidilutive.

The following is a summary of transactions of shares under option for the years ended September 29, 1996, October 1, 1995, and October 2, 1994.

	Year Ended		
	1996	1995	1994
-----	-----	-----	-----
Outstanding, beginning of year	311,850	241,350	166,850
Granted during the year	171,000	167,000	79,500
Canceled during the year	(113,001)	(96,500)	(5,000)
	-----	-----	-----
Outstanding, end of year	369,849	311,850	241,350
	=====	=====	=====
Eligible, end of year for exercise currently (between \$3.875 and \$10 per share)	354,349	248,076	118,105
	=====	=====	=====

The Company sponsors a qualified stock option plan with 40,000 shares of common stock reserved for options to certain sales representatives who are not employees of the Company. Under this plan, options may not be granted at prices below 85% of the current market value of the stock at the date of grant. All options awarded through September 29, 1996 have been at fair market value on the date of grant. There were 5,500 options outstanding as of September 29, 1996.

For the year ended September 29, 1996, the effect of the stock options in computing earnings per common share was antidilutive.

#### 6. Business Combination

On July 3, 1994, the Company acquired the assets and assumed certain liabilities of Imperial Industries, Inc. (Imperial), a manufacturer of van conversions. The purchase price of the acquired assets was \$3,900,000 in cash and 130,000 shares of the Company's common stock with a value of \$910,000.

Based upon Imperial achieving certain pre-tax net profits for the calendar year 1994, the Company was required to pay additional consideration of \$1.22 million in the form of a 24 month note (see Note 3). This consideration was recorded as an addition to goodwill in 1995.

Unaudited pro forma consolidated results of operations for the year ended October 2, 1994 as though the acquisition of Imperial had occurred as of October 3, 1993 are as follows (in thousands, except per share data):

Net sales	\$ 109,582
Net income	4,504
Earnings per common and common equivalent share	1.07

The above pro forma results of operations reflect adjustments for amortization of goodwill, imputed interest on borrowed funds, and income taxes. The pro forma amounts do not purport to be indicative of what would have occurred had the acquisition been made as of October 1, 1993 or of results which may occur in the future.

#### 7. Consignment Arrangements

The Company obtains vehicle chassis for modification from major vehicle manufacturers (OEMs) under consignment and restricted sales agreements. These agreements generally provide that (i) the Company may not obtain certificates of origin or other evidence of ownership of chassis, (ii) modification must conform to standards specified by OEMs, and (iii) modifications generally are performed only after a sale has been negotiated with an OEM approved dealer. The Company generally ships converted chassis only after dealer acceptance has been approved by the OEM. The OEMs bill the dealer and provide warranty for the chassis.

The agreements are secured by various credit arrangements with the OEMs. The OEMs may require the Company to purchase chassis in the event that the restricted sales agreements are terminated. Chassis purchases required by the terms of these arrangements were not material during the periods covered by the accompanying financial statements. The Company pays the OEMs a nominal carrying charge for the first 90 days that it possesses a chassis. After 90 days, the carrying charges accelerate to approximate market interest rates. Throughout the consignment period, the Company is subject to the risk of decline in value of consigned chassis.

Consistent with the practice in their industry, the Company accounts for chassis as consignment inventory. Accordingly, the Company records chassis inventory and related obligations only in the event they are required to purchase chassis from the OEM. Provisions for decline in chassis value are recognized when, in management's estimation, such provisions are necessary. Provisions for decline in chassis value, chassis inventory and chassis sales are not material to the accompanying financial statements.

At September 29, 1996, the Company has possession of chassis in the aggregate amount of \$45,167,000 (of which \$4,615,000 related to chassis on consignment for periods exceeding 90 days) and has total chassis line availability between \$73.7 million and \$83.9 million based on the time of year. Carrying charges on consignment chassis, which are presented in cost of goods sold, for the years September 29, 1996, October 1, 1995, and October 2, 1994 were approximately \$1,729,000, \$2,046,000, and \$795,000, respectively. The OEMs have also instituted incentive rebates to second-stage manufacturers based on the number of chassis delivered to dealers. Those incentives reduced cost of goods sold by approximately \$1,135,000, \$1,415,000, and \$1,075,000 in 1996, 1995, and 1994, respectively.

#### 8. Research and Development

The Company incurs costs to improve the appeal and safety of its products. Research and development costs are charged to operations when incurred. Amounts charged to operations for the years ended September 29, 1996, October 1, 1995, and October 2, 1994 were approximately \$893,000, \$726,000, and \$792,000, respectively.

9. Commitments

The Company leases certain of its facilities and equipment. The total rental expense for the years ended September 29, 1996, October 1, 1995, and October 2, 1994 is \$490,000, \$295,000, and \$50,000, respectively. Rental commitments at September 29, 1996 for long-term noncancelable operating leases are as follows:

1997	\$386,000
1998	135,000
1999	14,000
2000	6,000
2001	5,000
	-----
	\$546,000
	=====

10. Unaudited Interim Financial Information

Presented below is certain unaudited quarterly financial information for the years ended September 29, 1996 and October 1, 1995.

(in thousands, except share data)

	Quarter Ended			
	Dec. 31, 1995	March 31, 1996	June 30, 1996	Sept. 29, 1996
Net sales	\$ 15,658	\$ 23,063	\$ 31,507	\$ 28,737
Gross profit	1,538	1,717	6,276	5,765
Net income (loss)	(1,142)	(1,229)	1,414	1,067
Earnings (loss) per common share	(.27)	(.30)	.34	.26

	Quarter Ended			
	Jan. 1, 1995	April 2, 1995	July 2, 1995	Oct. 1, 1995
Net sales	\$25,558	\$31,759	\$30,973	\$24,770
Gross profit	4,443	5,105	6,473	4,347
Net income	352	848	1,402	155
Earnings per common share	.08	.20	.33	.04

11. Subsequent Event

In October 1996, the Company finalized its plan to consolidate the operations of the Imperial Automotive Group manufacturing operation, located in Elkhart, Indiana, into Starcraft Automotive Group's manufacturing complex in Goshen, Indiana during December 1996. The Company estimates that a \$700,000 pre-tax restructuring charge in connection with this plant consolidation will be recorded in the first quarter of fiscal 1997.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Previously reported in the Registrant's Form 10-K for the fiscal year ending October 1, 1995.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Incorporated by reference to the Registrant's proxy statement to be filed with the Securities and Exchange Commission on or before January 27, 1997.

Item 11. EXECUTIVE COMPENSATION.

Incorporated by reference to the Registrant's proxy statement to be filed with the Securities and Exchange Commission on or before January 27, 1997.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Incorporated by reference to the Registrant's proxy statement to be filed with the Securities and Exchange Commission on or before January 27, 1997.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference to the Registrant's proxy statement to be filed with the Securities and Exchange Commission on or before January 27, 1997.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) List the following documents filed as a part of the report:

Financial Statements (as of and for the fiscal periods ended September 29, 1996, October 1, 1995 and October 2, 1994):

Balance Sheets  
Statements of Income  
Statements of Cash Flows  
Statements of Shareholders' Equity  
Notes to Financial Statements

(b) Reports on Form 8-K

Registrant filed no reports on Form 8-K during the quarter ending September 29, 1996.

(c) The exhibits filed herewith or incorporated by reference herein are set forth on the Exhibit Index beginning on page E-1.

(d) The following financial statement schedule is filed as a part of this report:

(i) Valuation and Qualifying Accounts and Reserves.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and have been omitted.

STARCRAFT CORPORATION AND SUBSIDIARIES

SCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
(Dollars in Thousands)

<TABLE>  
<CAPTION>

	Balance at Beginning of Period	Charged to Operations	Deductions from Additions to Reserves (a)	Balance at Close of Period
Allowance for doubtful accounts -deducted from accounts receivable, trade, in the consolidated balance sheets:				
<C>	<C>	<C>	<C>	<C>
52 weeks ended September 29, 1996	\$ 57	\$ --	\$ (6)	\$ 51
52 weeks ended October 1, 1995	\$ 60	\$ --	\$ (3)	\$ 57
52 weeks ended October 2, 1994	\$ 41	\$ --	\$ 19 (b)	\$ 60

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

(b) Includes \$20 acquired as part of acquisition of assets of Imperial Industries, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on behalf of the undersigned, thereto duly authorized.

STARCRAFT CORPORATION

DATE: December 27, 1996

By: /s/ Kelly L. Rose  
 -----  
 Kelly L. Rose,  
 Chairman and Chief  
 Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on this 27th day of December, 1996:

1) Principal Executive Officer:

By: /s/ Kelly L. Rose Chairman, Chief Executive Officer  
 -----  
 Kelly L. Rose

(2) Principal Financial/Accounting Officer:

By: /s/ Michael H. Schoeffler President, Chief  
 ----- Financial Officer, Treasurer,  
 Michael H. Schoeffler Secretary

(3) The Board of Directors:

By: /s/ Kelly L. Rose Director  
 -----  
 Kelly L. Rose

By: /s/ Frank K. Martin Director  
 -----  
 Frank K. Martin

By: /s/ L. Craig Fulmer Director  
 -----  
 L. Craig Fulmer

By: /s/ David J. Matteson Director  
 -----  
 David J. Matteson

By: /s/ Allen H. Neuharth Director  
 -----  
 Allen H. Neuharth

EXHIBIT INDEX

Reference to Regulation S-K Exhibit Number	Document	Sequential Page Number
2.1	Asset Purchase and Sale Agreement between Imperial Industries, Inc. and the Registrant, dated June 2, 1994. Incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K, as amended, filed with the Securities Exchange Commission on July 20, 1994.	*
3.1	Registrant's Articles of Incorporation, as amended. Incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-K for the year ending October 1, 1995.	*
3.2	Registrant's Code of By-Laws, as amended.	[ ]
3.3	Form of Share Certificate.	**

- 4.1 Article 6 - "Terms of Shares" and Article 9 - "Provisions for Certain Business Combinations" of the Registrant's Articles of Incorporation, as amended.
- 4.2 Article III - "Shareholder Meetings", Article VI - "Certificates for Shares" and Article VII - "Corporate Books and Records - Section 3" of the Registrant's Code of By-Laws, as amended.
- 4.3 Amended and Restated Credit Agreement between the Registrant and Bank One Indianapolis, N.A., dated November 30, 1994. Incorporated by reference to Exhibit 4.6 for the fiscal year ending October 2, 1994. \*
- 4.4 First Amendment to Amended and Restated Credit Agreement between the Registrant and Bank One, Indianapolis, N.A. dated March 7, 1995. Incorporated by reference to Exhibit 10(2) to the Registrant's Form 10-Q for the quarter ending April 2, 1995. \*
- 10.1(a) The Starcraft Automotive Corporation Stock Incentive Plan. \*\*
- 10.1(b) The Starcraft Corporation 1997 Stock Incentive Plan. [ ]
- 10.2 Form of Tax indemnification agreement among the Registrant, Mr. Kash, Mr. Rose, Mr. Newberry and Mr. Hardin, dated as of July 21, 1993. Incorporated by reference to Exhibit 10.7 of the Registrant's registration statement on Form S-1, Reg. No. 33- 63760. \*
- 10.3(a) Employment Agreement with Kelly L. Rose dated June 2, 1993. Incorporated by reference to Exhibit 10.10(a) of the Registrant's Form S-1. \*\*
- 10.3(b) Employment Agreement with Kelly L. Rose dated December 12, 1996. [ ]
- 10.3(c) Consulting Agreement with Allen H. Neuharth dated September 15, 1993. Incorporated by reference to Exhibit 10.3(k) of the Registrant's Form 10-K for the fiscal year ending October 2, 1994. \*
- 10.3(d) Employment Agreement between the Registrant and Michael H. Schoeffler dated January 16, 1995. Incorporated by reference to Exhibit 10.3(m) of the Registrant's Form 10-K for the year ending October 1, 1995. \*
- 10.3(e) Employment Agreement between the Registrant and Michael H. Schoeffler dated December 12, 1996. [ ]
- 10.4 Inventory Loan and Security Agreement by and between the Registrant and General Motors Acceptance Corporation, as amended. Incorporated by reference to Exhibit 10.13 of the Registrant's Form S-1. \*\*
- 10.5 Agreement by and between the Registrant and General Motors Acceptance Corporation dated February 7, 1991. Incorporated by reference to Exhibit 10.14 of the Registrant's Form S-1. \*\*
- 10.6 Intercreditor Agreement between General Motors Acceptance Corporation and Bank One, Indianapolis, N.A. dated July 21, 1992. Incorporated by reference to Exhibit 10.16 of the Registrant's Form S-1. \*\*
- 10.7 Authorized Converter Pool Agreement between the Registrant and Ford Motor Company dated May 7, 1991 and amended May 7, 1991. Incorporated by reference to Exhibit 10.17 of the Registrant's Form S-1. \*\*

- 10.8 Wholesale Financing and Security Agreement between the Registrant and Ford Motor Credit Company dated April 17, 1991. Incorporated by reference to Exhibit 10.18 of the Registrant's Form S-1. \*\*
- 10.9 Intercreditor Agreement between Ford Motor Credit Company and Bank One, Indianapolis, N.A. dated July 17, 1992. Incorporated by reference to Exhibit 10.20 of the Registrant's Form S-1. \*\*
- 10.10 Truck Consignment Agreement between the Registrant and Chrysler Corporation dated August 29, 1991. Incorporated by reference to Exhibit 10.21 of the Registrant's Form S-1. \*\*
- 10.11 License Agreement by and between the Registrant and AlliedSignal, Inc. dated February 18, 1993. Incorporated by reference to Exhibit 10.22 of the Registrant's Form S-1. \*\*
- 10.12 Agent Agreement by and between the Registrant, Mitsui & Co. (U.S.A.), Inc. and Mitsui & Co., Ltd. dated March 1, 1993. Incorporated by reference to Exhibit 10.23 of the Registrant's Form S-1. \*\*
- 10.13 License Agreement by and between the Registrant and Starcraft RV, Inc. dated September 12, 1991. Incorporated by reference to Exhibit 10.24 of the Registrant's Form S-1. \*\*
- 10.14 License Agreement by and between the Registrant and Starcraft Recreational Products, Ltd. dated January 18, 1991. Incorporated by reference to Exhibit 10.25 of the Registrant's Form S-1. \*\*
- 10.15 Contract for Conditional Sale of Real Estate by and between the Registrant and the Harold A. Schrock Revocable Trust dated December 20, 1991 and amended February 28, 1992. Incorporated by reference to Exhibit 10.26 of the Registrant's Form S-1. \*\*
- 10.16(a) Directors' Share Plan, restated effective October 1, 1995. Incorporated by reference to exhibit 10.16(a) of the Registrant's Form 10-K for the year ending October 1, 1995. \*
- 10.16(b) Directors' Compensation Deferral Plan effective October 1, 1995. Incorporated by reference to Exhibit 10.16(b) of the Registrant's Form 10-K for the year ending October 1, 1995. \*
- 10.17 Ford Authorized Convertor Pool Agreement between Imperial Automotive Group, Inc. and Ford Motor Co. dated June 29, 1994. Incorporated by reference to Exhibit 10.19 of the Registrant's Form 10-K for the fiscal year ending October 2, 1994. \*
- 10.18 Inventory Loan and Security Agreement between Imperial Automotive Group, Inc. and General Motors Acceptance Corporation dated June 20, 1994. Incorporated by reference to Exhibit 10.20 of the Registrant's Form 10-K for the fiscal year ending October 2, 1994. \*
- 10.19 Ford Authorizing Converter Pool Agreement between Ford Motor Co. and Imperial Automotive Group, Inc. dated June 29, 1994. Incorporated by reference to Exhibit 10.21 of the Registrant's Form 10-K for the fiscal year ending October 2, 1994. \*
- 10.20 Intercreditor Agreement between General Motors Acceptance Corporation and Bank One Indianapolis, N.A. dated July 15, 1994. Incorporated by reference to Exhibit 10.24 of the Registrant's Form 10-K for the fiscal year ending October 2, 1994. \*
- 10.21 GMC Truck Special Vehicle Manufacturers Agreement by and between Starcraft Automotive Group, Inc. and GMC Truck

Division, Truck & Bus Group, General Motors Corporation dated February 1, 1995. Incorporated by reference to Exhibit 10.21 of the Registrant's Form 10-K for the year ending October 1, 1995.

\*

10.22 GMC Truck Special Vehicle Manufacturer's Agreement between Imperial Automotive Group, Inc. and the GMC division of General Motors Corporation effective February 1, 1995. Incorporated by reference to Exhibit 10.22 of the Registrant's Form 10-K for the year ending October 1, 1995.

\*

10.23 Lease between Imperial Automotive Group, Inc. and Beck Real Estate Corporation dated February 3, 1995. Incorporated by reference to Exhibit 10 to the Registrant's Form 10-Q for the quarter ending January 1, 1995.

\*

10.24 Guaranty of Starcraft Automotive Group, Inc. to the obligations of Starcraft Corporation to General Motors Acceptance Corporation dated February 9, 1995. Incorporated by reference to Exhibit 10.23 of the Registrant's Form 10-K for the year ending October 1, 1995.

\*

10.25 Guaranty of Starcraft Automotive Group, Inc. to the obligations of Imperial Automotive Group, Inc. to General Motors Acceptance Corporation dated February 9, 1995. Incorporated by reference to Exhibit 10.25 of the Registrant's Form 10-K for the year ending October 1, 1995.

\*

10.26 Promissory Note from the Registrant to Imperial Industries, Inc. dated April 1, 1995. Incorporated by reference to Exhibit 10(3) to the Registrant's Form 10-Q for the quarter ending April 2, 1995.

\*

10.27 Chevrolet Quality Approved Converters Program Agreement by and between Starcraft Automotive Group, Inc. and Chevrolet Motor Division, General Motors Corporation dated April 10, 1995. Incorporated by reference to Exhibit 10.27 of the Registrant's Form 10-K for the year ending October 1, 1995.

\*

10.28 Chevrolet Quality Approved Converters Program between Imperial Automotive Group, Inc. and Chevrolet division of General Motors Corporation dated April 10, 1995. Incorporated by reference to Exhibit 10.28 of the Registrant's Form 10-K for the year ending October 1, 1995.

\*

10.29 Agreement between Chrysler Corporation and Starcraft Automotive Group, Inc. dated July 1, 1995. Incorporated by reference to Exhibit 10.29 of the Registrant's Form 10-K for the year ending October 1, 1995.

\*

10.30 Pool Company Wholesale Finance Plan and Security Agreement between Chrysler Credit Corporation and Starcraft Automotive Group, Inc. dated July 1, 1995. Incorporated by reference to Exhibit 10.30 of the Registrant's Form 10-K for the year ending October 1, 1995.

\*

10.31 Agreement between Chrysler Corporation and Imperial Industries, Inc. dated July 1, 1995. Incorporated by reference to Exhibit 10.31 of the Registrant's Form 10-K for the year ending October 1, 1995.

\*

10.32	Pool Company Wholesale Finance Plan and Security Agreement between Chrysler Credit Corporation and Imperial Industries, Inc. dated July 1, 1995. Incorporated by reference to Exhibit 10.32 of the Registrant's Form 10-K for the year ending October 1, 1995.	*
10.33	Promissory Note from Duke T. Hale dated November 4, 1995. Incorporated by reference to Exhibit 10(1) to the Registrant's Form 10-Q for the quarter ending April 2, 1995.	*
11	Computation of Earnings Per Share	[ ]
21	Subsidiaries of the Registrant.	[ ]
23 (a)	Consent of Ernst & Young LLP.	[ ]
23 (b)	Consent of McGladrey & Pullen, LLP	
27	Financial Data Schedule	

\* Incorporated by reference as indicated in the description.

\*\* Incorporated by reference to the exhibit, bearing the corresponding exhibit number to the Registrant's registration statement on Form S-1, Reg. No. 33-63760, unless another exhibit number is listed in the above description.

RESTATED  
CODE OF BY-LAWS  
OF  
STARCRAFT AUTOMOTIVE CORPORATION

ARTICLE I

Offices

Section 1. Principal Office. The principal office (the "Principal Office") of Starcraft Automotive Corporation (the "Corporation") shall be at 2703 College Avenue, P.O. Box 1903, Goshen, Indiana 46526, or such other place as shall be determined by resolution of the Board of Directors of the Corporation (the "Board").

Section 2. Other Offices. The Corporation may have such other offices at such other places within or without the State of Indiana as the Board may from time to time designate, or as the business of the Corporation may require.

ARTICLE II

Seal

Section 1. Corporate Seal. The corporate seal of the Corporation (the "Seal") shall be circular in form and shall have inscribed thereon the words "STARCRAFT AUTOMOTIVE CORPORATION" and "INDIANA". In the center of the seal shall appear the word "Seal". Use of the Seal or an impression thereof shall not be required, and shall not affect the validity of any instrument whatsoever.

ARTICLE III

Shareholder Meetings

Section 1. Place of Meeting. Every meeting of the shareholders of the Corporation (the "Shareholders") shall be held at the Principal Office, unless a

different place is specified in the notice or waiver of notice of such meeting or by resolution of the Board or the Shareholders, in which event such meeting may be held at the place so specified, either within or without the State of Indiana.

Section 2. Annual Meeting. The annual meeting of the Shareholders (the "Annual Meeting") shall be held each year at 10:00 a.m. on the 10th day of January (or, if such day is a legal holiday, on the next succeeding day not a legal holiday), for the purpose of electing directors of the Corporation ("Directors") and for the transaction of such other business as may legally come before the Annual Meeting. If for any reason the Annual Meeting shall not be held at the date and time herein provided, the same may be held at any time thereafter, or the business to be transacted at such Annual Meeting may be transacted at any special meeting of the Shareholders (a "Special Meeting") called for that purpose.

Section 3. Notice of Annual Meeting. Written or printed notice of the Annual Meeting, stating the date, time and place thereof, shall be delivered or mailed by the Secretary or an Assistant Secretary to each Shareholder of record entitled to notice of such Meeting, at such address as appears on the records of the Corporation, at least ten and not more than sixty days before the date of such Meeting.

Section 4. Special Meetings. Special Meetings, for any purpose or purposes (unless otherwise prescribed by law), may be called by only the Chairman of the Board of Directors (the "Chairman") or by the Board, pursuant to a resolution adopted by a majority of the total number of Directors of the Corporation, to vote on the business proposed to be transacted thereat. All requests for Special Meetings shall state the purpose or purposes thereof, and the business transacted at such Meeting shall be confined to the purposes stated in the call and matters germane thereto.

Section 5. Notice of Special Meetings. Written or printed notice of all Special Meetings, stating the date, time, place and purpose or purposes thereof, shall be delivered or mailed by the Secretary or the President or any Vice President calling the Meeting to each Shareholder of record entitled to notice of such Meeting, at such address as appears on the records of the Corporation, at least ten and not more than sixty days before the date of such Meeting.

Section 6. Waiver of Notice of Meetings. Notice of any Annual or Special Meeting (a "Meeting") may be waived in writing by any Shareholder, before or after the date and time of the Meeting specified in the notice thereof, by a written waiver delivered to the Corporation for inclusion in the minutes or filing with the corporate records. A Shareholder's attendance at any Meeting in person or by proxy shall constitute a waiver of (a) notice of such Meeting,

unless the Shareholder at the beginning of the Meeting objects to the holding of or the transaction of business at the Meeting, and (b) consideration at such Meeting of any business that is not within the purpose or purposes described in the Meeting notice, unless the Shareholder objects to considering the matter when it is presented.

Section 7. Quorum. At any Meeting, the holders of a majority of the voting power of all shares of the Corporation (the "Shares") issued and outstanding and entitled to vote at such Meeting represented in person or by proxy, shall constitute a quorum for the election of Directors or for the transaction of other business, unless otherwise provided by law, the Articles or this Code of

By-Laws, as the same may, from time to time, be amended (these "By-Laws"). If, however, a quorum shall not be present or represented at any Meeting, the Shareholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the Meeting from time to time, without notice other than announcement at the Meeting of the date, time and place of the adjourned Meeting, unless the date of the adjourned Meeting requires that the Board fix a new record date (the "Record Date") therefor, in which case notice of the adjourned Meeting shall be given. At such adjourned Meeting, if a quorum shall be present or represented, any business may be transacted that might have been transacted at the Meeting as originally scheduled.

Section 8. Voting. At each Meeting, every Shareholder entitled to vote shall have one vote for each Share standing in his name on the books of the Corporation as of the Record Date fixed by the Board for such Meeting, except as otherwise provided by law or the Articles, and except that no Share shall be voted at any Meeting upon which any installment is due and unpaid. Voting for Directors and, upon the demand of any Shareholder, voting upon any question properly before a Meeting, shall be by ballot. A plurality vote shall be necessary to elect any Director, and on all other matters, the action or a question shall be approved if the number of votes cast thereon in favor of the action or question exceeds the number of votes cast opposing the action or question, except as otherwise provided by law or the Articles.

Section 9. Shareholder List. The Secretary shall prepare before each Meeting a complete list of the Shareholders entitled to notice of such Meeting, arranged in alphabetical order by class of Shares (and each series within a class), and showing the address of, and the number of Shares entitled to vote held by, each Shareholder (the "Shareholder List"). Beginning five (5) business days before the Meeting and continuing throughout the Meeting, the Shareholder List shall be on file at the Principal Office or at a place identified in the Meeting notice in the city where the Meeting will be held, and shall be available for inspection by any Shareholder entitled to vote at the Meeting. On written demand, made in good faith and for a proper purpose and describing with reasonable particularity the Shareholder's purpose, and if the Shareholder List is directly connected with the Shareholder's purpose, a Shareholder (or such

Shareholder's agent or attorney authorized in writing) shall be entitled to inspect and to copy the Shareholder List, during regular business hours and at the Shareholder's expense, during the period the Shareholder List is available for inspection. The original stock register or transfer book (the "Stock Book"), or a duplicate thereof kept in the State of Indiana, shall be the only evidence as to who are the Shareholders entitled to examine the Shareholder List, or to notice of or to vote at any Meeting.

Section 10. Proxies. A Shareholder may vote either in person or by proxy executed in writing by the Shareholder or a duly authorized attorney-in-fact. No proxy shall be valid after eleven (11) months from the date of its execution, unless a longer time is expressly provided therein.

Section 11. Notice of Shareholder Business. At an Annual Meeting of the Shareholders, only such business shall be conducted as shall have been properly brought before the Meeting. To be properly brought before an Annual Meeting, business must be (a) specified in the notice of Meeting (or any supplement

thereto) given by or at the direction of the Board, (b) otherwise properly brought before the Meeting by or at the direction of the Board, or (c) otherwise properly brought before the Meeting by a Shareholder. For business to be properly brought before an Annual Meeting by a Shareholder, the Shareholder must have the legal right and authority to make the Proposal for consideration at the Meeting and the Shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a Shareholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than sixty (60) days prior to the Meeting; provided, however, that in the event that less than seventy (70) days' notice or prior public disclosure of the date of the Meeting is given or made to Shareholders (which notice or public disclosure shall include the date of the Annual Meeting specified in these By-Laws, if such ByLaws have been filed with the Securities and Exchange Commission and if the Annual Meeting is held on such date), notice by the Shareholder to be timely must be so received not later than the close of business on the tenth 10th day following the day on which such notice of the date of the Annual Meeting was mailed or such public disclosure was made. A Shareholder's notice to the Secretary shall set forth as to each matter the Shareholder proposes to bring before the Annual Meeting (a) a brief description of the business desired to be brought before the Annual Meeting and the reasons for conducting such business at the Annual Meeting, (b) the name and record address of the Shareholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the Shareholder, and (d) any material interest of the Shareholder in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an Annual Meeting except in accordance with the procedures set forth in this Section 11. The Chairman of an Annual Meeting shall, if the facts warrant,

determine and declare to the Meeting that business was not properly brought before the Meeting and in accordance with the provisions of this Section 11, and if he should so determine, he shall so declare and any such business not properly brought before the Meeting shall not be transacted. At any Special Meeting of the Shareholders, only such business shall be conducted as shall have been brought before the Meeting by or at the direction of the Board of Directors.

Section 12. Notice of Shareholder Nominees. Only persons who are nominated in accordance with the procedures set forth in this Section 12 shall be eligible for election as Directors. Nominations of persons for election to the Board may be made at a Meeting of Shareholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors or by any Shareholder of the Corporation entitled to vote for the election of Directors at the Meeting who complies with the notice procedures set forth in this Section 12. Such nominations, other than those made by or at the direction of the Board, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a Shareholder's notice shall be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than sixty (60) days prior to the Meeting; provided, however, that in the event that less than seventy (70) days' notice or prior public disclosure of the date of the Meeting is given or made to Shareholders (which notice or public disclosure shall include the date of the Annual Meeting specified in these By-Laws, if such ByLaws have been filed with the Securities and Exchange Commission and if the

Annual Meeting is held on such date), notice by the Shareholders to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the Meeting was mailed or such public disclosure was made. Such Shareholder's notice shall set forth (a) as to each person whom the Shareholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of the Corporation which are beneficially owned by such person and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and (b) as to the Shareholder giving the notice (i) the name and record address of such Shareholder and (ii) the class and number of shares of the Corporation which are beneficially owned by such Shareholder. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth in this Section 12. The Chairman of the Meeting shall, if the facts warrant, determine and declare to the Meeting that a nomination was

not made in accordance with the procedures prescribed by these By-Laws, and if he should so determine, the defective nomination shall be disregarded.

## ARTICLE IV

### Board of Directors

Section 1. Number. The business and affairs of the Corporation shall be managed by a Board of not less than three (3) nor more than fifteen (15) Directors, as may be specified from time to time by resolution adopted by a majority of the total number of the Corporation's Directors, divided into three classes as provided in the Articles. If and whenever the Board of Directors has not specified the number of Directors, the number shall be five (5). The Board may elect or appoint, from among its members, a Chairman of the Board (the "Chairman"), who need not be an officer (an "Officer") or employee of the Corporation. The Chairman shall preside at all Shareholder Meetings and Board Meetings and shall have such other powers and perform such other duties as are incident to such position and as may be assigned by the Board.

Section 2. Vacancies and Removal. Any vacancy occurring in the Board shall be filled as provided in the Articles. Shareholders shall be notified of any increase in the number of Directors and the name, principal occupation and other pertinent information about any Director elected by the Board to fill any vacancy. Any Director, or the entire Board, may be removed from office only as provided in the Articles.

Section 3. Powers and Duties. In addition to the powers and duties expressly conferred upon it by law, the Articles or these By-Laws, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not inconsistent with the law, the Articles or these By-Laws.

Section 4. Annual Board Meeting. Unless otherwise determined by the Board, the Board shall meet each year immediately after the Annual Meeting, at the place where such Meeting has been held, for the purpose of organization, election of Officers of the Corporation (the "Officers") and consideration of any other business that may properly be brought before such annual meeting of the Board (the "Annual Board Meeting"). No notice shall be necessary for the holding of the Annual Board Meeting. If the Annual Board Meeting is not held as above provided, the election of Officers may be held at any subsequent duly constituted meeting of the Board (a "Board Meeting").

Section 5. Regular Board Meetings. Regular meetings of the Board ("Regular Board Meetings") may be held at stated times or from time to time, and at such place, either within or without the State of Indiana, as the Board may

determine, without call and without notice.

Section 6. Special Board Meetings. Special meetings of the Board ("Special Board Meetings") may be called at any time or from time to time, and shall be called on the written request of at least two Directors, by the Chairman or the Chief Executive Officer, by causing the Secretary or any Assistant Secretary to give to each Director, either personally or by mail, telephone, telegraph, teletype or other form of wire or wireless communication at least two (2) days' notice of the date, time and place of such Meeting. Special Board Meetings shall be held at the Principal Office or at such other place, within or without the State of Indiana, as shall be specified in the respective notices or waivers of notice thereof.

Section 7. Waiver of Notice and Assent. A Director may waive notice of any Board Meeting before or after the date and time of the Board Meeting stated in the notice by a written waiver signed by the Director and filed with the minutes or corporate records. A Director's attendance at or participation in a Board Meeting shall constitute a waiver of notice of such Meeting and assent to any corporate action taken at such Meeting, unless (a) the Director at the beginning of such Meeting (or promptly upon his arrival) objects to holding of or transacting business at the Meeting and does not thereafter vote for or assent to action taken at the Meeting; (b) the Director's dissent or abstention from the action taken is entered in the minutes of such Meeting; or (c) the Director delivers written notice of his dissent or abstention to the presiding Director at such Meeting before its adjournment, or to the Secretary immediately after its adjournment. The right of dissent or abstention is not available to a Director who votes in favor of the action taken.

Section 8. Quorum. At all Board Meetings, a majority of the number of Directors designated for the full Board (the "Full Board") shall be necessary to constitute a quorum for the transaction of any business, except (a) that for the purpose of filling of vacancies a majority of Directors then in office shall constitute a quorum, and (b) that a lesser number may adjourn the Meeting from time to time until a quorum is present. The act of a majority of the Board present at a Meeting at which a quorum is present shall be the act of the Board, unless the act of a greater number is required by law, the Articles or these By-Laws.

Section 9. Audit and Other Committees of the Board. The Board shall, by resolution adopted by a majority of the Full Board, designate an Audit Committee comprised of two or more Directors, which shall have such authority and exercise such duties as shall be provided by resolution of the Board. The Board may, by resolution adopted by such majority, also designate other regular or special committees of the Board ("Committees"), in each case comprised of two or more Directors and to have such powers and exercise such duties as shall be provided by resolution of the Board.

Section 10. Resignations. Any Director may resign at any time by giving written notice to the Board, the Chairman, the Chief Executive Officer, the President or the Secretary. Any such resignation shall take effect when delivered unless the notice specifies a later effective date. Unless otherwise specified in the notice, the acceptance of such resignation shall not be necessary to make it effective.

## ARTICLE V

### Officers

Section 1. Officers. The Officers shall be the Chief Executive Officer, the President, one or more Vice Presidents, the Secretary and the Treasurer, and may include one or more Assistant Secretaries, one or more Assistant Treasurers and such other Officers as may be chosen by the Board at such time in such manner and for such terms as the Board may prescribe. Any two or more offices may be held by the same person. The Board may from time to time elect or appoint such other Officers as it shall deem necessary, who shall exercise such powers and perform such duties as may be prescribed from time to time by these By-Laws or, in the absence of a provision in these By-Laws in respect thereto, as may be prescribed from time to time by the Board.

Section 2. Election of Officers. The Officers shall be elected by the Board at the Annual Board Meeting and shall hold office for one year or until their respective successors shall have been duly elected and shall have qualified; provided, however, that the Board may at any time elect one or more persons to new or different offices and/or change the title, designation and duties and responsibilities of any of the Officers consistent with the law, the Articles and these By-Laws.

Section 3. Vacancies, Removal. Any vacancy among the Officers may be filled for the unexpired term by the Board. Any Officer may be removed at any time by the affirmative vote of a majority of the Full Board.

Section 4. Delegation of Duties. In the case of the absence, disability, death, resignation or removal from office of any Officer, or for any other reason that the Board shall deem sufficient, the Board may delegate, for the time being, any or all of the powers or duties of such Officer to any other Officer or to any Director.

Section 5. Chief Executive Officer. The Chief Executive Officer, subject to the control of the Board, shall have general charge and supervision and

authority over the business and affairs of the Corporation, and shall have such other powers and perform such other duties as are incident to this office and as may be assigned to him by the Board. In the case of the absence or disability of the Chairman or if no Chairman shall be elected or appointed by the Board, the Chief Executive Officer shall preside at all Shareholder meetings and Board Meetings.

Section 6. President. The President shall be Chief Operating Officer, subject to the control of the Chief Executive Officer and the Board, and shall have general charge of and supervision and authority over the operations of the Corporation, and shall have such other powers and perform such other duties as are incident to this office and as may be assigned to him by the Chief Executive Officer and the Board. In the case of the absence or disability of the Chief Executive Officer, the President shall preside at all Shareholder Meetings and Board Meetings.

Section 7. Vice Presidents. Each of the Vice Presidents shall have such powers and perform such duties as may be prescribed for him by the Board or delegated to him by the Chief Executive Officer. In the case of the absence, disability, death, resignation or removal from office of the President, the powers and duties of the President shall, for the time being, devolve upon and be exercised by the Executive Vice President, if there be one, and if not, then by such one of the Vice Presidents as the Board or the Chief Executive Officer may designate, or, if there be but one Vice President, then upon such Vice President; and he shall thereupon, during such period, exercise and perform all of the powers and duties of the President, except as may be otherwise provided by the Board.

Section 8. Secretary. The Secretary shall have the custody and care of the Seal, records, minutes and the Stock Book of the Corporation; shall attend all Shareholder Meetings and Board Meetings, and duly record and keep the minutes of their proceedings in a book or books to be kept for that purpose; shall give or cause to be given notice of all Shareholder Meetings and Board Meetings when such notice shall be required; shall file and take charge of all papers and documents belonging to the Corporation; and shall have such other powers and perform such other duties as are incident to the office of secretary of a business corporation, subject at all times to the direction and control of the Board and the Chief Executive Officer.

Section 9. Assistant Secretaries. Each of the Assistant Secretaries shall assist the Secretary in his duties and shall have such other powers and perform such other duties as may be prescribed for him by the Board or delegated to him by the Chief Executive Officer. In case of the absence, disability, death, resignation or removal from office of the Secretary, his powers and duties shall, for the time being, devolve upon such one of the Assistant Secretaries as the Board, or the Chief Executive Officer may designate, or, if there be but one Assistant Secretary, then upon such Assistant Secretary; and he shall thereupon, during such period, exercise and perform all of the powers and duties of the Secretary, except as may be otherwise provided by the Board.

Section 10. Treasurer. The Treasurer shall have control over all records of

the Corporation pertaining to moneys and securities belonging to the

Corporation; shall have charge of, and be responsible for, the collection, receipt, custody and disbursements of funds of the Corporation; shall have the custody of all securities belonging to the Corporation; shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation; and shall disburse the funds of the Corporation as may be ordered by the Board, taking proper receipts or making proper vouchers for such disbursements and preserving the same at all times during his term of office. When necessary or proper, he shall endorse on behalf of the Corporation all checks, notes or other obligations payable to the Corporation or coming into his possession for or on behalf of the Corporation, and shall deposit the funds arising therefrom, together with all other funds and valuable effects of the Corporation coming into his possession, in the name and the credit of the Corporation in such depositories as the Board from time to time shall direct, or in the absence of such action by the Board, as may be determined by the Chief Executive Officer. The Treasurer shall also have such other powers and perform such other duties as are incident to the office of treasurer of a business corporation, subject at all times to the direction and control of the Board and the Chief Executive Officer.

If required by the Board, the Treasurer shall give the Corporation a bond, in such an amount and with such surety or sureties as may be ordered by the Board, for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 11. Assistant Treasurers. Each of the Assistant Treasurers shall assist the Treasurer in his duties, and shall have such other powers and perform such other duties as may be prescribed for him by the Board or delegated to him by the Chief Executive Officer. In case of the absence, disability, death, resignation or removal from office of the Treasurer, his powers and duties shall, for the time being, devolve upon such one of the Assistant Treasurers as the Board, or the Chief Executive Officer may designate, or, if there be but one Assistant Treasurer, then upon such Assistant Treasurer; and he shall thereupon, during such period, exercise and perform all the powers and duties of the Treasurer except as may be otherwise provided by the Board. If required by the Board, each Assistant Treasurer shall likewise give the Corporation a bond, in such amount and with such surety or sureties as may be ordered by the Board, for the same purposes as the bond that may be required to be given by the Treasurer.

## ARTICLE VI

## Certificates for Shares

Section 1. Certificates. Certificates for Shares ("Certificates") shall be in such form, consistent with law and the Articles, as shall be approved by the Board. Certificates for each class, or series within a class, of Shares shall be numbered consecutively as issued. Each Certificate shall state the name of the Corporation and that it is organized under the laws of the State of

Indiana; the name of the registered holder; the number and class and the designation of the series, if any, of the Shares represented thereby; and a summary of the designations, relative rights, preferences and limitations applicable to such class and, if applicable, the variations in rights, preferences and limitations determined for each series and the authority of the Board to determine such variations for future series; provided, however, that such summary may be omitted if the Certificate states conspicuously on its front or back that the Corporation will furnish the Shareholder such information upon written request and without charge. Each Certificate shall be signed (either manually or in facsimile) by (i) the Chief Executive Officer or the President or a Vice President and (ii) the Secretary or an Assistant Secretary, or by any two or more Officers that may be designated by the Board, and may have affixed thereto the Seal, which may be a facsimile, engraved or printed.

Section 2. Record of Certificates. Shares shall be entered in the Stock Book as they are issued, and shall be transferable on the Stock Book by the holder thereof in person, or by his attorney duly authorized thereto in writing, upon the surrender of the outstanding Certificate therefor properly endorsed.

Section 3. Lost or Destroyed Certificates. Any person claiming a Certificate to be lost or destroyed shall make affidavit or affirmation of that fact and, if the Board or the Chief Executive Officer shall so require, shall give the Corporation and/or the transfer agents and registrars, if they shall so require, a bond of indemnity, in form and with one or more sureties satisfactory to the Board or the Chief Executive Officer and/or the transfer agents and registrars, in such amount as the Board or the Chief Executive Officer may direct and/or the transfer agents and registrars may require, whereupon a new Certificate may be issued of the same tenor and for the same number of Shares as the one alleged to be lost or destroyed.

Section 4. Shareholder Addresses. Every Shareholder shall furnish the Secretary with an address to which notices of Meetings and all other notices may be served upon him or mailed to him, and in default thereof notices may be addressed to him at his last known address or at the Principal Office.

## ARTICLE VII

### Corporate Books and Records

Section 1. Places of Keeping. Except as otherwise provided by law, the Articles or these By-Laws, the books and records of the Corporation (including the "Corporate Records," as defined in the Articles) may be kept at such place or places, within or without the State of Indiana, as the Board may from time to time by resolution determine or, in the absence of such determination by the Board, as shall be determined by the Chief Executive Officer.

Section 2. Stock Book. The Corporation shall keep at the Principal Office the original Stock Book or a duplicate thereof, or, in case the Corporation employs a stock registrar or transfer agent within or without the State of

Indiana, another record of the Shareholders in a form that permits preparation of a list of the names and addresses of all the Shareholders, in alphabetical order by class of Shares, stating the number and class of Shares held by each Shareholder (the "Record of Shareholders").

Section 3. Inspection of Corporate Records. Any Shareholder (or the Shareholder's agent or attorney authorized in writing) shall be entitled to inspect and copy at his expense, after giving the Corporation at least five (5) business days' written notice of his demand to do so, the following Corporate Records: (1) the Articles; (2) these By-Laws; (3) minutes of all Shareholder Meetings and records of all actions taken by the Shareholders without a meeting (collectively, "Shareholders Minutes") for the prior three (3) years; (4) all written communications by the Corporation to the Shareholders including the financial statements furnished by the Corporation to the Shareholders for the prior three (3) years; (5) a list of the names and business addresses of the current Directors and the current Officers; and (6) the most recent Annual Report of the Corporation as filed with the Secretary of State of Indiana. Any Shareholder (or the Shareholder's agent or attorney authorized in writing) shall also be entitled to inspect and copy at his expense, after giving the Corporation at least five (5) business days' written notice of his demand to do so, the following Corporate Records, if his demand is made in good faith and for a proper purpose and describes with reasonable particularity his purpose and the records he desires to inspect, and the records are directly connected with his purpose: (1) to the extent not subject to inspection under the previous sentence, Shareholders Minutes, excerpts from minutes of Board Meetings and of Committee meetings, and records of any actions taken by the Board or any Committee without a meeting; (2) appropriate accounting records of the Corporation; and (3) the Record of Shareholders.

Section 4. Record Date. The Board may, in its discretion, fix in advance a Record Date not more than seventy (70) days before the date (a) of any

Shareholder Meeting, (b) for the payment of any dividend or the making of any other distribution, (c) for the allotment of rights, or (d) when any change or conversion or exchange of Shares shall go into effect. If the Board fixes a Record Date, then only Shareholders who are Shareholders of record on such Record Date shall be entitled (a) to notice of and/or to vote at any such Meeting, (b) to receive any such dividend or other distribution, (c) to receive any such allotment of rights, or (d) to exercise the rights in respect of any such change, conversion or exchange of Shares, as the case may be, notwithstanding any transfer of Shares on the Stock Book after such Record Date.

Section 5. Transfer Agents; Registrars. The Board may appoint one or more transfer agents and registrars for its Shares and may require all Certificates to bear the signature either of a transfer agent or of a registrar, or both.

## ARTICLE VIII

### Checks, Drafts, Deeds and Shares of Stock

Section 1. Checks, Drafts, Notes, Etc. All checks, drafts, notes or orders for the payment of money of the Corporation shall, unless otherwise directed by the Board or otherwise required by law, be signed by one or more Officers as authorized in writing by the Chief Executive Officer. In addition, the Chief Executive Officer may authorize any one or more employees of the Corporation ("Employees") to sign checks, drafts and orders for the payment of money not to exceed specific maximum amounts as designated in writing by the Chief Executive Officer for any one check, draft or order. When so authorized by the Chief Executive Officer, the signature of any such Officer or Employee may be a facsimile signature.

Section 2. Deeds, Notes, Bonds, Mortgages, Contracts, Etc. All deeds, notes, bonds and mortgages made by the Corporation, and all other written contracts and agreements, other than those executed in the ordinary course of corporate business, to which the Corporation shall be a party, shall be executed in its name by the Chief Executive Officer, or the President, a Vice President or any other Officer so authorized by the Board and, when necessary or required, the Secretary or an Assistant Secretary shall attest the execution thereof. All written contracts and agreements into which the Corporation enters in the ordinary course of corporate business shall be executed by any Officer or by any other Employee designated by the Chief Executive Officer, or the President or a Vice President to execute such contracts and agreements.

Section 3. Sale or Transfer of Stock. Subject always to the further orders and directions of the Board, any share of stock issued by any corporation and owned by the Corporation (including reacquired Shares of the Corporation) may, for sale or transfer, be endorsed in the name of the Corporation by the Chief Executive Officer or the President or a Vice President, and said endorsement

shall be duly attested by the Secretary or an Assistant Secretary either with or without affixing thereto the Seal.

Section 4. Voting of Stock of Other Corporations. Subject always to the further orders and directions of the Board, any share of stock issued by any other corporation and owned or controlled by the Corporation (an "Investment Share") may be voted at any shareholders' meeting of such other corporation by the Chief Executive Officer. Whenever, in the judgment of the Chief Executive Officer, it is desirable for the Corporation to execute a proxy or give a shareholder's consent in respect of any Investment Share, such proxy or consent shall be executed in the name of the Corporation by the Chief Executive Officer or the President or a Vice President, and, when necessary or required, shall be attested by the Secretary or an Assistant Secretary either with or without affixing thereto the Seal. Any person or persons designated in the manner above stated as the proxy or proxies of the Corporation shall have full right, power and authority to vote an Investment Share the same as such Investment Share might be voted by the Corporation.

## ARTICLE IX

### Fiscal Year

Section 1. Fiscal Year. The Corporation's fiscal year shall begin the Monday following the Sunday closest to September 30 of each year and shall end on the Sunday closest to September 30 of the following year.

## ARTICLE X

### Amendments

Section 1. Amendments. These By-Laws may be altered, amended or repealed, in whole or in part, and new By-Laws may be adopted, at any Board Meeting by the affirmative vote of a majority of the Full Board.

Starcraft Corporation

Amendment of By-laws Effective February 20, 1996

RESOLVED, that the Code of By-laws of the Corporation be, and hereby is, amended by adding a new Article XI which shall read as follows:

## ARTICLE XI

### REDEMPTION OF CONTROL SHARES

Section 1. Redemption of Control Shares. Pursuant to IND. CODE ss. 23-1-42-10, the Corporation is fully empowered to redeem control shares, as defined in IND. CODE ss. 23-1-42. The Board of Directors has full power and authority to determine and adopt the procedures pursuant to which control shares shall be redeemed and to determine the "fair value" to be paid for such shares.

Starcraft Corporation

Amendment of By-laws Effective December 11, 1996

RESOLVED, that Article IV Section 9 of the By-Laws of the Corporation be amended to read in its entirety as follows:

Section 9. Audit and Other Committees of the Board. The Board shall, by resolution adopted by a majority of the Full Board, designate an Audit Committee comprised of two or more Directors, which shall have such authority and exercise such duties as shall be provided by resolution of the Board. The Board may, by resolution adopted by such majority, also designate other regular or special committees of the Board ("Committees"), in each case comprised of one or more Directors and to have such powers and exercise such duties as shall be provided by resolution of the Board.

STARCRAFT CORPORATION  
1997 STOCK INCENTIVE PLAN

1. Purpose. The purpose of the Starcraft Automotive Corporation 1997 Stock Incentive plan (the "Plan") is to provide to certain directors, officers (including officers who are members of the Board of Directors) and other key employees of Starcraft Automotive Corporation (the "Corporation") and its majority-owned and wholly-owned subsidiaries (individually a "Subsidiary" and collectively the "Subsidiaries") who are materially responsible for the management or operation of the business of the Corporation or a Subsidiary, a favorable opportunity to acquire shares of Common Stock, without par value, of the Corporation ("Common Stock"), thereby providing them with an increased incentive to work for the success of the Corporation and the Subsidiaries and better enabling each such entity to attract and retain capable directors and executive personnel.

2. Administration of the Plan. The Plan shall be administered, construed and interpreted by a Committee (the "Committee"). The Committee shall consist of at least two (2) members of the Board of Directors, who shall be designated from time to time by the Board of Directors. No member of the Committee shall, during the one year prior to his service at any time as a member of the Committee, have been granted or awarded equity securities pursuant to this Plan or any other an of the Corporation or any of its Subsidiaries, except:

(i) a formula plan meeting the conditions of Rule 16b-3(c)(2)(ii) promulgated under Section 16 of the Securities Exchange Act of 1934, as amended (the "1934 Act");

(ii) an ongoing securities acquisition plan meeting the conditions of Rule 16b-3(d)(2)(i) promulgated under Section 16 of the 1934 Act; or

(iii) another plan or arrangement a grant or award under which does not, in the opinion of the Corporation's counsel, cause a member of the Committee to fail to qualify as a "disinterested person" under Rule 16b-3(c)(2)(i) promulgated under Section 16 of the 1934 Act.

The decision of a majority of the members of the Committee shall constitute the decision of the Committee, and the Committee may act either at a meeting at which a majority of the members of the Committee is present or by a written

consent signed by all members of the Committee. The Committee shall have the sole, final and conclusive authority to determine, consistent with and subject to the provisions of the Plan:

(a) the individuals to whom options (the "Optionees") and restricted share awards shall be granted under the Plan (the "Awardees");

(b) the time when options or restricted shares of Common Stock shall be granted hereunder;

(c) the number of shares of Common Stock of the Corporation to be covered under each option or restricted share grant and the amount of any cash awards;

(d) the option price to be paid upon the exercise of each option;

(e) the price to be paid, if any, for restricted shares;

(f) the period within which each option may be exercised;

(g) the period of restrictions for restricted share grants;

(h) the extent to which an option is an incentive stock option or a non-qualified stock option; and

(i) the terms and conditions of the respective Option Agreements or Restricted Share Agreements by which options or restricted shares, whichever is applicable, granted shall be evidenced.

The Committee shall also have authority to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable in the administration of the Plan. Such authority shall include, but not be limited to authorizing the Employee Options Committee to grant options to eligible persons, as provided in Section 3 hereof, other than executive officers.

3. Eligibility. The Committee may, consistent with the terms hereof, grant options, restricted shares, or cash awards (the "Awards") to directors, officers (including officers who are members of the Board of Directors) and other key employees of the Corporation or of a Subsidiary who in the opinion of the Committee are from time to time materially responsible for the management or operation of the business of the Corporation or of a Subsidiary; provided,

however, that in no event may any employee who owns (after application of the ownership rules in Section 424(d) of the Internal Revenue Code of 1986, as amended (the "Code")) shares of stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation or any of its Subsidiaries be granted an incentive stock option hereunder unless at the time such option is granted the option price is at least 110% of the fair market value of the stock subject to the incentive stock option and such incentive stock option by its terms is not exercisable after the expiration of five (5) years from the date such option is granted.

4. Stock Subject to the Plan. The maximum number of shares with respect to which options and restricted share awards may be made under this Plan is 250,000 shares of Common Stock, which shall be authorized but unissued shares of the Corporation. Subject to Section 7 hereof, the shares for which awards may be granted under the Plan shall not exceed that number. If any option shall expire or terminate for any reason without having been exercised in full, or if any restricted share grant is forfeited in whole or in part, the

unpurchased or forfeited shares subject thereto shall (unless the Plan shall have terminated) become available for other Awards under the Plan.

5. Terms of Option. Each option granted under the Plan shall be evidenced by a Stock Option Agreement between the Corporation and the Optionee and shall be subject to the following terms and conditions and to such other terms and conditions not inconsistent therewith as the Committee may deem appropriate in each case:

(a) Option Price. The price to be paid for shares of stock upon the exercise of such option shall be determined by the Committee at the time such option is granted, but such price in the case of an incentive stock option shall not be less than the fair market value, as determined by the Committee consistent with Treas. Reg. Section 20.2031-2 and the requirements of Section 422 of the Code, of such stock on the date on which such option is granted; and provided further that the Committee may in no event award non-qualified stock options at a price less than 85% of the fair market value of the Common Stock on the date of grant, as determined by the Committee consistent with Treas. Reg. ss. 2031-2.

(b) Period for Exercise of Option. An option shall not be exercisable (i) before a six (6) month period beginning on the date of grant or, if later, the date on which the Plan is approved by the Corporation's shareholders or (ii) after the expiration of such period as shall be fixed by the Committee at the time such option is granted, but such period in no event shall exceed ten (10) years and one (1) day

from the date on which such option is granted; provided, however, that incentive stock options granted hereunder shall have terms not in excess of ten (10) years. Options granted to directors of the Corporation who are not employees of the Corporation or its Subsidiaries ("Outside Directors") shall be for a term of five (5) years and one day from the date of grant thereof, and shall be exercisable in full following the later of (i) six (6) months after the date of grant, or (ii) six (6) months after the date on which the Plan is approved by the Corporation's shareholders. Options shall be subject to earlier termination as hereinafter provided.

(c) Exercise of Options. The option price of each share of stock purchased upon exercise of an option shall be paid in full (i) in cash at the time of such exercise, (ii) if the Optionee may do so in conformity with Regulation T (12 C.F.R. Section 220.3(e)(4)) and without violating Section 16(b) or (c) of the 1934 Act and subject to approval by the Committee, pursuant to a broker's cashless exercise procedure, by delivering a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Corporation the total option price in cash and, if desired, the amount of any taxes to be withheld from the Optionee's compensation as a result of any withholding tax obligation of the Corporation or any of its Subsidiaries, as specified in such notice, or (iii) subject to the approval of the Committee, by tendering to the Corporation whole shares of the Corporation's Common Stock owned by him, or any combination of whole shares of the Corporation's Common Stock owned by him and cash, having a fair market value equal to the cash exercise price of the shares with respect to which the option is being exercised. For this purpose, any shares so

tendered by an Optionee shall be deemed to have a fair market value as determined by the Committee consistent with Treas. Reg. Section 20.2031-2 and the requirements of Section 422 of the Code. The Committee shall have the authority to grant options exercisable in full at any time during their term, or exercisable in such installments at such times during their term as the Committee may determine. Installments not purchased in earlier periods shall be cumulated and be available for purchase in later periods. Subject to the other provisions of this Plan, an option may be exercised at any time or from time to time during the term of the option as to any or all whole shares which have become subject to purchase pursuant to the terms of the option or the Plan, but not at any time as to fewer than one hundred (100) shares unless the remaining shares which have become subject to purchase are fewer than one hundred (100) shares. An option may be exercised only by written notice to the Corporation, mailed to

the attention of its Secretary, signed by the Optionee (or such other person or persons as shall demonstrate to the Corporation his or their right to exercise the option), specifying the number of shares in respect of which it is being exercised, and accompanied by payment in full by cash or check in the amount of the aggregate option price for the shares, by delivery of the irrevocable broker instructions referred to above or if the Committee has approved the use of the stock swap feature provided for above, followed as soon as practicable by the delivery of the option price for such shares.

(d) Certificates. The certificate or certificates for the shares as to which the option is exercised shall be registered in the name of the person or persons so exercising the option and shall be delivered to or upon the order of such person or persons, as soon as practicable after such written notice is received by the Corporation. An Optionee shall not have any rights of a shareholder in respect to the shares of stock subject to an option until such shares are purchased upon exercise of such option.

(e) Termination of Option. If an Optionee (other than an Outside Director) ceases to be an employee of the Corporation and the Subsidiaries for any reason other than retirement, permanent and total disability (within the meaning of ss. 22(e)(3) of the Code), or death, any option granted to him shall forthwith terminate; provided, that the Committee may authorize an option agreement to provide that the option will continue to be exercisable until a date following termination, but such date shall not be later than the later of (i) the date 30 days after termination of employment, or (ii) the last day of the month in which the last of the incentive stock options, if any, subject to the option agreement become exercisable. Leave of absence approved by the Committee shall not constitute cessation of employment. If an Optionee (other than an Outside Director) ceases to be an employee of the Corporation and the Subsidiaries by reason of retirement, any option granted to him may be exercised by him in whole or in part within three (3) months after the date of his retirement, whether or not the option was otherwise exercisable at the date of his retirement. (The term "retirement" as used herein means such termination of employment as shall entitle such individual to early or normal retirement benefits under any then existing pension plan of the Corporation or a Subsidiary). If an Optionee (other than an Outside Director) ceases to be an employee of the Corporation and the Subsidiaries by reason of permanent and total disability (within the meaning of ss. 22(e)(3) of

the Code), any option granted to him may be exercised by him in whole or in part within one (1) year after the date of his termination of

employment by reason of such disability whether or not the option was otherwise exercisable at the date of such termination. In the event of the death of an Optionee while in the employ of the Corporation or a Subsidiary, or within three (3) months after the date of his retirement or within one (1) year after the termination of his employment by reason of permanent and total disability (within the meaning of ss. 22(e) (3) of the Code), any option granted to him may be exercised in whole or in part at any time within one (1) year after the date of such death by the executor or administrator of his estate or by the person or persons entitled to the option by will or by applicable laws of descent and distribution until the expiration of the option term as fixed by the Committee, whether or not the option was otherwise exercisable at the date of his death. Options granted to Outside Directors shall cease to be exercisable six (6) months after the date such Outside Director is no longer a director of the Corporation for any reason. In the event of the death of an Optionee who is an Outside Director while serving as a director of the Corporation or within six (6) months after he ceases to be a director of the Corporation, any option granted to him may be exercised in whole or in part at any time within one (1) year after the date of such death by the executor or administrator of his estate or by the person or persons entitled to the option by will or by applicable laws of descent and distribution until the expiration of the option term fixed by the Committee, whether or not the option was otherwise exercisable at the date of his death. Notwithstanding anything in the foregoing to the contrary, no option shall in any event be exercisable after the expiration of the period fixed by the Committee in accordance with subsection (b) above.

(f) Nontransferability of Option. An Option may not be transferred by the Optionee otherwise than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title 1 of the Employee Retirement Income Security Act of 1974, as amended, and during the lifetime of the Optionee shall be exercisable only by him or his guardian or legal representative.

(g) Maximum Incentive Stock Options. The aggregate fair market value of stock with respect to which incentive stock options (within the meaning of Section 422 of the Code) are exercisable for the first time by an Optionee during any calendar year under the Plan or any other plan of the Company or its Subsidiaries shall not exceed \$100,000. For this purpose, the fair market value of such shares shall be determined as of the date the option is granted and shall be computed in such manner as shall be determined by the Committee, consistent with the requirements of Section 422 of the Code. If the immediate exercisability of incentive stock options arising from the retirement, death or permanent and total disability of an Optionee pursuant to Section 5(e) above would cause this \$100,000 limitation to be exceeded for an Optionee, the Committee shall convert as of the date on which such incentive stock options become exercisable all or a portion of the outstanding incentive stock options held by such

Optionee to non-qualified stock options to the extent necessary to comply with the \$100,000 limitation.

(h) Investment Representations. Unless the Shares Subject to an option are registered under applicable federal and state securities laws, each Optionee by accepting an option shall be deemed to agree for himself and his legal representatives that any option granted to him and any and all shares of Common Stock purchased upon the exercise of the option shall be acquired for investment and not with a view to, or for sale in connection with, any distribution thereof. Unless the shares subject to an option are registered under applicable federal and state securities laws, each notice of the exercise of any portion of an option shall be accompanied by a representation in writing, signed by the Optionee or his legal representatives, as the case may be, that the shares of Common Stock are being acquired in good faith for investment and not with a view to, or for sale in connection with, any distribution thereof (except in case of the Optionee's legal representatives for distribution, but not for sale, to his legal heirs, legatees and other testamentary beneficiaries). Any shares issued pursuant to an exercise of an option may bear a legend evidencing such representations and restrictions.

6. Incentive Stock Options and Non-Qualified Stock Options. Options granted under the Plan may be incentive stock options under Section 422 of the Code or non-qualified stock options. All options granted hereunder will be clearly identified as either incentive stock options or non-qualified stock options. In no event shall the exercise of an incentive stock option affect the right to exercise any non-qualified stock option. nor shall the exercise of any non-qualified stock option affect the right to exercise any incentive stock option. Nothing in this Plan shall be construed to prohibit the grant of incentive stock options and non-qualified stock options to the same person; provided, however, that incentive stock options and non-qualified stock options shall not be granted in a manner whereby the exercise of one non-qualified stock option or incentive stock option affects the exercisability of the other.

7. Adjustment of Shares. In the event of any change after the effective date of the Plan in the outstanding stock of the Corporation by reason of any reorganization, recapitalization, stock split, stock dividend, combination of shares, exchange of shares, merger or consolidation, liquidation, or any other change after the effective date of the Plan in the nature of the shares of stock of the Corporation, the Committee shall determine what changes, if any, are appropriate in the number and kind of shares reserved under the Plan, and in the option price under and restricted share price and the number and kind of shares covered by outstanding Awards granted under the Plan. Any determination of the Committee hereunder shall be conclusive.

8. Restricted Share Awards. The Committee may also grant restricted share awards of Common Stock which entitle Awardees to receive shares of Common Stock. Each restricted share award shall be evidenced by a Restricted Share Agreement between the Corporation and the Awardee which such Agreement shall set forth the terms and conditions of the award to the extent not inconsistent with the provisions of the Plan. A restricted share award may provide for the crediting or payment to do Awardee, on each dividend payment date, of an amount equal to the dividends on awarded shares. A restricted share award may also provide for the distribution of shares subject to the following conditions:

(a) the shares may not be distributed earlier than six (6) months after grant;

(b) the shares may not be transferred until the lapsing of the forfeiture provisions;

(c) the shares shall be deposited with the Secretary of the Corporation;

(d) dividends on awarded shares shall be distributed at such times as are determined by the Committee; and

(e) the shares shall be subject to forfeiture under the circumstances described in the Restricted Share Agreement between the Corporation and the Awardee.

Each restricted share award shall provide for the distribution of the awarded shares free of all restrictions at such time or times as the Committee shall determine, and specify in the Restricted Share Agreement.

9. Tax Withholding. Whenever the Corporation proposes or is required to issue or transfer shares under the Plan, the Corporation shall have the right to require the Awardee or his legal representative to remit to the Corporation an amount sufficient to satisfy any federal, state and/or local tax withholding requirements prior to the delivery of any certificate or certificates for such shares or lifting the legends on Common Stock subject to restrictions, and whenever under the Plan payments are to be made in cash, such payments shall be net of an amount sufficient to satisfy any federal, state and/or local withholding requirements; provided, however, that to the extent expressly provided in a Stock Option Agreement or Restricted Share Agreement, the Corporation may make an additional cash payment to the Awardee equal to all or a portion of his withholding obligation.

Notwithstanding the above and to the extent permitted by the Committee, an

Optionee may make a written election to have shares having an aggregate fair market value sufficient to satisfy the applicable withholding taxes withheld from the shares otherwise to be received upon the exercise of the option. Elections by Optionees to have shares withheld for this purpose will be subject to the following provisions:

(a) they must be made prior to the date as of which the amount of tax withheld is determined (the "Tax Date");

(b) the option price under any option may not be reduced to less, than the fair market value, as determined by the Committee consistent with the requirements of Section 422 of the Code, of the stock on the date such option is granted, except as provided in Section 7 hereof;

(c) they will be irrevocable; and

(d) they will be subject to the disapproval of the Committee.

10. Tax Benefit. The Committee may, in its sole discretion, include a provision in any Option Agreement or Restricted Share Agreement that provides for an additional cash payment from the Corporation to the grantee of such option or award equal to the tax benefit to be received by the Corporation attributable to its federal income tax deduction, if any, resulting from the exercise, vesting, cancellation, disposition or other transaction involving the option or the shares subject to the option or restricted share award.

11. Replacement and Extension of the Terms of Options and Cash Awards. The Committee from time to time may permit an Optionee (other than an Outside Director) under the Plan or any other stock option plan heretofore or hereafter adopted by the Corporation or any Subsidiary to surrender for cancellation any unexercised outstanding stock option and receive from his employing corporation in exchange therefor an option for such number of shares of Common Stock as may be designated by the Committee. Such Optionees also may be granted related cash awards as provided in Section 10 hereof.

12. Amendment. The Board of Directors of the Corporation may amend the Plan from time to time and, with the consent of the Optionee, the terms and provisions of his Awards, except that without the approval of the holders of at least a majority of the shares of the Corporation voting in person or by proxy at a duly constituted meeting or adjournment thereof:

(a) the number of shares of stock which may be reserved for issuance under the plan may not be increased except as provided in Section 7 hereof;

(b) the period during which an option may be exercised may not be extended beyond ten (10) years and one day from the day on which such option was granted;

(c) the class of persons to whom Awards may be granted under the Plan shall not be modified materially;

(d) the benefits accruing to Awardees under the plan may not be materially increased;

(e) the number of shares subject to options to be granted to outside Directors or the date of grant or the exercise price and other terms thereof shall not be changed except as provided in Section 7 hereof unless the Corporation at the time has ceased to have its Common Stock registered under ss. 12 of the 1934 Act.

No amendment of the Plan, however, may, without the consent of the Awardees, make any changes in any outstanding Awards theretofore granted under the Plan which would adversely affect the rights of such Awardees.

13. Termination. The Board of Directors of the Corporation may terminate the Plan at anytime and no award shall be granted thereafter. Such termination, however, shall not affect the validity of any award theretofore granted under the Plan. In any event, no incentive stock option may be granted under the Plan after the conclusion of a ten (10) year period commencing on the

date the Plan is adopted or, if earlier, the date the Plan is approved by the Corporation's shareholders.

14. Successors. This Plan shall be binding upon the successors and assigns of the Corporation.

15. Governing Law. The terms of any awards granted hereunder and the rights and obligations hereunder of the Corporation, the Awardees and their successors in interest shall, except to the extent governed by Federal law, be governed by Indiana law.

16. No Right to Continued Service. Nothing in this Plan or in any agreement entered into pursuant hereto shall confer on any person any right to continue in the employ or service of the Corporation or its Subsidiaries or affect any rights that the Corporation, a Subsidiary, or the shareholders of the Corporation may have to terminate his service at any time.

17. Government and Other Regulations. The obligations of the Corporation to issue or transfer and deliver shares under options granted under the Plan shall

be subject to compliance with all applicable laws, governmental rules and regulations, and administrative action.

18. Effective Date. The Plan shall become effective on the Closing Date; provided, however, that the granting of any option under the Plan or restricted share award is conditional upon the approval of the Plan by the Corporation's shareholders no later than twelve (12) months after such effective date and the options granted pursuant to the Plan may not be exercised until the Board of Directors of the Corporation has been advised by counsel that such approval has been obtained and all other applicable legal requirements have been met, provided, further, that if shareholder approval does not occur or if the closing of the Public Offering does not occur as provided above, the Plan and all outstanding options and restricted share awards shall terminate.

EMPLOYMENT AGREEMENT

This Agreement, made and dated as of December 12, 1996 ("Effective Date"), by and between Starcraft Corporation, an Indiana corporation ("Employer"), and Kelly L. Rose, a resident of Elkhart County, Indiana ("Employee").

W I T N E S S E T H

WHEREAS, Employee is employed by Employer as its Chairman of the Board and Chief Executive Officer, for itself and each of its subsidiaries ("Job Responsibilities") and Employee has made valuable contributions to the strategic planning, business operations, and financial strength of Employer;

WHEREAS, Employer desires to encourage Employee to continue to make valuable contributions to Employer's business operations and not to seek or accept employment elsewhere;

WHEREAS, Employee desires to be assured of a secure minimum compensation from Employer for his services over a defined term;

WHEREAS, Employer desires to assure the continued services of Employee on behalf of Employer on an objective and impartial basis and without distraction or conflict of interest in the event of an attempt by any person to obtain control of Employer;

WHEREAS, Employer recognizes that when faced with a proposal for a change of control of Employer, Employee will have a significant role in helping the Board of Directors assess the options and advising the Board of Directors on what is in the best interests of Employer and its shareholders, and it is necessary for Employee to be able to provide this advice and counsel without being influenced by the uncertainties of his own situation; and

WHEREAS, Employer desires to provide fair and reasonable benefits to Employee on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of these premises, the mutual covenants and undertakings herein contained and the continued employment of Employee to perform Job Responsibilities for Employer, Employer and Employee, each intending to be legally bound, covenant and agree as follows:

1. Upon the terms and subject to the conditions set forth in this Agreement, Employer employs Employee to perform Job Responsibilities for Employer, and Employee accepts such employment.

2. Employee agrees to serve as Employer's Chief Executive Officer for Employer and each of its subsidiaries in connection with the Job Responsibilities; provided, however that such duties shall be performed in or from the offices of Employer currently located at Goshen, Indiana, and shall be of the same character

as those previously performed by Employee and generally associated with the office held by Employee. Employee shall not be required to be absent from the location of the principal executive offices of Employer on travel status or otherwise more than ten (10) days in any calendar year. Employer shall not, without the written consent of Employee, relocate or transfer Employee to a location more than fifteen (15) miles from his principal residence. Employee shall perform Job Responsibilities for Employer as Chief Executive Officer for Employer and each of its subsidiaries in substantially the same manner and to substantially the same extent as Employee rendered his services to Employer before the date hereof. Although while employed by Employer, Employee shall devote substantially all his business time and efforts to Employer's business and shall not engage in any other related business, Employee may use his discretion in fixing his hours and schedule of work consistent with the proper discharge of his duties. Employer shall cause Employee to be nominated to successive terms as a member of Employer's Board of Directors and shall use its best efforts to cause Employee to be elected and re-elected as a member of such Board.

3. The term of this Agreement shall begin on the "Effective Date" and shall end on the date which is five (5) years following such date; provided, however, that such term shall be extended for additional five (5) year terms on each anniversary of the Effective Date (the "Anniversary Date"), unless either party hereto gives written notice to the other party not to so extend within ninety (90) days prior to each such Anniversary Date, in which case no further extension shall occur and the term of this Agreement shall end five (5) years subsequent to the Anniversary Date as of which the notice not to extend is given (such term, including any extension thereof shall herein be referred to as the "Term"). A notice not to so extend given by either party shall be a termination of employment prior to the expiration of the Term of this Agreement, for all purposes, including Section 7 and Section 8 of this Agreement. Such notice not to extend shall be in the form of the "Notice of Termination" defined in Section 10 hereof and shall contain specific reference to specific provisions of Section 7 hereof relied upon for any such termination on the Anniversary Date or otherwise.

4. During the Term, Employee shall receive an annual salary of not less than Three Hundred Thousand Dollars (\$300,000.00) ("Base Compensation") payable at regular intervals in accordance with Employer's normal payroll practices now or hereafter in effect. Employer may consider and declare from time to time

increases in the salary it pays Employee and thereby increases in his Base Compensation. Any and all increases in Employee's salary pursuant to this section shall cause the level of Base Compensation to be increased by the amount of each such increase for purposes of this Agreement. The increased level of Base Compensation as provided in this section shall become the level of Base Compensation for the remainder of the Term of this Agreement until there is a further increase in Base Compensation as provided herein.

5. So long as Employee is employed by Employer pursuant to this Agreement, he shall be included as a participant in all present and future employee benefit, retirement, and compensation plans generally available to employees of Employer, consistent with his Base Compensation, his Job Responsibilities and his position as Chief Executive Officer of Employer and each of its subsidiaries, including, without limitation, Employer's 401(k) plan, stock incentive plan, Executive Bonus Plan, split dollar life insurance program, and group life insurance plans

(collectively, "Benefit Plans"), each of which Employer agrees to continue in effect on terms no less favorable than those currently in effect as of the date hereof (as permitted by law) during the Term of this Agreement.

6. So long as Employee is employed by Employer pursuant to this Agreement, Employee shall receive reimbursement from Employer for all reasonable business expenses incurred in the course of his employment by Employer, upon submission to Employer of written vouchers and statements for reimbursement. Employee shall attend, at his discretion, those professional meetings, conventions, and/or similar functions that he deems appropriate and useful for purposes of keeping abreast of current developments in the industry and/or promoting the interests of Employer. So long as Employee is employed by Employer pursuant to the terms of this Agreement, Employer shall continue in effect vacation policies applicable to Employee no less favorable from his point of view than those written vacation policies in effect on the date hereof. So long as Employee is employed by Employer pursuant to this Agreement, Employee shall be entitled to office space and working conditions no less favorable from his point of view than were in effect for him on the date hereof. So long as Employee is employed by Employer pursuant to this Agreement, employee shall be entitled to the use of a company car provided by the Employer. So long as Employee is employed by Employer pursuant to this Agreement, Employee shall be entitled to membership in the Elcona Country Club, and Employer shall continue to pay the dues and assessments for such membership.

7. Subject to the respective continuing obligations of the parties, including but not limited to those set forth in subsections 8(A), 8(B), 8(C) and 8(D) hereof, Employee's employment by Employer may be terminated effective on any Anniversary Date or otherwise prior to the expiration of the Term of this

Agreement as follows:

(A) Employer, by action of its Board of Directors and upon written notice to Employee, may terminate Employee's employment with Employer at any time for cause. For purposes of this subsection 7(A), "cause" shall be defined as:

- (i) the willful, flagrant and repeated failure of Employee to perform his duties or to comply with the reasonable directions of the Board of Directors which failure continues after the Board of Directors has given written notice to Employee specifying in reasonable detail the manner in which Employee has failed to perform such duties or comply with such directions;
- (ii) the conviction of the Employee for a felony which the Board of Directors determines in the exercise of its reasonable judgment could be expected to have a material adverse impact on the Employer.

(B) Employee, by written notice to Employer, may terminate his employment with Employer at any time for cause. For purposes of this subsection 7(B), "cause" shall be defined as (i) any action by Employer's Board of Directors to remove the Employee as Chairman of the Board or Chief Executive Officer of Employer or any of its subsidiaries, except where the Employer's Board of Directors properly acts to remove Employee from such office for "cause" as defined in subsection 7(A) hereof, (ii) any action by Employer's Board

of Directors to materially limit, increase, or modify Employee's Job Responsibilities and/or authority as Chairman of the Board or Chief Executive Officer of Employer or any of its subsidiaries (including his authority, subject to corporate controls no more restrictive than those in effect on the date hereof, to hire and discharge employees who are not bona fide officers of Employer), (iii) any failure of Employer to obtain the assumption of the obligation to perform this Agreement by any successor, assignee, or distributee of all or substantially all of Employer's assets (on a consolidated basis with those of its subsidiaries), or the reaffirmation of such obligation by such successor, assignee, or distributee, as contemplated in Section 16 hereof; (iv) any material breach by Employer of a term, condition or covenant of this Agreement; or (v) adoption or approval of a plan of liquidation, dissolution, or reorganization for Employer or

any of its subsidiaries by the Employer's Board of Directors.

- (C) Except as otherwise provided in Section 3 regarding nonrenewal on any Anniversary Date, and in addition thereto, Employee, at any time and upon sixty (60) days written notice to Employer, may terminate his employment with Employer without cause.
- (D) Employee's employment with Employer shall terminate in the event of Employee's death or permanent disability. For purposes hereof, "disability" shall be defined as Employee's permanent inability by reason of illness or other physical or mental incapacity to perform duties reasonably required for employment for any consecutive one hundred eighty (180) day period, provided that notice of any termination by Employer because of Employee's "disability" shall have been given to Employee prior to the full resumption by him of the performance of such duties.

8. In the event of termination of Employee's employment with Employer pursuant to Section 7 hereof, which shall include a nonrenewal of this Agreement on any Anniversary Date as provided in Section 3 hereof, compensation shall continue to be paid by Employer to Employee as follows:

- (A) In the event of termination for cause by Employer or without cause by Employee pursuant to subsection 7(A) or 7(C), respectively, compensation provided for herein (including Base Compensation) shall continue to be paid, and Employee shall continue to participate in the Benefit Plans and other perquisites as provided in Sections 5 and 6 hereof, through the date of termination specified in the notice of termination. Any benefits payable under such Benefit Plans as a result of Employee's participation in such plans through such date shall be paid when due under those plans. The date of termination specified in any notice of termination pursuant to subsection 7(A) shall be no later than the last business day of the month in which such notice is provided to Employee.
- (B) In the event of termination with cause by Employee pursuant to subsection 7(B), compensation provided for herein (including Base Compensation) shall continue to be paid, and Employee shall continue to participate in the Benefit Plans and other perquisites as provided in Sections 5 and 6 hereof, through the date of termination specified in the notice of termination.

Any benefits payable under such Benefit Plans as a result of Employee's participation in such plans through such date shall be paid when due under those plans. In addition, Employee shall at his option exercised effective the date of termination, be entitled to receive one of the following:

either,

(i) Employee shall be entitled to continue to receive from Employer his Base Compensation at the rates in effect at the time of termination for five (5) additional twelve (12) month periods. In addition, during such periods, Employer will maintain in full force and effect for the continued benefit of Employee and his dependents each Benefit Plan in which Employee was entitled to participate immediately prior to the date of his termination, unless an essentially equivalent and no less favorable benefit is provided by a subsequent employer of Employee. If the terms of any Benefit Plan, or applicable laws, do not permit continued participation by Employee, Employer will arrange to provide to Employee a benefit substantially similar to, and no less favorable than, the benefit he was entitled to receive under such Benefit Plans at the end of the period of coverage;

or,

(ii) Employee shall be entitled to receive from Employer his Base Compensation at the rates in effect at the time of termination for five (5) additional twelve (12) month periods, payable in one lump sum payment on or before thirty (30) days following the date of termination, and Employer will not thereafter maintain any Benefit Plan for the continued benefit of Employee and his dependents.

(C) In the event of termination pursuant to subsection 7(D), compensation provided for herein (including Base Compensation) shall continue to be paid, and Employee shall continue to participate in the Benefit Plans and other perquisites as provided in sections 5 and 6 hereof, (i) in the event of Employee's death, through the date of death, or (ii) in the event of Employee's permanent disability, through the date of proper notice of disability as required by subsection 7(D). Any benefits payable under such Benefit Plans as a result of Employer's participation in such plans through such date shall be paid when due under those plans.

(D) Employer will permit Employee or his personal

representative(s) or heirs, during a period of three months following termination of Employee's employment by Employer with cause as set forth in subsection 7(A), or Employee's termination of his employment with Employer for cause as set forth in subsection 7(B), or Employee's termination of his employment with Employer without cause as set forth in subsection 7(C), or death or disability of the Employee as set forth in subsection 7(D), to require Employer, upon written request and at Employee's option, to purchase all or less than all of outstanding stock options previously granted to Employee under any Employer stock option plan then in effect whether or not such options are then exercisable or have terminated, at a cash purchase

price equal to the amount by which the aggregate "fair market value" of the shares subject to such options exceeds the aggregate option price for such shares. For purposes of this Agreement, the term "fair market value" shall mean the higher of (1) the average of the highest asked prices for Employer shares in the over-the-counter market as reported on the NASDAQ system or other national exchange if the shares are traded on such system for the thirty (30) business days preceding such termination, or (2) the average per share price actually paid for the most highly priced one percent (1%) of the Employer shares acquired in connection with any change of control of the Employer by any person or group acquiring such control.

9. In order to induce Employer to enter into this Agreement, Employee hereby agrees as follows:

- (A) Unless otherwise required to do so by law, including the order of a court or governmental agency, Employee shall not divulge or furnish any trade secrets (as defined in IND. CODEss. 24-2-3-2) of Employer or any confidential information acquired by him while employed by Employer concerning the policies, plans, procedures or customers of Employer to any person, firm or corporation, other than Employer or upon its written request, or use any such trade secret or confidential information directly or indirectly for Employee's own benefit or for the benefit of any person, firm or corporation other than Employer, since such trade secrets and confidential information are confidential and shall at all times remain the property of Employer.

(B) If Employee's employment by Employer is terminated for any reason by either Employee or Employer, Employee will turn over immediately thereafter to Employer all business correspondence, letters, papers, reports, customers' lists, financial statements, records, drawings, credit reports or other confidential information or documents of Employer or its affiliates in the possession or control of Employee, all of which writings are and will continue to be the sole and exclusive property of Employer or its affiliates.

10. Any termination of Employee's employment with Employer as contemplated by Section 3 and Section 7 hereof, except in the circumstances of Employee's death, shall be communicated by written "Notice of Termination" by the terminating party to the other party hereto. Any "Notice of Termination" must refer to one or more of subsections 7(A), 7(B), 7(C) or 7(D), shall indicate the specific provisions of this Agreement and one or more of such subsections of Section 7 relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination under one or more of such subsections of Section 7.

11. Anything in this Agreement to the contrary notwithstanding, payment of Base Compensation by the Employer to or for the benefit of the Employee pursuant to subsection 8(B) hereof shall be inclusive of payment attributable to the confidentiality covenants of subsection 9(A), and shall be payable whether or not deductible by the Employer for federal income tax purposes.

12. If a dispute arises regarding termination of employment pursuant to Section 3 and Section 7 hereof, said dispute shall be resolved by binding arbitration determined in accordance with the rules of the American Arbitration Association and if Employee obtains a final award in his favor or his claim is settled by Employer prior to the rendering of an award by such arbitration, all reasonable legal fees and expenses incurred by Employee in contesting or disputing any such termination or otherwise pursuing his claim shall be paid by Employer, to the extent permitted by law. If a dispute arises regarding other provisions of this Agreement, including enforcement of the confidentiality provisions hereof, then such shall be heard only by the judge and not by a jury, in any court of general jurisdiction in Elkhart County, Indiana, to which such sole and exclusive jurisdiction each party irrevocably consents. Each party agrees not to assert and hereby waives any right of removal, consolidation or joinder with any other action, or any transfer by reason of preferred venue. The prevailing party shall be entitled to its costs, expenses and reasonable attorney's fees. It is provided, however, that in either of arbitration or judicial proceedings, if it is determined that Employer breached any of the material terms or conditions of this Agreement, then as liquidated damages,

Employee shall be entitled to receive not less than the Base Compensation and Benefit Plan payments described in subsection 8(B) hereof.

13. Should Employee die after termination of his employment with Employer while any amounts are payable to him hereunder, this Agreement shall inure to the benefit of and be enforceable by Employee's executors, administrators, heirs, distributees, devisees and legatees and all amounts payable hereunder shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee or other designee or, if there is no such designee, to his estate.

14. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Employee: Kelly L. Rose  
2703 College Avenue  
Elkhart, IN 46516

If to Employer: Starcraft Corporation  
2703 College Avenue  
Post Office Box 1903  
Goshen, IN 46526  
Attention: Michael H. Schoeffler, President

or to such address as either party hereto may have furnished to the other party in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

15. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the State of Indiana.

16. Employer shall require any successor, assignee, distributee or other transferee of all or substantially all of its or its subsidiaries' assets or

business ("Succession") (whether direct or indirect, by purchase, merger, dissolution, liquidation, consolidation or otherwise) by agreement in form and substance satisfactory to Employee to expressly assume and agree to perform this Agreement in the same manner and same extent that Employer would be required to perform it if no such Succession had taken place. Failure of Employer to obtain such agreement prior to the effectiveness of any such Succession shall be a material intentional breach of this Agreement and shall entitle Employee to terminate his employment with Employer for cause pursuant to subsection 7(B) hereof. As used in this Agreement, "Employer" shall mean Employer or any of its

subsidiaries from time to time and any successor to its or their business or assets as aforesaid.

17. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Employee and Employer. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representation, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

18. The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement which shall remain in full force and effect.

19. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same agreement.

20. This Agreement is personal in nature and neither party hereto shall, without consent of the other, assign or transfer this Agreement or any rights or obligations hereunder except as provided in Section 13 and Section 16 above. Without limiting the foregoing, Employee's right to receive compensation hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution as set forth in Section 13 hereof, and in the event of any attempted assignment or transfer contrary to this paragraph, Employer shall have no liability to pay any amounts so attempted to be assigned or transferred.

IN WITNESS WHEREOF, the parties have caused the Agreement to be executed and delivered this 18th day of December, 1996.

"Employee"

/s/ Kelly L. Rose

-----  
Kelly L. Rose

"Employer"

STARCRAFT CORPORATION

By: /s/ Michael H. Schoeffler

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Michael H. Schoeffler  
Its:President

EXHIBIT A

In Japan, Europe, and any of the 48 contiguous States of the United States of America; it being acknowledged by Employee that the Company conducts business in all such States, and also it is acknowledged by Employee that the Company presently conducts a substantial amount of its business in each of the following States:

Wisconsin  
Michigan  
Illinois  
Indiana  
Ohio  
Pennsylvania  
New York  
Oklahoma  
Texas  
California

## EMPLOYMENT AGREEMENT

This Agreement, made and dated as of December 12, 1996 (the "Effective Date"), by and between Starcraft Corporation, an Indiana corporation ("Employer"), and Michael H. Schoeffler, a resident of Elkhart County, Indiana ("Employee").

## W I T N E S S E T H

WHEREAS, Employee is employed by Employer as its President, and is employed as its Chief Financial Officer for itself and each of its subsidiaries ("Job Responsibilities") and Employee has made valuable contributions to the strategic planning, business operations, and financial strength of Employer;

WHEREAS, Employer desires to encourage Employee to continue to make valuable contributions to Employer's business operations and not to seek or accept employment elsewhere;

WHEREAS, Employee desires to be assured of a secure minimum compensation from Employer for his services over a defined term;

WHEREAS, Employer desires to assure the continued services of Employee on behalf of Employer on an objective and impartial basis and without distraction or conflict of interest in the event of an attempt by any person to obtain control of Employer;

WHEREAS, Employer recognizes that when faced with a proposal for a change of control of Employer, Employee will have a significant role in helping the Board of Directors assess the options and advising the Board of Directors on what is in the best interests of Employer and its shareholders, and it is necessary for Employee to be able to provide this advice and counsel without being influenced by the uncertainties of his own situation;

WHEREAS, Employer desires to provide fair and reasonable benefits to Employee on the terms and subject to the conditions set forth in this Agreement;

WHEREAS, Employer desires reasonable protection of its confidential business and customer information which it has developed over the years at substantial expense and assurance that Employee will not compete with Employer for a reasonable period of time after termination of his employment with Employer, except as otherwise provided herein.

NOW, THEREFORE, in consideration of these premises, the mutual covenants and undertakings herein contained and the continued employment of Employee to

perform Job Responsibilities for Employer, Employer and Employee, each intending to be legally bound, covenant and agree as follows:

1. Upon the terms and subject to the conditions set forth in this Agreement, Employer employs Employee to perform Job Responsibilities for Employer, and Employee accepts such employment.

2. Employee agrees to serve as Employer's President and Chief Financial Officer for Employer and its subsidiaries in connection with the Job Responsibilities and to perform such Job Responsibilities in that office as may reasonably be assigned to him by Employer's Board of Directors; provided, however that such duties shall be performed in or from the offices of Employer currently located at Goshen, Indiana, and shall be of the same character as those previously performed by Employee and generally associated with the office held by Employee. Employee shall not be required to be absent from the location of the principal executive offices of Employer on travel status or otherwise more than 45 days in any calendar year. Employer shall not, without the written consent of Employee, relocate or transfer Employee to a location more than 30 miles from his principal residence. Employee shall perform Job Responsibilities for Employer as President and Chief Financial Officer for Employer and each of its subsidiaries in substantially the same manner and to substantially the same extent as Employee rendered his services to Employer before the date hereof. Although while employed by Employer, Employee shall devote substantially all his business time and efforts to Employer's business and shall not engage in any other related business, Employee may use his discretion in fixing his hours and schedule of work consistent with the proper discharge of his duties.

3. The term of this Agreement shall begin on the "Effective Date" and shall end on the date which is one (1) year following such date (the "Anniversary Date"); provided, however, that such term shall be extended for additional one (1) year terms on each Anniversary Date, unless either party hereto gives written notice to the other party not to so extend within ninety (90) days prior to such Anniversary Date, in which case no further extension shall occur and the term of this Agreement shall end on the Anniversary Date as of which the notice not to extend is given (such term, including any extension thereof shall herein be referred to as the "Term"). A notice not to extend by either party shall be a termination of employment prior to expiration of the Term of this Agreement for all purposes of this Agreement, including section 7 and section 8 hereof. Such notice not to extend shall be in the form of the "Notice of Termination" defined in section 10 hereof, and shall contain specific reference to specific provisions of section 7 hereof relied upon for any such termination on the Anniversary Date or otherwise.

4. Employee shall receive an annual salary of Two Hundred Thousand Dollars (\$200,000.00) ("Base Compensation") payable at regular intervals in accordance

with Employer's normal payroll practices now or hereafter in effect. Employer may consider and declare from time to time increases in the salary it pays Employee and thereby increases in his Base Compensation. Prior to a Change of Control, Employer may also declare decreases in the salary it pays Employee if the operating results of Employer are significantly less favorable than those for the fiscal year then ending, and Employer makes similar decreases in the salary it pays to all other senior executive officers of Employer. After a Change in Control, Employer may only consider and declare salary increases (but not decreases) based upon the following standards: inflation; adjustments to the salaries of all other senior executive officers; and past performance of Employee

and the contribution which Employee makes to the business and profits of Employer during the Term.

Any and all increases or decreases in Employee's salary pursuant to this section shall cause the level of Base Compensation to be increased or decreased by the amount of each such increase or decrease for purposes of this Agreement. The increased or decreased level of Base Compensation as provided in this section shall become the level of Base Compensation for the remainder of the Term of this Agreement until there is a further increase or decrease in Base Compensation as provided herein.

For purposes of this Agreement, a "Change of Control" shall be deemed to have occurred if during, or following the consummation of, a stock purchase program, tender offer, exchange offer, merger, consolidation, sale of assets, contested election, or any combination of the foregoing transactions, any person, entity or group of persons acting in concert (other than the Employee), directly or indirectly (1) acquires the power to vote in excess of twenty-five percent (25%) of the voting securities of Employer and one or more of its representatives are elected to the Board, (2) acquires ownership of the power to vote in excess of 50% of the voting securities of Employer, or (3) otherwise acquires effective control of the business and affairs of Employer; provided, however, that a Change of Control shall not be deemed to occur as a result of any acquisition of shares of Employer capital stock by Employee, or Kelly L. Rose and/or Karen Rose, or any voting trust(s) of Employee, Kelly L. Rose, and/or Karen Rose to which any of their Employer capital stock is transferred and further provided that a Change of Control shall not be deemed to occur so long as Kelly L. Rose is Chairman of the Board and Chief Executive Officer of Employer.

5. So long as Employee is employed by Employer pursuant to this Agreement, he shall be included as a participant in all present and future employee benefit, retirement, and compensation plans generally available to employees of Employer, consistent with his Base Compensation, his Job Responsibilities and his position as President of Employer and Chief Financial Officer of Employer

and its subsidiaries, including, without limitation, Employer's 401(k) plan, stock incentive plan, Executive Bonus Plan, split dollar life insurance program, and group life insurance plans (collectively, "Benefit Plans"), each of which Employer agrees to continue in effect on terms no less favorable than those currently in effect as of the date hereof (as permitted by law) during the Term of this Agreement, unless prior to a Change of Control the operating results of Employer are significantly less favorable than those for the last fiscal year, and unless either before or after a Change of Control changes in the accounting or tax treatment of such plans would adversely affect Employer's operating results or financial condition in a material way, and the Board of Directors of Employer concludes that modifications to such plans need to be made to avoid such adverse effects, and such modifications similarly affect all other senior executive officers of Employer.

6. So long as Employee is employed by Employer pursuant to this Agreement, Employee shall receive reimbursement from Employer for all reasonable business expenses incurred in the course of his employment by Employer, upon submission to Employer of written vouchers and statements for reimbursement. Employee shall attend, at his discretion, those professional meetings, conventions, and/or

similar functions that he deems appropriate and useful for purposes of keeping abreast of current developments in the industry and/or promoting the interests of Employer. So long as Employee is employed by Employer pursuant to the terms of this Agreement, Employer shall continue in effect vacation policies applicable to Employee no less favorable from his point of view than those written vacation policies in effect on the date hereof. So long as Employee is employed by Employer pursuant to this Agreement, Employee shall be entitled to office space and working conditions no less favorable from his point of view than were in effect for him on the date hereof. So long as Employee is employed by Employer pursuant to this Agreement, employee shall be entitled to the use of a company car provided by the Employer. So long as Employee is employed by Employer pursuant to this Agreement, Employee shall be entitled to membership in the Elcona Country Club, and Employer shall continue to pay the dues and assessments for such membership.

7. Subject to the respective continuing obligations of the parties, including but not limited to those set forth in subsections 8(A), 8(B), 8(C) and 8(D) hereof, Employee's employment by Employer may be terminated effective on any Anniversary Date or otherwise prior to the expiration of the Term of this Agreement as follows:

- (A) Employer, by action of its Board of Directors and upon written notice to Employee, may terminate Employee's employment with Employer at any time for cause. For purposes of this subsection 7(A), "cause" shall be defined as (i) willful misconduct, (ii) breach of fiduciary duty

involving personal profit, (iii) intentional failure to perform stated duties, (iv) conviction of a violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order, or (v) any material breach of any term, condition or covenant of this Agreement.

- (B) Employer, by action of its Board of Directors, may fail to renew this Agreement effective any Anniversary Date, or may terminate Employee's employment with Employer at any time without cause.
- (C) Employee, by written notice to Employer, may terminate his employment with Employer at any time for cause. For purposes of this subsection 7(C), "cause" shall be defined as (i) any action by Employer's Board of Directors to remove the Employee as President of Employer and Chief Financial Officer of Employer and its subsidiaries, except where the Employer's Board of Directors properly acts to remove Employee from such office for "cause" as defined in subsection 7(A) hereof, (ii) any action by Employer's Board of Directors to materially limit, increase, or modify Employee's Job Responsibilities and/or authority as President of Employer and as Chief Financial Officer of Employer and its subsidiaries (including his authority, subject to corporate controls no more restrictive than those in effect on the date hereof, to hire and discharge employees who are not bona fide officers of Employer), (iii) any failure of Employer to obtain the assumption of the obligation to perform this Agreement by any successor, assignee, or distributee of all or substantially all of Employer's assets (on a consolidated basis with those of its subsidiaries), or the reaffirmation of such obligation by such successor, assignee, or distributee, as contemplated in section 16 hereof; (iv) any material breach

by Employer of a term, condition or covenant of this Agreement; or (v) adoption or approval of a plan of liquidation, dissolution, or reorganization for Employer or its subsidiaries by the Employer's Board of Directors..

- (D) Except as otherwise provided in section 3 regarding nonrenewal on any Anniversary Date, and in addition thereto, Employee, at any time and upon sixty (60) days written notice to Employer, may terminate his employment with Employer without cause.
- (E) Employee's employment with Employer shall terminate in the event of Employee's death or disability. For purposes hereof, "disability" shall be defined as Employee's inability by reason of illness or other physical or mental incapacity to perform the duties required by his employment for any consecutive one hundred eighty (180) day period, provided that notice of any termination by Employer because of

Employee's "disability" shall have been given to Employee prior to the full resumption by him of the performance of such duties.

8. In the event of termination of Employee's employment with Employer pursuant to section 7 hereof, which shall include a nonrenewal of this Agreement on any Anniversary Date as provided in section 3 hereof, compensation shall continue to be paid by Employer to Employee as follows:

- (A) In the event of termination for cause by Employer or without cause by Employee pursuant to subsection 7(A) or 7(D), respectively, compensation provided for herein (including Base Compensation) shall continue to be paid, and Employee shall continue to participate in the Benefit Plans and other perquisites as provided in sections 5 and 6 hereof, through the date of termination specified in the notice of termination. Any benefits payable under such Benefit Plans as a result of Employee's participation in such plans through such date shall be paid when due under those plans. The date of termination specified in any notice of termination pursuant to subsection 7(A) shall be no later than the last business day of the month in which such notice is provided to Employee.
- (B) In the event of termination without cause by Employer or with cause by Employee pursuant to subsection 7(B) or 7(C), respectively, compensation provided for herein (including Base Compensation) shall continue to be paid, and Employee shall continue to participate in the Benefit Plans and other perquisites as provided in sections 5 and 6 hereof, through the date of termination specified in the notice of termination. Any benefits payable under such Benefit Plans as a result of Employee's participation in such plans through such date shall be paid when due under those plans. In addition, Employee shall be entitled to continue to receive from Employer his Base Compensation at the rates in effect at the time of termination for one (1) additional twelve (12) month period, provided, however in the event that termination pursuant to subsection 7(B) or 7(C) follows a Change of Control, then the additional period referred to herein as "one (1) additional twelve (12) month period" shall rather be "three (3) additional twelve (12) month periods." In addition, during such periods, Employer will maintain in full force and effect for the continued benefit

of Employee and his dependents each Benefit Plan in which Employee was entitled to participate immediately prior to the date of his termination, unless an essentially equivalent and no less favorable benefit is provided by a subsequent employer of Employee, provided, however, that in the event that Employee shall be entitled to receive from Employer his Base Compensation at the rates in effect at the time of termination for three (3) additional twelve (12) month periods, then Employee at his option may elect to receive such Base Compensation for

such three (3) additional twelve (12) month periods payable in one lump sum payment on or before thirty (30) days following the date of termination, and Employer will not thereafter maintain any Benefit Plan for the continued benefit of Employee and his dependents. If the terms of any Benefit Plan, or applicable laws, do not permit continued participation by Employee, Employer will arrange to provide to Employee a benefit substantially similar to, and no less favorable than, the benefit he was entitled to receive under such Benefit Plans at the end of the period of coverage. The right of Employee to continued coverage under the health and medical insurance plans of Employer shall commence upon the expiration of such period.

- (C) In the event of termination pursuant to subsection 7(E), compensation provided for herein (including Base Compensation) shall continue to be paid, and Employee shall continue to participate in the Benefit Plans and other perquisites as provided in sections 5 and 6 hereof, (i) in the event of Employee's death, through the date of death, or (ii) in the event of Employee's disability, through the date of proper notice of disability as required by subsection 7(E). Any benefits payable under such Benefit Plans as a result of Employer's participation in such plans through such date shall be paid when due under those plans.
- (D) Employer will permit Employee or his personal representative(s) or heirs, during a period of three (3) months following termination of Employee's employment by Employer without cause as set forth in subsection 7(B), or Employee's termination of his employment with Employer for cause as set forth in subsection 7(C), to require Employer, upon written request and at Employee's option to purchase all or less than all of outstanding stock options previously granted to Employee under any Employer stock option plan then in effect whether or not such options are then exercisable or have terminated, at a cash purchase price equal to the amount by which the aggregate "fair market value" of the shares subject to such options exceeds the aggregate option price for such shares. For purposes of this Agreement, the term "fair market value" shall mean the higher of (1) the average of the highest asked prices for Employer shares in the over-the-counter market as reported on the NASDAQ system or other national exchange if the shares are traded on such system for the thirty (30) business days preceding such termination, or (2) the average per share price actually paid for the most highly priced one percent (1%) of the Employer shares acquired in connection with any Change of Control of the Employer by any person or group acquiring such control.

9. In order to induce Employer to enter into this Agreement, Employee hereby agrees as follows:

- (A) Unless otherwise required to do so by law, including the order of a court or governmental agency, Employee shall not divulge or furnish any trade secrets (as defined in IND. CODESS. 24-2-3-2) of Employer or any confidential information acquired by him while employed by Employer concerning the policies, plans, procedures or customers of Employer to any person, firm or corporation, other than Employer or upon its written request, or use any such trade secret or confidential information directly or indirectly for Employee's own benefit or for the benefit of any person, firm or corporation other than Employer, since such trade secrets and confidential information are confidential and shall at all times remain the property of Employer.
- (B) For a period of two years after termination of Employee's employment by Employer for reasons other than those set forth in subsections 7(B) or (C) of this Agreement, Employee shall not (a) compete, directly or indirectly, with the business of Employer as conducted during the term of this Agreement (defined as van, sport utility, and truck conversions), or have any interest (including any interest or association, including but not limited to, that of owner, part owner, partner, shareholder, director, officer, employee, agent, consultant, lender or advisor) in any person, firm or entity which competes with Employer in the geographic area described on the attached Exhibit A (each such person, firm or entity is ----- referred to as "Competitor"); (b) solicit or accept business for or on behalf of any Competitor; (c) solicit, induce or persuade, or attempt to solicit, induce or persuade, any person to work for or provide services to or provide financial assistance to, any Competitor; or (d) solicit or accept for or on behalf of or for the benefit of any Competitor, any business from any person, firm or entity which during the term of this Agreement was a vendor or supplier to, or subcontractor for, or commercial purchaser from, Employer.
- (C) If Employee's employment by Employer is terminated for any reason by either Employee or Employer, Employee will turn over immediately thereafter to Employer all business correspondence, letters, papers, reports, customers' lists, financial statements, records, drawings, credit reports or other confidential information or documents of Employer or its affiliates in the possession or control of Employee, all of which writings are and will continue to be the sole and exclusive property of Employer or its affiliates.
- (D) If Employee's employment by Employer is terminated during the Term of this Agreement for reasons set forth in subsections 7(B) or (C) of this Agreement, Employee shall have no obligations to Employer with respect to noncompetition under subsections 9(A) and 9(B).

10. Any termination of Employee's employment with Employer as contemplated by section 3 and section 7 hereof, except in the circumstances of Employee's

death, shall be communicated by written "Notice of Termination" by the terminating party to the other party hereto. Any "Notice of Termination" must refer to one or more of subsections 7(A), 7(B), 7(C), 7(D) or 7(E), shall indicate the specific provisions of this Agreement and one or more of such subsections of section 7 relied upon, and shall set forth in reasonable detail the facts and circumstances

claimed to provide a basis for such termination under one or more of such subsections of section 7.

11. Anything in this Agreement to the contrary notwithstanding, payment of Base Compensation by the Employer to or for the benefit of the Employee pursuant to subsection 8(B) hereof shall be inclusive of payment attributable to the confidentiality and noncompetition covenants of section 9 hereof and shall be payable whether or not deductible by the Employer for federal income tax purposes.

12. If a dispute arises regarding the grounds for termination of Employee pursuant to section 7 hereof, said dispute shall be resolved by binding arbitration determined in accordance with the rules of the American Arbitration Association and if Employee obtains a final award in his favor or his claim is settled by Employer prior to the rendering of an award by such arbitration, all reasonable legal fees and expenses incurred by Employee in contesting or disputing any such termination or otherwise pursuing his claim shall be paid by Employer, to the extent permitted by law.

If a dispute arises regarding other provisions of this Agreement, including enforcement of the confidentiality and noncompetition provisions hereof, then such shall be heard only by the judge and not by a jury, in any court of general jurisdiction in Elkhart County, Indiana, to which such sole and exclusive jurisdiction each party irrevocably consents. The prevailing party shall be entitled to its costs, expenses and reasonable attorney's fees.

13. Should Employee die after termination of his employment with Employer while any amounts are payable to him hereunder, this Agreement shall inure to the benefit of and be enforceable by Employee's executors, administrators, heirs, distributees, devisees and legatees and all amounts payable hereunder shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee or other designee or, if there is no such designee, to his estate.

14. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Employee: Michael H. Schoeffler  
57073 Copper Cove  
Elkhart, IN 46516

If to Employer: Starcraft Corporation  
2703 College Avenue  
Post Office Box 1903  
Goshen, IN 46526  
Attention: Kelly L. Rose,  
Chairman of the Board and  
Chief Executive Officer

or to such address as either party hereto may have furnished to the other party in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

15. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the State of Indiana.

16. Employer shall require any successor, assignee, distributee or other transferee of all or substantially all of its or its subsidiaries' assets or business ("Succession") (whether direct or indirect, by purchase, merger, dissolution, liquidation, consolidation or otherwise) by agreement in form and substance satisfactory to Employee to expressly assume and agree to perform this Agreement in the same manner and same extent that Employer would be required to perform it if no such Succession had taken place. Failure of Employer to obtain such agreement prior to the effectiveness of any such Succession shall be a material intentional breach of this Agreement and shall entitle Employee to terminate his employment with Employer pursuant to subsection 7(C) hereof. As used in this Agreement, "Employer" shall mean Employer and its subsidiaries from time to time and any successor to its or their business or assets as aforesaid.

17. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Employee and Employer. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representation, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

18. The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provisions of this

Agreement which shall remain in full force and effect.

19. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same agreement.

20. This Agreement is personal in nature and neither party hereto shall, without consent of the other, assign or transfer this Agreement or any rights or obligations hereunder except as provided in section 13 and section 16 above. Without limiting the foregoing, Employee's right to receive compensation hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution as set forth in section 13 hereof, and in the event of any attempted assignment or transfer contrary to this paragraph, Employer shall have no liability to pay any amounts so attempted to be assigned or transferred.

IN WITNESS WHEREOF, the parties have caused the Agreement to be executed and delivered this 18th day of December, 1996.

"Employee"

"Employer"  
STARCRAFT CORPORATION

/s/ Michael H. Schoeffler

By: /s/ Kelly L. Rose

-----  
Michael H. Schoeffler

-----  
Kelly L. Rose  
Its: Chief Executive Officer

EXHIBIT A

In Japan, Europe, and any of the 48 contiguous States of the United States of America; it being acknowledged by Employee that the Company conducts business in all such States, and also it is acknowledged by Employee that the Company presently conducts a substantial amount of its business in each of the following States:

Wisconsin  
Michigan  
Illinois  
Indiana  
Ohio

Pennsylvania  
New York  
Oklahoma  
Texas  
California

STARCRAFT CORPORATION  
 COMPUTATION OF EARNINGS PER SHARE  
 (In thousands, except per share amounts)

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	Year Ended		
	Sept. 29, 1996	Oct. 1, 1995	Oct. 2, 1994
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Primary Average shares outstanding	4,142	4,261	4,174
Net effect of dilutive stock options - based on the treasury stock method using average market price	--	--	19
Total	4,142	4,261	4,193
Net income	\$ 110	\$2,757	\$3,780
Per share amount	\$ .03	\$ 0.65	\$ 0.90
Fully Diluted Average shares outstanding	4,142	4,261	4,174
Net effect of dilutive stock options based on the treasury stock method using the highest of the average market price for the period or the market price at the end of the period	--	--	19
Total	4,142	4,261	4,193
Net income	\$ 110	\$2,757	\$3,780
Per share amount	\$ .03	\$ 0.65	\$ 0.90

</TABLE>

NOTE: Average shares outstanding used for earnings per share included in the Company's financial statements do not reflect the effect of the stock options granted since their effect is antidilutive.



SUBSIDIARIES OF THE REGISTRANT

1. Starcraft Automotive Group, Inc.

State of Incorporation: Indiana

A. Starcraft FSC, Inc.

Jurisdiction of Incorporation: Barbados

2. Imperial Automotive Group, Inc.

State of Incorporation: Indiana

3. Starcraft Southwest, Inc.

State of Incorporation: Indiana

## Consent of Independent Auditors

We have audited the consolidated financial statements of Starcraft Corporation and Subsidiaries as of September 29, 1996 and for the year then ended and have issued our report thereon dated November 7, 1996. Our audit also included the information for the year ended September 29, 1996 in the financial statement schedule listed in Item 14 of this Annual Report. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information as of and for the year ended September 29, 1996 set forth therein.

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-73148) pertaining to the Starcraft Automotive Corporation 401(k) Profit Sharing Plan and Trust and in the Registration Statement (Form S-8 No. 33-70030) pertaining to the Starcraft Automotive Corporation Stock Incentive Plan of our report dated November 7, 1996, with respect to the consolidated financial statements of Starcraft Corporation and Subsidiaries included in this Annual Report (Form 10-K) for the year ended September 29, 1996.

/s/ Ernst & Young LLP

Fort Wayne, Indiana  
December 20, 1996

CONSENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors  
Starcraft Corporation  
Goshen, Indiana

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 33-73148 and File No. 33-70030) of our report, dated November 3, 1995, with respect to the consolidated financial statements of Starcraft Corporation and Subsidiaries in this Annual Report on Form 10-K for the period then ended.

/s/ McGLADREY & PULLEN, LLP

Elkhart, Indiana  
December 20, 1996

[Logo]  
McGLADREY & PULLEN, LLP  
Certified Public Accountants and Consultants

INDEPENDENT ACCOUNTANT'S REPORT ON  
THE SUPPLEMENTAL SCHEDULES

The Board of Directors  
Starcraft Corporation  
Goshen, Indiana

Our audits of the consolidated financial statements of Starcraft Corporation and Subsidiaries included Schedule II, contained herein, for the periods ended October 1, 1995 and October 2, 1994. Such schedule is presented for purposes of complying with the Securities and Exchange Commission's rule and is not a

required part of the basic consolidated financial statements. In our opinion, such schedule presents fairly the information set forth therein, in conformity with generally accepted accounting principles.

/s/ McGLADREY & PULLEN, LLP

Elkhart, Indiana  
November 3, 1995

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE REGISTRANT'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED SEPTEMBER 29, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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