Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's historical Consolidated Financial Statements and Notes thereto.

The Company has two reportable operating segments, the recreational vehicle products segment (the "RV segment") and the manufactured housing products segment (the "MH segment"). The RV segment, which accounted for 62 percent of consolidated net sales for 2003 and 53 percent of consolidated net sales for 2002, manufactures a variety of products used in the production of recreational vehicles, including windows, doors, chassis, chassis parts, RV slide-out mechanisms and related power units, and electric stabilizer jacks. The MH segment, which accounted for 38 percent of consolidated net sales for 2003 and 47 percent of consolidated net sales in 2002, manufactures a variety of components used in the construction of manufactured homes, and to a lesser extent, modular housing and office units, including vinyl and aluminum windows and screens, chassis, chassis parts and thermo-formed bath and shower units.

This shift in sales between segments resulted partly from the growth in the RV industry and the decline in the MH industry. Intersegment sales and sales to industries other than manufacturers of RVs and manufactured homes are insignificant.

The Company's operations are conducted through its operating subsidiaries. Its two primary operating subsidiaries, Kinro, Inc. ("Kinro") and Lippert Components, Inc. ("LCI"), have operations in both the MH and RV segments. At December 31, 2003, the Company's subsidiaries operated 41 plants in 17 states and one in Canada.

INDUSTRY BACKGROUND

Recreational Vehicle Industry

The Recreation Vehicle Industry Association ("RVIA") reported a three percent increase in total industry shipments of recreational vehicles ("RVs") in 2003, while industry shipments of travel trailers and fifth wheel RVs only, the Company's primary market, increased nine percent for 2003. The 2003 growth builds upon 2002, when the RVIA reported an increase of 21 percent in total RV shipments to near record levels and an increase of 25 percent for travel trailers and fifth wheel RVs for the year. Increasing industry RV sales are expected to continue to be driven by positive demographics, as demand for RVs is strongest from the over 50 age group, which is the fastest growing segment of the population. Industry growth also continues to be bolstered by the preference for domestic vacations, rather than foreign travel, and low interest rates. In recent years, the RVIA has employed an advertising campaign to attract customers in the 35 to 54 age group, and the number of RVs owned by those 35 to 54 grew faster than all other age groups.

Manufactured Housing Industry

As a result of limited credit availability for purchases of manufactured homes, high interest rate spreads between conventional mortgages on site built homes and chattel loans for manufactured homes, and unusually high repossessions of manufactured homes, industry production has declined approximately 65 percent since 1998 to 131,000 homes in 2003, the lowest production level in 40 years. However, based upon industry reports, retail sales of manufactured homes have declined much less severely to an estimated 250,000 homes in 2003. However, almost 50 percent of these retail sales have been filled by inventory reductions by dealers and manufacturers, and the resale of repossessed homes, rather than new production. It has been estimated that approximately 90,000 manufactured homes per year were repossessed in 2000 to 2002, with estimates of 100,000 or more homes repossessed in 2003, far in excess of historical repossession levels.

Repossessions and the limited availability of chattel loans for home buyers have been continuing concerns for the manufactured housing industry. However, recently there have been some signs that repossessions are beginning to ease and the retail inventory of new and repossessed homes per retail dealer location has declined from December 2002 levels. The availability of financing for manufactured homes is expected to increase in 2004 as a result of Fannie Mae's announcement in February 2004 that they were easing their financing requirements for manufactured homes. In addition, Berkshire Hathaway Inc. acquired Clayton Homes in August 2003, and Clayton has since received substantial funds to provide financing for manufactured homes. Long-term prospects for manufactured housing are still favorable because it provides quality, affordable housing which the country needs.

As a result of market share gains and efficiency improvements, Drew's MH segment has remained profitable throughout this extended industry-wide slump. Based upon the Company's current sales content per manufactured home, the Company has estimated that for every 10,000 new manufactured homes produced, the Company's net sales should increase approximately $10 million, and the operating profit on the incremental sales should be higher than current segment operating margins.