

NATIONAL RV HOLDINGS INC

Form 10-Q

November 08, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-12085

NATIONAL R.V. HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

33-0371079

(I.R.S. Employer Identification No.)

3411 N. Perris Blvd., Perris, California

(Address of principal executive offices)

92571

(Zip Code)

Registrant's telephone number, including area code: **(951) 943-6007**

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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 ☒ NO ☐

Indicate by check mark whether the registrant is an accelerated filer.

YES ☐ NO ☒

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 1, 2005
Common stock, par value	10,339,484
\$0.01 per share	

NATIONAL R.V. HOLDINGS, INC.

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 Signature

PART I, ITEM 1**Consolidated Financial Statements****NATIONAL R.V. HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts)**

	September 30, 2005 (Unaudited)	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11	\$ 11
Restricted cash	25	251
Receivables, less allowance for doubtful accounts of \$250 and \$137, respectively	22,902	19,976
Inventories, net	76,956	74,826
Deferred income taxes	1,008	1,294
Note receivable	243	2,213
Prepaid expenses	2,363	2,924
Total current assets	103,508	101,495
Property, plant and equipment, net	39,018	37,809
Other assets	1,411	1,338
	\$ 143,937	\$ 140,642
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 17,410	\$ 16,612
Accrued expenses	25,051	22,242
Line of credit	22,134	12,690
Book overdraft	5,010	803
Current portion of capital leases	51	51
Total current liabilities	69,656	52,398
Long-term accrued expenses	6,084	7,069
Deferred income taxes	1,008	1,294
Long-term portion of capital leases	161	185
Total liabilities	76,909	60,946
Commitments and contingent liabilities		
Stockholders' equity:		
Preferred stock - \$0.01 par value; 5,000 shares authorized, 4,000 issued and outstanding		
Common stock - \$0.01 par value; 25,000,000 shares authorized, 10,339,484 and 10,302,109 issued and outstanding, respectively	103	103
Additional paid-in capital	37,563	37,423
Retained earnings	29,362	42,170
Total stockholders' equity	67,028	79,696
	\$ 143,937	\$ 140,642

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

NATIONAL R.V. HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Net sales	\$ 108,232	\$ 112,525	\$ 357,082	\$ 334,953
Cost of goods sold	106,067	104,606	347,201	310,336
Gross profit	2,165	7,919	9,881	24,617
Selling expenses	4,335	3,003	11,289	8,298
General and administrative expenses	3,346	3,063	10,489	8,642
Other expense		374		374
Operating income (loss)	(5,516)	1,479	(11,897)	7,303
Interest expense	395	52	983	130
Other expense (income)	19	(25)	(72)	(72)
Income (loss) from continuing operations before income taxes	(5,930)	1,452	(12,808)	7,245
Provision for income taxes		608		2,835
Income (loss) from continuing operations	(5,930)	844	(12,808)	4,410
Loss from discontinued operations		1,532		2,155
Gain from sale of discontinued operations		(281)		(281)
Benefit for income taxes		(524)		(737)
Net loss from discontinued operations		(727)		(1,137)
Net income (loss)	\$ (5,930)	\$ 117	\$ (12,808)	\$ 3,273
Basic earnings (loss) per common share:				
Continuing operations	\$ (0.57)	\$ 0.08	\$ (1.24)	\$ 0.43
Discontinued operations	\$	\$ (0.07)	\$	\$ (0.11)
Total	\$ (0.57)	\$ 0.01	\$ (1.24)	\$ 0.32
Diluted earnings (loss) per common share:				
Continuing operations	\$ (0.57)	\$ 0.08	\$ (1.24)	\$ 0.42
Discontinued operations	\$	\$ (0.07)	\$	\$ (0.11)
Total	\$ (0.57)	\$ 0.01	\$ (1.24)	\$ 0.31
Weighted average number of shares:				
Basic	10,339	10,222	10,338	10,203
Diluted	10,339	10,426	10,338	10,392

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

NATIONAL R.V. HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	2005	Nine-Months Ended September 30,	2004 (Restated)
<u>Cash flows from operating activities:</u>			
Net income (loss)	\$	(12,808)	\$ 3,273
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization		2,760	2,881
Bad debt expense (recovery)		126	(1)
Reserve and write down of inventories		2,630	1,764
Loss (gain) on asset disposal		(35)	61
Deferred income tax provision			1,897
Changes in assets and liabilities:			
Decrease in restricted cash		226	
Increase in receivables		(3,052)	(2,500)
Increase in inventories		(5,154)	(25,821)
Decrease (increase) in prepaid expenses		641	(1,612)
Increase in accounts payable		798	8,209
Increase in accrued expenses		1,824	874
Net cash used in operating activities		(12,044)	(10,975)
<u>Cash flows from investing activities:</u>			
Decrease in other assets		45	10
Repayments on note receivable		1,970	
Proceeds from sale of assets		75	1,932
Proceeds from sale of discontinued operations			500
Purchase of property, plant and equipment		(3,577)	(3,372)
Net cash used in investing activities		(1,487)	(930)
<u>Cash flows from financing activities:</u>			
Net advances on line of credit		9,444	2,150
Deferred financing costs		(236)	
Increase in book overdraft		4,207	7,228
Principal payments on capital leases		(24)	
Principal payments on long-term debt			(18)
Proceeds from issuance of common stock		140	497
Net cash provided by financing activities		13,531	9,857
Net decrease in cash and cash equivalents			(2,048)
Cash and cash equivalents, beginning of the year		11	2,059
Cash and cash equivalents, end of period	\$	11	\$ 11
<u>Supplementary cash flow information:</u>			
Reclassification of inventory for operating lease	\$	394	\$

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

NATIONAL R.V. HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BASIS OF PRESENTATION

General

The consolidated financial statements include the financial statements of National RV Holdings, Inc. (the Company) and its wholly owned subsidiaries National RV, Inc. (National RV) and Country Coach, Inc. (Country Coach). As further discussed in Note 9, the operating results of the travel trailer division have been reclassified as a discontinued operation for the prior periods.

The accompanying consolidated balance sheet as of December 31, 2004, which has been derived from audited consolidated financial statements, and the unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and note disclosures normally included in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2004 and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on October 11, 2005.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary, consisting of normal recurring adjustments, to state fairly the financial position, the results of operations and cash flows for all periods presented, including the elimination of significant intercompany accounts in consolidation. In addition to the restatement adjustments discussed in Note 2, certain reclassifications have been made to prior period amounts to conform to current period presentation.

Seasonal Nature of Business Activities

Results for the interim period are not necessarily indicative of the results for an entire year. Seasonal factors, over which the Company has no control, has an effect on the demand for the Company's products. Demand in the RV industry characteristically declines over the winter season, while sales are generally highest during the spring and summer months.

Use of Accounting Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses for each period. On an on-going basis, management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

History of Recent Losses

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The Company experienced a net loss for the nine-month period ended September 30, 2005 of \$12.8 million compared to a net income of \$3.3 million during the same period last year. The Company used cash in operating activities for the nine-month periods ended September 30, 2005 and 2004 of \$12.0 million and \$11.0 million, respectively.

The Company has incurred net losses of \$9.3 million and \$8.4 million for the years ended December 31, 2004 and 2003, respectively. The Company used cash from operating activities of \$15.8 million for the year ended December 31, 2004 and provided cash from operating activities of \$8.1 million for the year ended December 31, 2003. The RV industry has been historically cyclical and subject to downturns during periods of weak economic conditions. With rising fuel prices and continued economic uncertainty, the Company experienced a further decline in demand for its products in 2005. These conditions led the Company to assess its short-term liquidity needs and plans to achieve profitability.

Management's plan to achieve operational profitability includes continuing or starting a variety of initiatives to improve its earnings and working capital position, including: i) new product introductions in the fourth quarter of 2005 with additional new product and floor plan introductions in the first half of 2006, ii) new dealer additions to fill open market areas or replace under-performing dealers, iii) reductions in all categories of inventory, iv) head count re-balancings to current retail sales-supported production levels, v) engineering reviews of material components for the removal of non-value added items to reduce both material and assembly costs, vi) continued thorough motorhome inspections to improve quality and to more timely report failures, and vii) manufacturing cost reductions resulting from the continued implementation of lean manufacturing concepts.

In order to fund on-going operations in the short-term, the Company remains dependent upon its ability to utilize outside financing through borrowings on its line of credit until it achieves sustained operational profitability through a combination of increased sales, cost reductions and improved product margins. After consideration of the restrictions of the borrowing capacity noted in Note 5, the Company believes it has sufficient financial resources to fund its operations in the short-term. However, the Company's ability to meet its obligations in the long-term is dependent on its ability to generate positive cash flows from operations and is dependent on continued borrowings under its line of credit. If management is unable to achieve its operational profitability plan or if unforeseen events occur and the Company's existing line of credit is insufficient to allow the Company to meet its obligations, the Company may need to implement alternative plans that could include long-term financing collateralized by real estate (which is presently unencumbered) or obtaining additional debt financing, additional reductions in operating costs, deferral of capital expenditures, and further reductions in working capital. While the Company believes that it could successfully complete the alternative plans, if necessary, there can be no assurance that such alternatives would be available on acceptable terms and conditions or that the Company would be successful in its implementation of such plans.

NOTE 2 RESTATEMENT OF A PRIOR PERIOD

The financial statements included herein have been restated for three correcting adjustments. These adjustments are discussed in more detail below.

Correction of accounting for dealer sales incentives. The consolidated financial statements reflect the restatement of certain dealer sales incentives, which include rebates and floorplan interest reimbursement paid to dealers to promote the sale of the product and retail incentives paid directly to dealer retail salespersons to promote the sale of the product and the return of sale and warranty information. The statements of operations for the three and nine-months ended September 30, 2004 have been restated to reclassify these sales incentives from selling expenses to a reduction of revenue, as required by Emerging Issues Task Force (EITF) Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer (including a Reseller) of the Vendor's Products . Net sales, gross profit and selling expenses were reduced by \$0.5 million and \$1.6 million for the three and nine-months ended September 30, 2004, respectively. This adjustment had no impact on net income (loss) as previously reported.

Correction of accounting for deferred payment motorhome sales. The consolidated financial statements reflect the removal of certain motorhome sales previously included in the consolidated financial statements for the three and nine-month periods ended September 30, 2004. The restatement reflects the Company's determination that it did not correctly recognize revenue with respect to a limited number of motorhomes sold in the third quarter of 2004 under a deferred payment arrangement because the Company held the manufacturer's certificate of origin as security for payment. The Company determined that revenues of approximately \$4.5 million previously recognized in the third quarter 2004 should have been recognized in the fourth quarter 2004, resulting in a reduction of \$0.2 million to net income and a \$0.02 reduction to the Company's third quarter 2004 diluted earnings per share.

Correction of accounting for gain on sale of travel trailer business. The Company determined that the gain it recognized on the sale of its travel trailer business at the end of the third quarter 2004 was overstated by \$0.06 million which amount represented the implied interest portion of the note receivable the Company received from Weekend Warrior, the purchasing company. This adjustment did not affect the Company's third quarter 2004 discontinued operations diluted loss per share.

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The consolidated financial statements for the three and nine-months ended September 30, 2004 have been restated as follows (in thousands, except per share amounts):

Statements of Operations

	Three-Months Ended September 30, 2004		Nine-Months Ended September 30, 2004	
	As previously reported	As restated	As previously reported	As restated
Net sales	\$ 117,457	\$ 112,525	\$ 340,977	\$ 334,953
Cost of goods sold	108,672	104,606	314,402	310,336
Gross profit	8,785	7,919	26,575	24,617
Selling expenses	3,512	3,003	9,899	8,298
Operating income	1,836	1,479	7,660	7,303
Income from continuing operations before income taxes	1,809	1,452	7,602	7,245
Provision for income taxes	758	608	2,985	2,835
Income from continuing operations	1,051	844	4,617	4,410
Gain from sale of discontinued operations	(336)	(281)	(336)	(281)
Income tax benefit related to discontinued operations	(501)	(524)	(714)	(737)
Net loss from discontinued operations	(695)	(727)	(1,105)	(1,137)
Net income	356	117	3,512	3,273
Basic earnings (loss) per common share:				
Continuing operations	\$ 0.10	\$ 0.08	\$ 0.45	\$ 0.43
Discontinued operations	(0.07)	(0.07)	(0.11)	(0.11)
Total	\$ 0.03	\$ 0.01	\$ 0.34	\$ 0.32
Diluted earnings (loss) per common share:				
Continuing operations	\$ 0.10	\$ 0.08	\$ 0.44	\$ 0.42
Discontinued operations	(0.07)	(0.07)	(0.10)	(0.11)
Total	\$ 0.03	\$ 0.01	\$ 0.34	\$ 0.31
Weighted average number of shares:				
Basic	10,222	10,222	10,203	10,203
Diluted	10,426	10,426	10,392	10,392

NOTE 3 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 151, Inventory Costs-an Amendment of ARB No. 43, Chapter 4. SFAS No. 151 requires that accounting for items such as idle facility expense, freight, handling costs, and wasted materials (spoilage) be recognized as current period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The provision of this Statement shall be applied prospectively. The Company has not determined the impact that adoption of this standard will have on its consolidated financial statements.

NOTE 2 RESTATEMENT OF A PRIOR PERIOD

In December 2004, the FASB issued FSP 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. The American Jobs Creation Act, or AJCA, introduces a special 9% tax deduction on qualified production activities. FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with Statement 109. FSP 109-1 is effective upon its issuance. The adoption of FSP 109-1 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, (SFAS 123) and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS No. 123R in the first calendar quarter of 2006, beginning January 1, 2006. Under SFAS No. 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include modified prospective and modified retrospective adoption options. Under the modified retrospective option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS No. 123R, while the modified retrospective method would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R. The Company has not yet determined the method of adoption or the affect of adopting SFAS No. 123R, and the Company has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123 and 148.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB No. 20 and FAS No. 3 (SFAS 154). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154. SFAS 154 is required to be adopted in fiscal years beginning after December 15, 2005. The Company does not believe that adoption of this standard will have an impact on its consolidated financial statements.

In August 2005, the FASB issued FSP FAS 123-1, *Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123R*. In this FSP, the FASB decided to defer the requirements in FASB Statement No. 123 (Revised 2004), *Share-Based Payment*, that make a freestanding financial instrument subject to the recognition and measurement requirements of other GAAP when the rights conveyed by the instrument are no longer dependent on the holder being an employee. The guidance in this FSP should be applied upon initial adoption of Statement 123R. The Company is evaluating the requirements of SFAS 123R. The Company has not yet determined the method of adoption or the affect of adopting SFAS No. 123R, and the Company has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123 and 148.

NOTE 4 SUPPLEMENTAL BALANCE SHEET INFORMATION

Inventories consist of the following (in thousands):

	September 30, 2005	December 31, 2004
Finished goods	\$ 16,692	\$ 16,379
Work-in-process	32,843	35,388
Raw materials	19,620	18,398
Chassis	7,801	4,661
Total inventories	\$ 76,956	\$ 74,826

Accrued expenses consist of the following (in thousands):

	September 30, 2005	December 31, 2004
Current accrued expenses:		
Workers' compensation self-insurance reserve	\$ 2,595	\$ 2,720
Warranty reserve	9,981	8,330
Payroll and other accrued expenses	12,475	11,192
Total current accrued expenses	\$ 25,051	\$ 22,242
Long-term accrued expenses:		
Workers' compensation self-insurance reserve	\$ 5,295	\$ 6,151
Warranty reserve	133	175
Deferred compensation	656	743
Total long-term accrued expenses	\$ 6,084	\$ 7,069

NOTE 5 CREDIT FACILITY

On August 12, 2005, the Company entered into a new three-year asset-based revolving credit facility with UPS Capital Corporation (UPSC) and Wells Fargo Bank for \$25 million, with the Company having the option, subject to certain conditions, of increasing the revolver in \$5 million increments up to a total credit facility of \$40 million. On September 29, 2005, the Company affected such an increase in the amount of the credit facility from \$25 million to \$30 million. The credit facility is collateralized by all of the Company's assets other than real estate. Borrowing availability is based on eligible accounts receivable and inventory. The facility also includes a requirement to maintain a blocked account arrangement, whereby remittances from the Company's customers reduce the debt outstanding. The credit facility contains, among other provisions, certain financial covenants, including funded debt to EBITDA, and a fixed charge coverage ratio. If these financial covenants are not met, the Company's availability under the credit facility will be reduced. The Company did not meet these financial covenants as of September 30, 2005, and currently does not expect to until September 30, 2006. Until these covenants are met, the Company's borrowing availability under its \$40 million facility is limited to an amount between \$27 to \$32 million, depending on eligible inventory and accounts receivable. Initial amounts borrowed under the revolving credit facility bear interest at the prime rate listed in the Wall Street Journal plus 0.50 percentage points and may be subsequently adjusted down based on a trailing twelve month funded debt to EBITDA calculation.

At September 30, 2005 and December 31, 2004, the Company had outstanding loans under its line of credit then in effect totaling \$22.1 million and \$12.7 million, respectively. At September 30, 2005, the interest rate on the outstanding borrowings under the line of credit was 7.25%. The weighted average interest rate for the borrowings under the line of credit during the nine-month period ended September 30, 2005 and 2004 was 6.56% and 5.01%, respectively.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Most of the Company's motorhome sales are made on terms requiring payment within 15 business days or less of the dealer's receipt of the unit. Most dealers finance all, or substantially all, of the purchase price of their inventory under floor plan arrangements with banks or finance companies under which the lender pays the Company directly. Dealers typically are not required to commence loan repayments to such lenders for a period of at least six months. The loan is collateralized by a lien on the motorhome. Consistent with industry practice, the Company has entered into repurchase agreements with these lenders. In general, the repurchase agreements require the Company to repurchase a unit if the dealer defaults on the financed unit. Upon a dealer default, the agreements generally require the Company to repurchase RVs at the election of the lender provided certain conditions are met, such as repossession of the RV by the lender, the RV being new and unused and the time elapsed between invoice date and demand for repurchase being no longer than a specified period which is typically 18 months or less. The Company's maximum potential exposure under these agreements approximated \$169 million at September 30, 2005. As with receivables, the risk of loss under the repurchase agreements was spread over a number of dealers and lenders and was reduced by the resale value of the RVs, which the Company would be required to repurchase. Losses under these agreements have not been material in the past and management does not believe that any future losses under such agreements will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows; consequently, no liability has been recognized in the consolidated financial statements.

The Company is involved in legal proceedings in the ordinary course of business, including a variety of warranty, lemon law and product liability claims typical in the recreation vehicle industry. With respect to product liability claims, the Company's insurance policies cover, in whole or in part, defense costs and liability costs for personal injury or property damage (excluding damage to Company motorhomes). While it is not possible to estimate with certainty the ultimate legal and financial liability with respect to this litigation, management is of the opinion that while the final resolution of any such litigation may have an impact on the Company's consolidated results for a particular reporting period, the ultimate disposition of such litigation should not have a material adverse effect on the Company's financial position, results of operations or liquidity.

The Company's warranty reserve is established based on its best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. The Company records an estimate for future warranty-related costs based on recent actual warranty claims. Also, as part of the warranty reserve the Company's recall reserve is established, as necessary, based on management's estimate of the cost per unit to remedy the problem and the estimated number of units that will ultimately be brought in for the repair.

Nine-Months Ended September 30, 2005 (in thousands)

	Beginning Balance		Additions		Deductions		Ending Balance
Warranty reserve	\$ 8,505	\$	13,228	\$	11,619	\$	10,114

In August 2004, the Company entered into an agreement to acquire, for \$3 million, approximately 73 acres of land adjacent to its Country Coach, Inc. facility in Junction City, Oregon. The Company paid a deposit of \$0.1 million. The closing of the purchase is subject to customary closing conditions and is expected to occur in 2006.

NOTE 7 STOCK BASED COMPENSATION

The Company has stock option plans that enable it to offer equity participation to employees, officers, and directors as well as certain non-employees. Stock options may be granted as incentive or nonqualified options. The Company has four fixed option plans that reserve shares of common stock for issuance to executives, key employees, consultants, and directors. The Company has also issued fixed options outside of such plans pursuant to individual stock option agreements. Options granted to non-employee directors generally vest immediately upon grant and expire five to ten years from the date of grant. Options granted to employees, including employee directors, generally vest in three equal annual installments and expire five to ten years from the date of grant. The price of the options granted pursuant to these plans will not be less than 100 percent of the market value of the shares on the date of grant.

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS 148), which amends SFAS Statement 123, Accounting for Stock-Based Compensation. As permitted by SFAS 148, the Company continues to measure compensation cost in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations, but provides pro forma disclosures of net loss and loss per share as if the fair-value method had been applied.

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The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions to stock-based employee compensation (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Income (loss) from continuing operations	\$ (5,930)	\$ 844	\$ (12,808)	\$ 4,410
Loss from discontinued operations		(727)		(1,137)
Net income (loss) - as reported	(5,930)	117	(12,808)	3,273
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	186	138	527	431
Pro forma net income (loss)	\$ (6,116)	\$ (21)	\$ (13,335)	\$ 2,842
Basic earnings (loss) per share as reported				
Continuing operations	\$ (0.57)	\$ 0.08	\$ (1.24)	\$ 0.43
Discontinued operations		(0.07)		(0.11)
Total basic earnings (loss) per share	(0.57)	0.01	(1.24)	0.32
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	0.02	0.01	0.05	0.04
Basic earnings (loss) per share pro forma	\$ (0.59)	\$	\$ (1.29)	\$ 0.28
Diluted earnings (loss) per share as reported				
Continuing operations	\$ (0.57)	\$ 0.08	\$ (1.24)	\$ 0.42
Discontinued operations		(0.07)		(0.11)
Total diluted earnings (loss) per share	(0.57)	0.01	(1.24)	0.31
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	0.02	0.01	0.05	0.04
Basic earnings (loss) per share pro forma	\$ (0.59)	\$	\$ (1.29)	\$ 0.27

The weighted-average fair value of the stock options has been estimated on the date of grant using the Black-Scholes option-pricing model. There were no new stock option grants during the nine-month period ended September 30, 2005. Additionally, there were no stock options granted for the three-month period ended September 30, 2004.

NOTE 8 INCOME TAXES

As of September 30, 2005, the Company has a current deferred tax asset of \$1.0 million and a long-term deferred tax liability of \$1.0 million. During the three and nine-month periods ended September 30, 2005, the Company recorded a non-cash charge of \$2.5 million and \$4.9 million, respectively, to increase the valuation allowance to offset the change in net deferred tax assets. Recent cumulative losses, the downturn in current market conditions and its impact on near term earnings led the Company to conclude that it was more likely than not that its recorded net deferred tax asset will not be realized. The Company expects to record a full valuation allowance on future tax benefits until it can sustain an appropriate level of profitability and until such time, the Company would not expect to recognize any significant tax benefits in its future results of operations.

NOTE 9 DISCONTINUED OPERATIONS

On September 24, 2004, the Company sold its travel trailer business assets to Weekend Warrior, a privately owned, California-based ramp-trailer manufacturer. The sale was designed to allow the Company to further concentrate its efforts and resources on its growing motorhome business. The total selling price of the business was \$3.2 million. The sale included inventory totaling \$2.8 million and equipment totaling \$0.1 million. In addition, the Company recognized a \$0.3 million gain on the sale. Weekend Warrior paid \$0.5 million at closing with the balance to be paid in ten equal monthly payments. Furthermore, a payment of 1% of monthly sales for other assets and trademarks will be made on a monthly basis over a twelve-month period ending October 10, 2005 with a minimum due of \$0.3 million which has been included in note receivable in the accompanying consolidated balance sheets. The Company also entered into a sublease agreement, which allowed Weekend Warrior to lease a portion of the Company's facilities for up to twelve months. This sublease terminated in September 2005. Net sales from discontinued operations were \$1.4 million and \$14.7 million for the three and nine-month periods ended September 30, 2004.

NOTE 10 EARNINGS (LOSS) PER SHARE

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Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflect the potential dilution that could occur if options were exercised or converted into common stock. Shares attributable to the exercise of outstanding options that are anti-dilutive are excluded from the calculation of diluted loss per share.

All amounts in thousands except per share amounts.

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2005	2004	2005	2004
Income (loss) from continuing operations	\$ (5,930)	\$ 844	\$ (12,808)	\$ 4,410
Loss from discontinued operations		(727)		(1,137)
Net income (loss)	\$ (5,930)	\$ 117	\$ (12,808)	\$ 3,273
Basic weighted average common shares outstanding	10,339	10,222	10,338	10,203
Effect of dilutive stock options		204		189
Diluted weighted average common shares outstanding	10,339	10,426	10,338	10,392
Basic earnings (loss) per share as reported				
Continuing operations	\$ (0.57)	\$ 0.08	\$ (1.24)	\$ 0.43
Discontinued operations		(0.07)		(0.11)
Total basic earnings (loss) per share	\$ (0.57)	\$ 0.01	\$ (1.24)	\$ 0.32
Diluted earnings (loss) per share as reported				
Continuing operations	\$ (0.57)	\$ 0.08	\$ (1.24)	\$ 0.42
Discontinued operations		(0.07)		(0.11)
Total diluted earnings (loss) per share	\$ (0.57)	\$ 0.01	\$ (1.24)	\$ 0.31

For the three-months ended September 30, 2005 and 2004, excluded from the computation of diluted earnings per share were stock options to purchase 931,796 shares and 12,000 shares, respectively. For the nine-months ended September 30, 2005 and 2004, excluded from the computation of diluted earnings per share were stock options to purchase 931,796 and 12,000 shares, respectively.

NATIONAL R.V. HOLDINGS, INC.

PART I, ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Disclosure Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that forward-looking statements are inherently uncertain. Actual performance and results may differ materially from that projected or suggested herein due to certain risks and uncertainties including, without limitation, potential fluctuations in the Company's operating results; any material weaknesses in the Company's internal control over financial reporting or the failure to remediate any of the previously disclosed material weaknesses; any failure to implement required new or improved controls; resumption of losses; seasonality and economic conditions; dependence on certain dealers and concentration of dealers in certain regions; dependence on chassis suppliers; potential liabilities under repurchase agreements; competition; government regulation; warranty claims; and product liability claims. Certain risks and uncertainties that could cause actual results to differ materially from that projected or suggested are set forth in the Form 10-K, in the Company's filings with the Securities and Exchange Commission (the "SEC") and the Company's public announcements, copies of which are available from the SEC or from the Company upon request. The Company undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

Restatement of Financial Statements

The following discussion and analysis gives effect to the restatements for the three and nine-months ended September 30, 2004 described in Note 2 to the unaudited consolidated financial statements for the three and nine-months ended September 30, 2005 contained herein. Accordingly, certain of the data set forth in this section are not comparable to discussions and data in our previously filed annual and quarterly reports for corresponding periods.

Correction of accounting for dealer sales incentives. The consolidated financial statements reflect the restatement of certain dealer sales incentives, which include rebates and floorplan interest reimbursement paid to dealers to promote the sale of the product and retail incentives paid directly to dealer retail salespersons to promote the sale of the product and the return of sale and warranty information. The statements of operations for the three and nine-months ended September 30, 2004 have been restated to reclassify these sales incentives from selling expenses to a reduction of revenue, as required by Emerging Issues Task Force (EITF) Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer (including a Reseller) of the Vendor's Products . Net sales, gross profit and selling expenses were reduced by \$0.5 million and \$1.6 million for the three and nine-months ended September 30, 2004, respectively. This adjustment had no impact on net income (loss) as previously reported.

Correction of accounting for deferred payment motorhome sales. The consolidated financial statements reflect the removal of certain motorhome sales previously included in the consolidated financial statements for the three and nine-month periods ended September 30, 2004. The restatement reflects the Company's determination that it did not correctly recognize revenue with respect to a limited number of motorhomes sold in the third quarter of 2004 under a deferred payment arrangement because the Company held the manufacturer's certificate of origin as security for payment. The Company determined that revenues of approximately \$4.5 million previously recognized in the third quarter 2004 should have been recognized in the fourth quarter 2004, resulting in a reduction of \$0.2 million to net income and a \$0.02 reduction to the Company's third quarter 2004 diluted earnings per share.

Correction of accounting for gain on sale of travel trailer business. The Company determined that the gain it recognized on the sale of its travel trailer business at the end of the third quarter 2004 was overstated by \$0.06 million which amount represented the implied interest portion of the note receivable the Company received from Weekend Warrior, the purchasing company. This adjustment did not affect the Company's third quarter 2004 discontinued operations diluted loss per share.

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The consolidated financial statements for the three and nine-months ended September 30, 2004 have been restated as follows (in thousands, except per share amounts):

Statements of Operations

	Three-Months Ended September 30, 2004		Nine-Months Ended September 30, 2004	
	As previously reported	As restated	As previously reported	As restated
Net sales	\$ 117,457	\$ 112,525	\$ 340,977	\$ 334,953
Cost of goods sold	108,672	104,606	314,402	310,336
Gross profit	8,785	7,919	26,575	24,617
Selling expenses	3,512	3,003	9,899	8,298
Operating income	1,836	1,479	7,660	7,303
Income from continuing operations before income taxes	1,809	1,452	7,602	7,245
Provision for income taxes	758	608	2,985	2,835
Income from continuing operations	1,051	844	4,617	4,410
Gain from sale of discontinued operations	(336)	(281)	(336)	(281)
Income taxes related to discontinued operations	(501)	(524)	(714)	(737)
Net loss from discontinued operations	(695)	(727)	(1,105)	(1,137)
Net income	356	117	3,512	3,273
Basic earnings (loss) per common share:				
Continuing operations	\$ 0.10	\$ 0.08	\$ 0.45	\$ 0.43
Discontinued operations	(0.07)	(0.07)	(0.11)	(0.11)
Total	\$ 0.03	\$ 0.01	\$ 0.34	\$ 0.32
Diluted earnings (loss) per common share:				
Continuing operations	\$ 0.10	\$ 0.08	\$ 0.44	\$ 0.42
Discontinued operations	(0.07)	(0.07)	(0.10)	(0.11)
Total	\$ 0.03	\$ 0.01	\$ 0.34	\$ 0.31
Weighted average number of shares:				
Basic	10,222	10,222	10,203	10,203
Diluted	10,426	10,426	10,392	10,392

Executive Overview

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National R.V. Holdings, Inc. (the Company) operates in one business segment that designs, manufactures, and markets motorhomes through its wholly owned subsidiaries, National R.V., Inc. (NRV) and Country Coach, Inc. (CCI). The RVs are marketed primarily in the United States of America by NRV under the Dolphin, Islander, Sea Breeze, Tradewinds and Tropi-Cal brand names and by CCI under brand names including Affinity, Allure, Inspire, Intrigue, Magna and Prevost by Country Coach.

The following table sets forth for the periods indicated the percentage of net sales represented by certain items reflected in the Company's Consolidated Statements of Operations:

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	98.0	93.0	97.2	92.7
Gross profit	2.0	7.0	2.8	7.3
Selling expenses	4.0	2.7	3.2	2.4
General and administrative expenses	3.1	2.7	2.9	2.6
Other expense	0.0	0.3	0.0	0.1
Operating income (loss)	(5.1)	1.3	(3.3)	2.2
Interest expense	0.4	0.0	0.3	0.0
Other expense (income)	0.0	0.0	0.0	0.0
Income (loss) from continuing operations before income taxes	(5.5)	1.3	(3.6)	2.2
Provision for income taxes	0.0	0.5	0.0	0.9
Income (loss) from continuing operations	(5.5)	0.8	(3.6)	1.3
Loss from discontinued operations	0.0	1.4	0.0	0.6
Gain from sale of discontinued operations	0.0	(0.2)	0.0	(0.1)
Benefit for income taxes	0.0	(0.5)	0.0	(0.2)
Net loss from discontinued operations	0.0	(0.7)	0.0	(0.3)
Net income (loss)	(5.5)%	0.1%	(3.6)%	1.0%

During the three-month period ended September 30, 2005, the Company incurred a net loss of \$5.9 million compared to net income of \$0.8 million from continuing operations for the same quarter last year. The three-month period ended September 30, 2005 diluted loss per share was \$0.57 compared to earnings per diluted share from continuing operations of \$0.08 for the comparable period in 2004. The net loss for the nine-month period ended September 30, 2005 was \$12.8 million, or \$1.24 per diluted share, as compared to income of \$4.4 million from continuing operations, or \$0.42 per diluted share, for the comparable period in 2004.

Looking Forward

The Company is continuing to focus on aggressive product development, improved productivity and cost control, and increasing the quantity and quality of its dealer network. In addition, given the current softness in the RV market, driven by declining consumer confidence, the Company is extremely focused on reducing its fixed overhead costs to make money even in a potential prolonged downturn.

Improved productivity and cost control remain significant objectives. The Company is making a significant investment this year in manufacturing engineers at its Country Coach facilities in an effort to increase productivity. Controlling costs also remains a high priority, specifically in the manufacturing cost areas, warranty, and workers' compensation. The Company continues to focus on improving the quality of its motorhomes to increase consumer satisfaction and decrease future warranty costs. Also, the Company has instituted a number of safety programs, which have resulted in measurably reduced workers' compensation costs. The Company expects further progress in containing its costs as it continues to implement lean manufacturing concepts.

A continued focus on dealer acquisition and enhanced training programs for the Company's workforce, service centers, dealers, and consumers are also key initiatives. The Company has undertaken efforts in the areas of safety; with new distance learning capabilities, the Company is looking forward to broadcasting its service training programs directly to dealers and service providers, driving the movement for increased customer satisfaction in areas of technical maintenance. In addition, factory-training programs are providing the Company's customers a basis for self-diagnostics and a better understanding of the equipment they are operating.

The Recreational Vehicle Industry Association's (RVIA) market expansion campaign, GO RVing, now in its eighth year, is fostering greater awareness and garnering media attention. The campaign is designed to promote the RV lifestyle. Though the RVIA expects substantial growth for the industry in the long-term driven by favorable demographic trends, the industry is anticipating continued weakness through 2006.

Results of Operations

Comparison of Continuing Operations for the Three and Nine-Months Ended September 30, 2005 to the Three and Nine-Months Ended September 30, 2004:

(Amounts in tables are in thousands, except percentages)

Net sales

	Three-Months Ended September 30, Percent Change			Nine-Months Ended September 30, Percent Change		
	2005		2004 (As Restated)	2005		2004 (As Restated)
Net sales	\$ 108,232	(3.8)%	\$ 112,525	\$ 357,082	6.6%	\$ 334,953
as a percent of net sales	100.0%		100.0%	100.0%		100.0%

Net sales of \$108.2 million for the three-month period ended September 30, 2005 decreased \$4.3 million or 3.8% from the same three-month period ended September 30, 2004. A shift in mix to higher-priced diesel motorhomes was more than offset by declining unit shipments. Wholesale unit shipments of diesel motorhomes for the three-month period ended September 30, 2005 were 302 units, down 4% from 315 units during the same period last year. Shipments of gas motorhomes for three-month period ended September 30, 2005 were 303 units, down 35% compared to the 466 gas units sold during the same period last year. The decrease in net sales for the three-month period ended September 30, 2005 is mainly the result of declining consumer confidence resulting, in part, from the natural disasters that occurred in the United States of America during the third quarter combined with economic factors of higher interest rates and fuel prices which has perpetuated the industry-wide slump in demand for Class A motorhomes.

Net sales of \$357.1 million for the nine months ended September 30, 2005 increased \$22.1 million or 6.6% from the same period last year. Wholesale unit shipments of diesel motorhomes were 1,087, up 3% from 1,057 units during the same period last year. Wholesale unit shipments of gas motorhomes were 1,073, down 20% from 1,334 units during the same period last year. The increase in net sales for the nine-month period ended September 30, 2005 is mainly attributable to the change in the sales mix to include more of the highline diesel motorhomes, which have higher average sales prices than midline diesel units and gas powered units.

Gross profit and gross profit margin

	Three-Months Ended September 30, Percent Change			Nine-Months Ended September 30, Percent Change		
	2005		2004 (As Restated)	2005		2004 (As Restated)
Gross profit	\$ 2,165	(72.7)%	\$ 7,919	\$ 9,881	(59.9)%	\$ 24,617
Gross profit margin	2.0%	(71.4)%	7.0%	2.8%	(61.6)%	7.3%

The gross profit margin for the three-month period ended September 30, 2005 was 2.0% compared to 7.0% for the same period last year. For the nine-month period ended September 30, 2005, the gross profit margin was 2.8% compared to 7.3% for the same period last year. The primary factors that led to the decrease in gross margins, in order of significance, were (1) higher sales incentive costs, (2) high production inefficiencies, (3) higher warranty costs, and (4) other increases in overhead including higher spending on inventory control and product development. The high sales incentive costs, concentrated on the Company's lower-priced products, were driven by an oversupply of product in a weakening market. The production inefficiency costs were also concentrated primarily at the Company's Perris, California plant and were driven by challenges with 2006 model-year introductions, commodity flow difficulties, and the working down of excess work-in-process inventory, combined with lower production rates leading to lower fixed-cost absorption.

Selling expenses

	Three-Months Ended September 30, Percent Change			Nine-Months Ended September 30, Percent Change		
	2005		2004 (As Restated)	2005		2004 (As Restated)
Selling expenses	\$ 4,335	44.4%	\$ 3,003	\$ 11,289	36.0%	\$ 8,298
as a percent of net sales	4.0%	2.7%	3.2%	2.4%		

Selling expenses increased \$1.3 million or 44.4% for the three-month period ended September 30, 2005 over the same period last year. Selling expenses for the nine-months ended September 30, 2005 increased \$3.0 million or 36.0% over the same period last year. Selling expenses increased mainly due to higher media and marketing costs to support the Company's dealer expansion and other initiatives, higher dealer convention expenses, and higher sales commissions resulting from higher sales.

General and administrative expenses

	Three-Months Ended September 30, Percent Change			Nine-Months Ended September 30, Percent Change		
	2005		2004	2005		2004
General and administrative expenses	\$ 3,346	9.2%	\$ 3,063	\$ 10,489	21.4%	\$ 8,642
as a percent of net sales	3.1%	2.7%	2.9%	2.6%		

General and administrative expenses totaling \$3.3 million for the three-month period ended September 30, 2005 were up \$0.3 million, or 9.2%, compared to the same period last year. For the nine-month period ended September 30, 2005, general and administrative expenses were \$10.5 million, representing an increase of \$1.8 million, or 21.4%, compared to the same period last year. The increase in general and administrative expenses is due to higher audit and professional fees, as well as higher staffing levels to support increased sales and production and increased staffing to support ongoing Sarbanes-Oxley compliance.

Interest expense

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	Three-Months Ended September 30, Percent Change			Nine-Months Ended September 30, Percent Change		
	2005		2004	2005		2004
Interest expense	\$	395	659.6%	\$	52	0.0%
as a percent of net sales		0.4%			0.3%	

Interest expense for the three-month periods ended September 30, 2005 and 2004 was \$395,000 and \$52,000, respectively. For the nine-month periods ended September 30, 2005 and 2004, interest expense was \$983,000 compared to \$130,000 for the same period last year. The change in interest expense is primarily attributable to increased borrowings on the line of credit.

Other expense (income)

	Three-Months Ended September 30, Percent Change			Nine-Months Ended September 30, Percent Change		
	2005		2004	2005		2004
Other expense (income)	\$	19	176.0%	\$	(72)	0.0%
as a percent of net sales		0.0%			0.0%	0.0%

Other expense (income) for the three-month periods ended September 30, 2005 and 2004 was immaterial. Other income for the nine-month periods ended September 30, 2005 was mainly interest and fees related to the note receivable. Other income for the nine-month period ended September 30, 2004 was mainly the gain on the sale of real property in Florida. As a percentage of net sales, the amount is immaterial.

Provision for income taxes

	Three-Months Ended September 30, Percent Change			Nine-Months Ended September 30, Percent Change		
	2005		2004	2005		2004
Provision for income taxes	\$	(100.0)%	\$ 608	\$	(100.0)%	\$ 2,835
as a percent of net sales		0.0%	0.5%		0.0%	0.9%

As discussed in Note 8 to the consolidated financial statements included in this Form 10-Q, recent cumulative losses, the downturn in current market conditions and its impact on near-term earnings led the Company to conclude that it was more likely than not that its net deferred tax asset will not be realized. As a result, the Company continues to record a full valuation allowance against its net deferred tax assets resulting in a zero effective tax rate for 2005. The effective tax rate for the three and nine-month periods ended September 30, 2004 was 41.9% and 39.1%, respectively. The Company expects to record a full valuation allowance on future tax benefits until it can sustain an appropriate level of profitability.

Net loss from discontinued operations

	Three-Months Ended September 30, Percent Change			Nine-Months Ended September 30, Percent Change			
	2005		2004	2005		2004	
Net loss from discontinued operations	\$	(100.0)%	\$	(727)	(100.0)%	\$	(1,137)
as a percent of net sales		0.0%		(0.7)%	0.0%		(0.3)%

On September 24, 2004, the Company sold its Travel Trailer business assets to Weekend Warrior, a privately owned, California-based ramp-trailer manufacturer. The net loss from discontinued operations (including a \$0.3 million gain on the sale) for the three-month and

nine-month periods ended September 30, 2004 was \$0.7 million and \$1.1 million, respectively.

Liquidity and Capital Resources

At September 30, 2005 and December 31, 2004, the Company had cash and cash equivalents of \$11,000 (excluding restricted cash totaling \$25,000 and \$251,000, respectively, required to secure a letter of credit in connection with one of the Company's insurance policies). During the nine-month period ended September 30, 2005, the Company financed its operations primarily through its existing working capital and its line of credit with UPS Capital Corporation (UPSC).

During the nine-month period ended September 30, 2005 the Company used \$12.0 million of cash in its operations, with the largest contributing factors being a \$12.8 million net loss, a \$3.1 million increase in receivables and a \$5.2 million increase in inventories, being partially offset by a \$1.8 million increase in accrued expenses. During the nine-month period ended September 30, 2004 the Company used \$11.0 million of cash in its operations, with the two largest contributing factors being a \$25.8 million increase in inventories and a \$2.5 million increase in receivables, and the largest offsetting factor being an \$8.2 million increase in accounts payable.

On September 30, 2005, the Company had working capital of \$33.9 million compared to \$49.1 million at December 31, 2004. This decrease of \$15.2 million was primarily due to a \$9.4 million increase in borrowings on the line of credit and a \$4.2 million increase in the book overdraft, partially offset by a \$2.9 million increase in receivables and a \$2.1 million increase in inventories.

For the nine-month period ended September 30, 2005, net cash used in investing activities was \$1.5 million, consisting primarily of \$3.6 million in capital expenditures, partially offset by repayments on note receivable of \$2.0 million. Net cash provided by financing activities was \$13.5 million, primarily due to net advances on the line of credit of \$9.4 million and a \$4.2 million increase in book overdraft.

On August 12, 2005, the Company entered into a new three-year asset-based revolving credit facility with UPSC and Wells Fargo Bank for \$25 million, with the Company having the option, subject to certain conditions, of increasing the revolver in \$5 million increments up to a total credit facility of \$40 million. On September 29, 2005, the Company affected such an increase in the amount of the credit facility from \$25 million to \$30 million. The credit facility is collateralized by all of the Company's assets other than real estate. Borrowing availability is based on eligible accounts receivable and inventory. The facility also includes a requirement to maintain a blocked account arrangement, whereby remittances from the Company's customers reduce the debt outstanding. The credit facility contains, among other provisions, certain financial covenants, including funded debt to EBITDA, and a fixed charge coverage ratio. If these financial covenants are not met, the Company's availability under the credit facility will be reduced. The Company did not meet these financial covenants as of September 30, 2005, and currently does not expect to until September 30, 2006. Until these covenants are met, the Company's borrowing availability under its \$40 million facility is limited to an amount between \$27 to \$32 million, depending on eligible inventory and accounts receivable. Initial amounts borrowed under the revolving credit facility bear interest at the prime rate listed in the Wall Street Journal plus 0.50 percentage points and may be subsequently adjusted down based on a trailing twelve month funded debt to EBITDA calculation.

At September 30, 2005 and December 31, 2004, the Company had outstanding loans under its line of credit then in affect totaling \$22.1 million and \$12.7 million, respectively. At September 30, 2005, the interest rate on the outstanding borrowings under the line of credit was 7.25%. The weighted average interest rate for the borrowings under the line of credit during the nine-month period ended September 30, 2005 and 2004 was 6.56% and 5.01%, respectively.

Management's plan to achieve operational profitability includes continuing or starting a variety of initiatives to improve its earnings and working capital position, including: i) new product introductions in the fourth quarter of 2005 with additional new product and floor plan introductions in the first half of 2006, ii) new dealer additions to fill open market areas or replace under-performing dealers, iii) reductions in all categories of inventory, iv) head count re-balancings to current retail sales-supported production levels, v) engineering reviews of material components for the removal of non-value added items to reduce both material and assembly costs, vi) continued thorough motorhome inspections to improve quality and to more timely report failures, and vii) manufacturing cost reductions resulting from the continued implementation of lean manufacturing concepts.

In order to fund on-going operations in the short-term, the Company remains dependent upon its ability to utilize outside financing through borrowings on its line of credit until it achieves sustained operational profitability through a combination of increased sales, cost reductions and improved product margins. After consideration of the restrictions of the borrowing capacity noted in Noted 5, the Company believes it has sufficient financial resources to fund its operations in the short-term. However, the Company's ability to meet its obligations in the long-term is dependent on its ability to generate positive cash flows from operations and is dependent on continued borrowings under its line of credit. If management is unable to achieve its operational profitability plan or unforeseen events occur and the Company's existing line of credit is insufficient to allow the Company to meet its obligations, the Company may need to implement alternative plans that could include long-term financing collateralized by real estate (which is presently unencumbered) or obtaining additional debt financing, additional reductions in operating costs, deferral of capital expenditures, and further reductions in working capital. While the Company believes that it could successfully complete the alternative plans, if necessary, there can be no assurance that such alternatives would be available on acceptable terms and conditions or that the Company would be successful in its implementation of such plans.

As further discussed in Note 6 to the consolidated financial statements included in this Form 10-Q, the Company generally agrees with its dealers' lenders to repurchase any unsold RVs in the event of various circumstances. The Company's maximum potential exposure under these agreements approximated \$169 million at September 30, 2005. As with receivables, the risk of loss under the repurchase agreements was spread over a number of dealers and lenders and was reduced by the resale value of the RVs, which the Company would be required to repurchase. Losses under these agreements have not been material in the past and management does not believe that any future losses under such agreements will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

In August 2004, the Company entered into an agreement to acquire, for \$3 million, approximately 73 acres of land adjacent to its Country Coach, Inc. facility in Junction City, Oregon. The Company paid a deposit of \$0.1 million. The closing of the purchase is subject to customary closing conditions and is expected to occur in 2006. The Company believes the combination of internally generated funds and unused borrowing availability will be sufficient to meet this obligation.

Recently Issued Accounting Pronouncements

In November 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 151, Inventory Costs—an Amendment of ARB No. 43, Chapter 4. SFAS No. 151 requires that accounting for items such as idle facility expense, freight, handling costs, and wasted materials (spoilage) be recognized as current period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The provision of this Statement shall be applied prospectively. The Company has not determined the impact that adoption of this standard will have on its consolidated financial statements.

In December 2004, the FASB issued FSP 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. The American Jobs Creation Act, or AJCA, introduces a special 9% tax deduction on qualified production activities. FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with Statement 109. FSP 109-1 is effective upon its issuance. The adoption of FSP 109-1 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS 123) and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS No. 123R in the first calendar quarter of 2006, beginning January 1, 2006. Under SFAS No. 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include modified prospective and modified retrospective adoption options. Under the modified retrospective option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS No. 123R, while the modified retrospective method would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R. The Company has not yet determined the method of adoption or the affect of adopting SFAS No. 123R, and the Company has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123 and 148.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB No. 20 and FAS No. 3 (SFAS 154). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154. SFAS 154 is required to be adopted in fiscal years beginning after December 15, 2005. The Company does not believe that adoption of this standard will have an impact on its consolidated financial statements.

In August 2005, the FASB issued FSP FAS 123-1, *Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services* under FASB Statement No. 123R. In this FSP, the FASB decided to defer the requirements in FASB Statement No. 123 (Revised 2004), *Share-Based Payment*, that make a freestanding financial instrument subject to the recognition and measurement requirements of other GAAP when the rights conveyed by the instrument are no longer dependent on the holder being an employee. The guidance in this FSP should be applied upon initial adoption of Statement 123R. The Company is evaluating the requirements of SFAS 123R. The Company has not yet determined the method of adoption or the affect of adopting SFAS No. 123R, and the Company has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123 and 148.

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PART I, ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk

The Company has no significant financial instruments. The Company does not have any significant foreign currency exposure because it does not transact business in foreign currencies. However, the Company is exposed to interest rate changes related primarily to cash borrowings on the Company's credit facility. The weighted average interest rate for the borrowings on the credit facility during the nine-month period ended September 30, 2005 was 6.56%. For every 0.25% increase in interest rates, the Company would expect a quarterly increase in interest expense of approximately \$0.6 thousand for each \$1.0 million borrowed.

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PART I, ITEM 4 CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as the Company's are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the preparation of this Quarterly Report on Form 10-Q, as of September 30, 2005, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). In light of the material weaknesses referenced below which the Company first identified in connection with the assessment required by Section 404 of the Sarbanes-Oxley Act of 2002 and disclosed in its Form 10-K for the year ended December 31, 2004 and which continued to exist as of the end of the period covered by this report, the Company's CEO and CFO concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were not effective at a reasonable assurance level as of September 30, 2005.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We identified the following material weaknesses in the Company's internal control over financial reporting:

1. *Insufficient personnel resources and technical expertise within its accounting function.* The Company did not maintain effective controls over the financial reporting process at its NRV division and at corporate because of insufficient personnel resources and technical expertise within the accounting function. This material weakness contributed to the following individual material weaknesses: (a) errors in the preparation and review of schedules and reconciliations supporting certain general ledger account balances. As a result, errors were not detected in certain accrued liability accounts, including sales and marketing, warranty, legal and workers' compensation, and the related income statement accounts, including cost of goods sold, selling and general and administrative expenses at the NRV division; (b) inadequate financial statement disclosures, primarily related to the sale of a division and capital leases were not identified by the corporate accounting staff; and (c) accounting cutoff errors primarily related to accrued marketing expenses and an inability to properly and timely account for capital leases entered into during the year were not identified at the NRV division. This control deficiency resulted in audit adjustments to the 2004 annual consolidated financial statements affecting accrued liabilities, property, plant and equipment, and the related income statement accounts, primarily cost of goods sold, selling, general and administrative, amortization and interest. Insufficient personnel resources and technical expertise also contributed to the material weaknesses discussed in 2, 3, 4 and 5 below. Additionally, these control deficiencies could result in misstatements in the aforementioned accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not

be prevented or detected.

2. *Revenue Recognition* The Company did not maintain effective controls over the timing of the revenue recognition related to the sale of certain motorhomes at its NRV division. Specifically, under a deferred payment arrangement the Company held the manufacturer's certificate of origin as security for payment. This control deficiency resulted in the restatement of the Company's third quarter 2004 consolidated financial statements to correct the timing of revenue recognition. This control deficiency also resulted in audit adjustments to the 2004 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of revenue and deferred revenue that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

3. *Accounting for Sales Incentives* The Company did not maintain effective controls over the accounting for sales incentives. Specifically, certain sales incentive programs which are paid directly to the dealer or dealer sales representatives were improperly classified as selling expenses and should have been classified as a reduction of revenue. This control deficiency resulted in the restatement of the Company's 2003 and 2002 consolidated financial statements. This control deficiency also resulted in audit adjustments to the 2004 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of revenue and selling expenses that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

4. *Accounting for Income Taxes* The Company did not maintain effective controls over the determination and reporting of the provision for income taxes and related deferred income tax balances. Specifically, the Company did not maintain effective controls to review and monitor the accuracy of the valuation allowance as well as other components of the income tax provision calculations and related deferred income taxes. This control deficiency resulted in an audit adjustment to the fourth quarter 2004 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the income tax provision or related deferred income tax balances that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

5. *Physical inventory process* The Company did not maintain effective controls over the accuracy of the physical inventory process at its NRV division. Specifically, the NRV division did not have controls to ensure all of the individuals involved in the physical inventory count were properly trained and supervised and that discrepancies between quantities counted and the accounting records were properly investigated. Further, the NRV division did not have controls to ensure the accounting records were adjusted to reflect the actual quantities counted during the physical inventory process. This control deficiency resulted in an audit adjustment to the fourth quarter 2004 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of inventory and cost of goods sold that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

6. *Unrestricted access to programs and data* The Company did not maintain effective controls over access to certain financial application programs and data at its NRV division. Specifically, there were instances in which information technology personnel and users with accounting and reporting responsibilities had access to financial accounting application programs and data that was incompatible with their functional business requirements. Further, the activities of these individuals were not subject to independent monitoring. These control deficiencies applied to certain systems and processes including the financial statement preparation, human resources, payroll, purchasing, receiving and revenue and billing. These control deficiencies did not result in an adjustment to the 2004 interim or annual consolidated financial statements. However, these control deficiencies could result in a misstatement to financial statement accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation of Material Weaknesses

During fiscal year 2005, management has taken a number of steps that it believes will impact the effectiveness of our internal control over our financial reporting including the following:

1. *Insufficient personnel resources and technical expertise within its accounting function*

Management has assessed the organization of its accounting personnel and the technical expertise within the accounting function. As a result, the Company has established an accounting function at the parent company level. The NRV divisional controller was promoted to Corporate Controller and will be responsible for setting and establishing accounting policies for the Company and its two divisions in accordance with accounting principles generally accepted in the United States of America (GAAP) and guidelines required by the Securities and Exchange Commission (SEC). To assist the Corporate Controller, the Company has also promoted an individual to a newly created position of Manager of Financial Reporting. In addition, the Company has subscribed to an on-line research tool to assist this group in staying abreast of new accounting pronouncements, proper accounting disclosure and also research technical accounting issues relating to the Company's ongoing business transactions. At the NRV division, the Company has hired a new Controller and Accounting Manager.

2. *Revenue Recognition*

Effective April 1, 2005, the NRV division discontinued the deferred payment arrangement under which it held the manufacturer's certificate of origin as security for payment. During the second quarter of 2005, the NRV division revised its quarterly closing procedures to strengthen its review of any new agreements or other terms to determine whether the related transactions are accounted for in the proper period.

3. *Accounting for Sales Incentives*

Effective May 31, 2005, the Company changed its method of accounting for sales incentive programs that are paid directly to the dealer sales representatives. These sales incentives are now classified as a reduction of revenue rather than as a selling expense. These sales incentives were restated for all years presented in the fiscal year 2004 Form 10-K and have been properly classified in the first and second quarters of fiscal year 2005. As more fully discussed in 1 above, the Company has increased its personnel and expertise within the accounting function. In addition, the Company has revised its quarterly closing procedures to strengthen its review of all existing sales incentive programs to ensure they are accounted for properly.

4. *Accounting for Income Taxes*

As more fully discussed in 1 above, the Company has recently increased its personnel and technical expertise within the accounting function. In addition, the Company revised its quarterly closing procedures to strengthen its review of the income tax provision to ensure the accuracy of the components of the income tax provision and related deferred income taxes.

5. *Physical inventory process*

Beginning with the first quarter of 2005, management increased its training of all personnel involved in the physical inventory process at the NRV division, particularly those individuals performing the data entry function. Additionally, the physical inventory report was revised such that any inventory item, which does not include a corresponding item number, will result in an exception-requiring follow-up by management. In addition, the NRV division has implemented enhanced review procedures by senior management of the reconciliation process between the quantities obtained from the physical inventory tags and the quantities obtained from the updated perpetual inventory report.

6. *Unrestricted access to programs and data*

The NRV division has corrected access rights for known instances in which information technology personnel and users with accounting and reporting responsibilities had access to financial accounting applications programs and data that was incompatible with their functional business requirements. The NRV division is also in the process of refining and developing ongoing processes to ensure that proper access rights are granted, reviewed and maintained in a timely manner.

The Company believes that it will be able to improve its disclosure controls and procedures and remedy the material weaknesses and additional control deficiencies identified as part of its assessment process. Notwithstanding the Company's remediation efforts, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

Except as disclosed above, there have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

A. Exhibits

- 10.1 Credit Agreement, dated as of August 12, 2005 between the Company, NRV, CCI and UPS Capital Corporation and Wells Fargo Bank, as lenders.
- 10.2 Loan Modification Agreement, dated as October 4, 2005, between the Company, NRV, CCI and UPS Capital Corporation and Wells Fargo Bank, as lenders.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL R.V. HOLDINGS, INC.
(Registrant)

Date: November 4, 2005

By /s/ THOMAS J. MARTINI, CPA

Thomas J. Martini
Chief Financial Officer
(Principal Accounting and
Financial Officer)