

manufactured housing



DREW INDUSTRIES INCORPORATED



recreational vehicles



c o r p o r a t e p r o f i l e

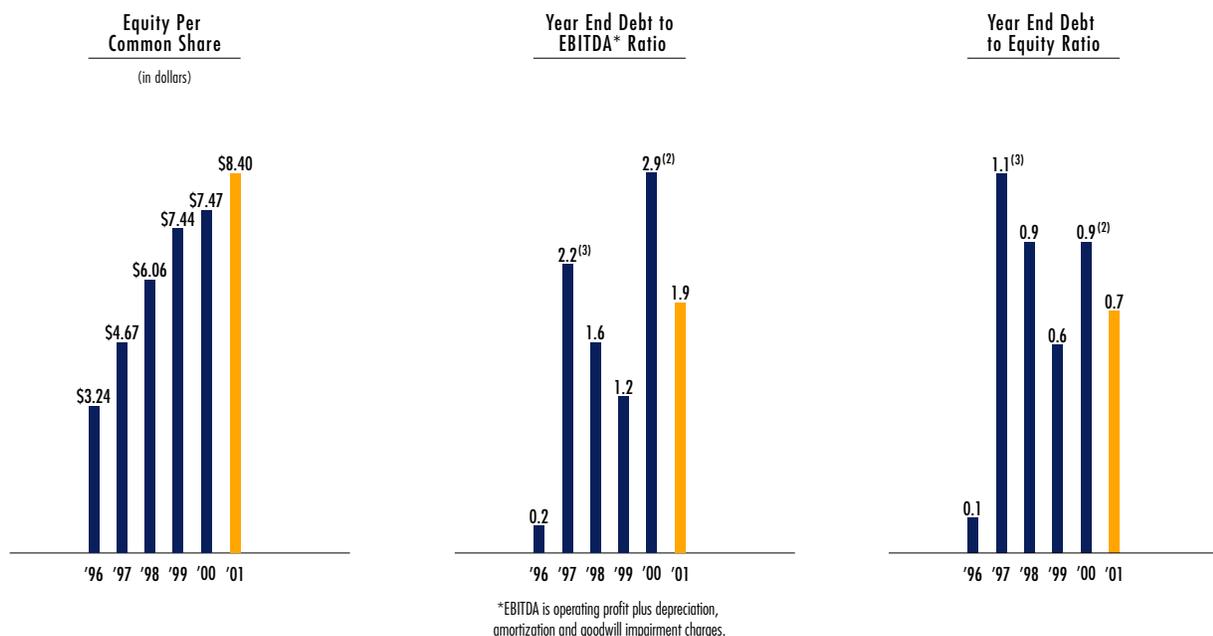
DREW, through its wholly-owned subsidiaries, Kinro, Inc., and Lippert Components, Inc., is a leading supplier of a wide variety of components for manufactured homes and recreational vehicles. Drew manufactures windows, doors, chassis, chassis parts, bath and shower units, new and refurbished axles, and roofs, and distributes new and refurbished tires. Drew's 2,500 employees, at over 40 facilities in the United States and Canada, are committed to providing our customers with outstanding service and quality products at competitive prices, while maintaining the highest operating efficiencies.

Financial Highlights

The following selected financial data should be read in conjunction with the consolidated financial statements and related notes thereto included herein (in thousands, except per share amounts):

	Years Ended December 31,					
	2001	2000	1999	1998	1997	1996
Operating Data						
Net sales	\$269,469	\$287,765	\$324,455	\$330,640	\$208,365	\$168,151
Operating profit	\$ 19,105	\$ 7,535 ⁽¹⁾	\$ 31,934	\$ 28,942	\$ 21,761	\$ 20,990
Income before income taxes	\$ 14,795	\$ 3,576	\$ 28,566	\$ 25,052	\$ 19,256	\$ 20,664
Provision for income taxes	5,861	2,029	11,375	9,835	7,262	8,092
Net income	\$ 8,934	\$ 1,547	\$ 17,191	\$ 15,217	\$ 11,994	\$ 12,572
Income per common share:						
Net income per common share (basic)	\$.92	\$.15	\$ 1.51	\$ 1.36	\$ 1.22	\$ 1.18
Net income per common share (diluted)	\$.92	\$.15	\$ 1.51	\$ 1.34	\$ 1.19	\$ 1.15
Financial Data						
Working capital	\$ 12,476	\$ 22,367	\$ 28,970	\$ 31,630	\$ 24,009	\$ 16,138
Total assets	\$156,975	\$159,298	\$156,044	\$154,425	\$130,349	\$ 55,283
Long-term obligations	\$ 43,936	\$ 58,321	\$ 46,740	\$ 59,612	\$ 56,130	\$ 4,938
Stockholders' equity	\$ 81,210	\$ 72,164 ⁽²⁾	\$ 84,089	\$ 68,762	\$ 51,953 ⁽³⁾	\$ 34,779

Statistics



1) After a non-cash charge of \$6.9 million, in 2000, to reflect an impairment of goodwill, as well as an accrual of \$.4 million for plant closing expenses, related to the Company's axle and tire refurbishing operation.

2) In 2000, the Company purchased treasury stock for \$13.5 million.

3) In 1997, the Company purchased treasury stock for \$20.8 million and acquired Lippert Components, Inc. for \$52.3 million in cash and common stock.

Letter to Stockholders

"We have substantially increased market share and manufacturing capacity through acquisitions, internal growth, and new manufacturing facilities."



Needless to say, the events of September 11th reduce the significance of the problems and concerns we face daily and temper our delight in reporting Drew's accomplishments of the past year. We express our sincere condolences for the victims, and our profound respect for the courage and strength of our country.

During 2001, Drew overcame the dual challenges of a severely weakened economy and continued production declines in the industries we serve. Despite these obstacles, we achieved sharply higher net income, we increased market share and we strengthened our balance sheet. While sales for the year were down 6 percent, we significantly outperformed the manufactured housing ("MH") and recreational vehicle ("RV") industries, which suffered production declines of 23 percent and 14 percent, respectively. We attribute Drew's results to our seasoned operating management, who have experienced industry downturns before and responded early and effectively. Our net income for the year was \$8.9 million, or \$.92 per share, a substantial improvement over last year's results.

Drew's fourth quarter sales were up nearly 8 percent, with both our MH and RV segments achieving gains. This trend has continued, with January 2002 sales increasing approximately 20 percent from last January, without giving effect to acquisitions.

During 2001, our MH segment acquired Better Bath, a manufacturer of thermo-formed bath and shower units. The Better Bath acquisition gave Drew a new product line, was accretive to earnings, and makes us an even more important supplier to the MH industry.

Also during 2001, our MH segment closed two tire and axle recycling factories and sold the operations of a third location, which had reported losses in each of the last few years. We continue to operate two recycling locations.

Drew's increased market share and reduced production costs enabled us to achieve an 18 percent increase in MH segment operating profit, even though the MH industry experienced a continued decline. The 2½ year downturn in the MH industry has recently shown signs of abating, as industry production rose 2 percent in the fourth quarter. Extremely high inventories of finished homes throughout the industry, and the excessive number of retailers both have now been reduced to more reasonable levels. However, due to the economy, repossessions of homes and credit delinquencies remain high, which continue to slow sales of newly produced homes. The economic recovery being forecasted should help alleviate these problems, and allow the MH industry to continue its recovery.

The performance of Drew's RV segment also improved, with operating profit increasing 34 percent in 2001. We achieved these results despite a two-year decline in industry-wide shipments of RV's, partly because we gained significant market share in each of our RV product lines. In addition, we acquired two small manufacturers of RV chassis, one of our fastest growing product lines. While adding only modestly to sales, these chassis manufacturers improved our geographic coverage, allowing us to better serve our customers while reducing freight costs and adding needed

capacity. The industry suffered a set-back due to the events of September 11th, as consumer confidence, a barometer of the RV industry, was severely affected. Monthly consumer confidence indices have been mixed, but generally are trending higher since September 11, and the RV industry has demonstrated distinct signs of improvement. In addition, the RV industry may be favorably impacted by a preference for vacationing and traveling in the United States rather than abroad, as evidenced by the recent increase in demand for RV rentals.

During the past year, Drew improved its liquidity by raising \$13 million through long-term equipment and real estate mortgages, and \$3.7 million from the sale and leaseback of manufacturing equipment. This, along with strong cash flow from operations, and reductions in our accounts receivable and inventories, allowed us to reduce borrowings under our \$25 million line of credit to only \$200,000 at December 31, 2001. As a result, we have the liquidity to take advantage of other expansion opportunities. In January 2002, we made the second scheduled annual payment of \$8 million on our Senior Notes, reducing those borrowings to \$24 million.

In order to comply with the new accounting standards regarding goodwill, the Company is presently assessing the fair value of the \$39 million of goodwill recorded in connection with acquisitions, to determine if the value of those assets have been impaired. It is likely that, during the first quarter of 2002, Drew will record a charge to write-off a portion of such goodwill

pursuant to the new accounting guidelines. Any charge that may be required will be reported net of taxes, as a cumulative effect of a change in accounting principle. Net income and earnings per share before such charge will be reported separately. The new accounting standards also eliminate the amortization of goodwill as an expense. Drew's results for 2001 included \$1.9 million of such amortization expense (\$1.6 million net of taxes, or \$.17 per share).

From Drew's 41 factories located throughout the United States and Canada, we provide quality products and efficient service to most national MH and RV customers. As the expected improvements in the MH and RV industries progress, Drew is well-positioned to achieve even better results due to our increased market share, recent acquisitions, more efficient operations, and improved liquidity.

As always, we thank our operating management teams and their dedicated employees, whose experience and efforts have enabled Drew to achieve excellent results, despite extremely difficult hurdles.

Sincerely,

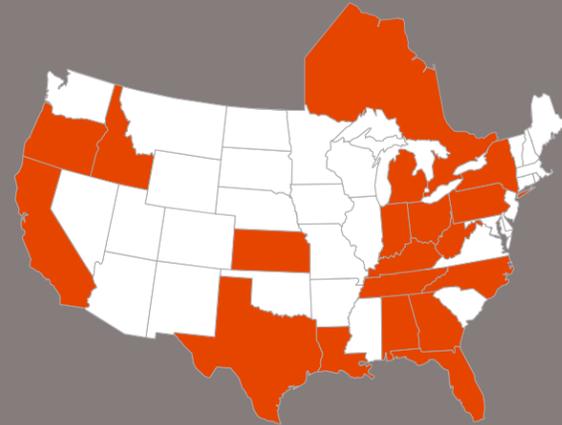
A handwritten signature in black ink that reads "Edward W. Rose, III".

Edward W. Rose, III
Chairman of the Board

A handwritten signature in black ink that reads "Leigh J. Abrams".

Leigh J. Abrams
President and Chief Executive Officer

Our Markets & Industries



Manufactured Housing

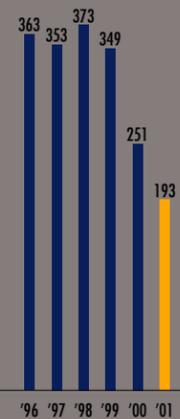
A manufactured home is a single family residence which is built entirely in a factory-controlled environment. These homes come in a wide variety of appealing floor plans and styles. The typical manufactured home has 3 or more bedrooms, central air-conditioning, and more than 1,500 square feet of living space.

Manufactured homes have come to be recognized as attractive and quality-built, yet less expensive than site-built homes. Approximately 21 million people currently reside in 9 million manufactured homes across the United States.

In recent years, the manufactured housing industry was burdened by excess inventories of finished homes and high levels of repossessions due to low mortgage credit standards by lenders. During 2000 and 2001, inventories at both retailers and manufacturers were significantly reduced, and lending credit standards have become more realistic.

The manufactured housing industry now appears poised to enter a new period of recovery. The primary strength of the manufactured housing industry is clear—quality homes at a cost of up to 50% less per square foot than a site-built home. This has enabled millions to realize the dream of home ownership, which they could not otherwise have achieved.

Industry Production—
Manufactured Housing
(in thousands of homes)



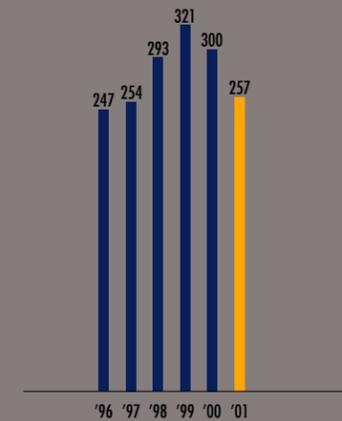
Recreational Vehicles

A recreational vehicle is, in essence, a traveling home. RV's range from small folding camping trailers to large, luxurious travel trailers and motor homes, many of which have slide out expansion rooms and provide all the comforts and conveniences of home. By combining transportation and temporary living quarters, recreational vehicles provide convenient and economic travel.

About 8.6 million families in the United States own RV's. Demographic trends continue to favor long-term growth in the RV industry, as the number of people in the United States over 50 years old, the largest market for RV's, is expected to increase significantly.

Sales of RV's historically have been closely tied to consumer confidence levels. Consumer confidence, along with the economy, was hit hard in 2001. But as our country and our economy recover, many expect that consumers may prefer to vacation and travel in the United States, rather than flying overseas. RV's are a safe and comfortable way to meet these travel preferences.

Industry Shipment—
Recreational Vehicles
(in thousands of units)



Drew's Products

Components for Manufactured Homes & Recreational Vehicles

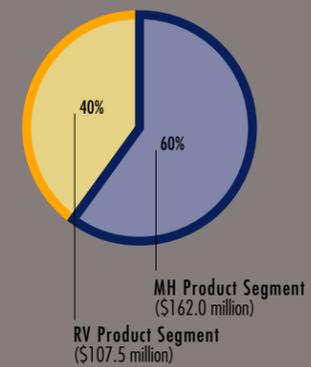
Manufactured Housing Products

This segment manufactures a broad line of components for manufactured homes, including aluminum and vinyl windows, chassis, chassis parts, and roofs, and recently added a line of shower and bath units, through the acquisition of Better Bath in June 2001. Drew's manufactured housing ("MH") products segment accounted for 60% of total sales and 62% of segment operating profit, in 2001.

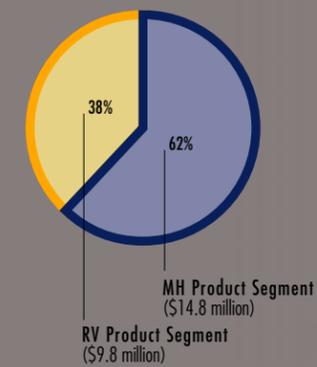
Our MH products are manufactured at 26 facilities across the United States, strategically located to maximize service to customers, and minimize freight costs.

The quality and appearance of manufactured homes have improved dramatically over the last two decades, and Drew has continually met the changing needs of customers. Over the years, Drew's products have been engineered for improved quality, value to customers, and cost effectiveness.

Segment Operating Sales



Segment Operating Profit



Drew has significantly expanded its market share for MH products, through acquisitions, new product introductions, and internal growth. As a result, Drew's MH products segment now supplies an average of \$840 per manufactured home produced by the industry, up from \$710 in 1999.

Recreational Vehicle Products

Drew's recreational vehicle ("RV") products segment manufactures windows, doors, and chassis at 17 facilities in the United States and one in Canada. Our RV products segment has experienced rapid growth in recent years, and represented 40 percent of Drew's total sales in 2001, and 38 percent of segment operating profit.

Growth in sales of existing products, along with the introduction of new products, has enabled the RV products segment to gain significant market share. In 2001, this segment supplied an average of \$420 of components for each RV shipped by the industry, representing an increase of more than 100 percent over 1998 sales per RV.

To accommodate the increased demand for our RV products, this segment has built 10 new factories in the last 4 years, and now has over 850,000 square feet of production facilities.



Drew's Future

Drew's long-term goal remains the same—enhancing stockholder value.

Our established strategies to achieve this goal are straightforward:

- Satisfy customer needs while recognizing opportunities.
- Emphasize profitability.
- Align management incentives with stockholder interests.

While annual results may vary, steadfast adherence to these strategies will enable us to achieve our goal.

Satisfy customer needs while recognizing opportunities.

Through years of experience, Drew's key executives have learned that building partnerships with our customers by providing quality products and superior service can create opportunities and maintain valued long-term relationships.

Management's ability to recognize trends and create opportunities has enabled Drew to remain profitable during the current slump in both the manufactured housing and recreational vehicles industries. As a result, Drew has a strong balance sheet, and is ready to benefit from growth opportunities in the future.

Emphasize profitability.

In 2001, Drew achieved increased profits despite the cyclical contractions in the manufactured housing and recreational vehicle industries. We accomplished this by remaining focused on evaluating long-term profit potential against the risks that accompany expansion opportunities.

Align management incentives with stockholders interests.

Drew has a long-standing policy of rewarding operating management through profit incentive programs and a stock option plan designed to align the motivation of our employees with the goal of enhancing stockholder value. These compensation plans also enable Drew to attract and retain the most qualified managers.

Drew encourages management to maintain significant ownership of the Company. Directors and key management own more than 50% of Drew's outstanding shares, ensuring that management's interests are the same as our stockholders'.

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

The Company has two reportable operating segments, the manufactured housing products segment (the "MH segment") and the recreational vehicle products segment (the "RV segment"). The MH segment, which accounted for 60 percent of consolidated sales in 2001, manufactures a variety of components used in the construction of manufactured homes, including aluminum and vinyl windows, chassis, chassis parts, bath and shower units, galvanized roofing and new and refurbished axles. The MH segment also imports new tires and refurbishes used tires which it supplies to producers of manufactured homes. The RV segment, which accounted for 40 percent of consolidated sales in 2001, manufactures a variety of products used in the production of recreational vehicles, including windows, doors and chassis. The MH segment and the RV segment primarily sell their products to the producers of manufactured homes and recreational vehicles, respectively. Each segment also supplies related products to other industries, but sales of these products represent less than 5 percent of the segment's net sales.

The Company's operations are performed through its four operating subsidiaries. Its two primary operating subsidiaries, Kinro, Inc. ("Kinro") and Lippert Components, Inc. ("LCI") have operations in both the MH and RV segments, while Lippert Tire and Axle, Inc. ("LTA") and Coil Clip, Inc. ("Coil Clip") operate entirely within the MH segment. At December 31, 2001 the Company's subsidiaries operated 41 plants in 18 states and Canada.

On June 1, 2001, the Company's subsidiary, Kinro, acquired the assets and business of the Better Bath division of Kevco, Inc. Better Bath manufactures and sells thermo-formed bath and shower units for the manufactured housing industry and had sales of approximately \$27.7 million in 2000, and \$22.3 million in 2001, including \$13.2 million in the seven months since its acquisition by the Company. The acquisition has been accounted for as a purchase. The aggregate purchase price of approximately \$10.2 million has been allocated to the underlying assets based upon their respective estimated fair values. The excess of purchase price over the fair value of net assets acquired ("goodwill") was approximately \$3.1 million, which is being amortized over 20 years. The results of the acquired business have been included in the Company's consolidated statement of income beginning June 1, 2001.

Manufactured homes are attractive and quality built, yet less expensive than site-built homes. The MH industry experienced a contraction over the last 2½ years and appears ready to enter a period of recovery, although significant industry growth is not expected until 2003. Recreational vehicles, the sales of which were affected by the recent economic slowdown, combine transportation and temporary living quarters. The largest market for RV's are people over 50 years old. Demographic trends, therefore, combined with the improving trend of consumer confidence levels, indicate that the RV market is likely to grow over the next few years. The Company has significant market share in the major products of both of the Company's segments, therefore as the MH and RV industries recover in the future, the Company expects to achieve significant internal growth. In addition, the Company will continue to seek growth through acquisitions and product line extensions.

RESULTS OF OPERATIONS

Net sales and operating profit are as follows (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Net sales:			
MH segment	\$161,965	\$186,593	\$246,509
RV segment	107,504	101,172	77,946
Total	\$269,469	\$287,765	\$324,455
Operating profit:			
MH segment	\$ 14,807	\$ 12,574	\$ 28,330
RV segment	9,208	6,853	8,819
Amortization of intangibles	(2,603)	(2,694)	(2,694)
Writedown of intangibles		(6,897)	
Corporate and other	(2,307)	(2,301)	(2,521)
Total	\$ 19,105	\$ 7,535	\$ 31,934

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

MH Segment

In 2001, sales of the Company's MH products segment declined 13 percent to \$162 million, compared to a 23 percent decline in industry-wide production of manufactured homes. The decline in the MH industry began in the spring of 1999, but has recently showed signs of abating, as indicated by December 2001 MH industry production, which was up 9 percent from December 2000. Industry production of manufactured homes during the second half of 2001 was down 8 percent from the prior year, while it was down 35 percent during the first half of 2001. The extremely high inventories of finished homes in the industry, and the excessive number of retail dealers of two years ago, have now both been reduced to more acceptable levels. Also, more manufactured homes are now financed with land, often making them eligible for lower cost conventional financing. The risk of repossessions remains high, however, due to the economic slowdown. Industry experts are projecting a flat to moderate increase in shipments for 2002.

Sales of refurbished axles and tires by the MH segment declined more than sales of other MH products due to the closure of two facilities during the first quarter of 2001 and the sale of the operations of a third location in the third quarter of 2001. Excluding sales of refurbished axles and tires and the Better Bath operation, which has been included in the Company's consolidated statement of income since its acquisition on June 1, 2001, net sales of the MH products segment decreased only 11 percent for the year 2001, reflecting the Company's market share growth.

Operating profit of the MH segment increased by 18 percent as a result of the acquisition of Better Bath as well as the improvement of the refurbished axles and tires operation. Excluding the operating results of the refurbished axles and tires operation and Better Bath, operating profit for the MH segment in 2001 was approximately the same as the year 2000 despite the reduction in sales. Material costs continued to be relatively stable this year, except for steel, which declined 5 to 11 percent, depending on the product, after rising last year. Improved operating efficiencies in 2001 partly offset the effect of fixed costs and lower sales. Selling, general and administrative expenses were down in dollar terms but not as a percentage of sales, because of fixed costs. There were no significant selling price increases in the years 2000 and 2001.

The Company's axle and tire refurbishing operation has not performed well over the past several years, primarily due to increased competition, which severely affected operating margins. At the end of the third quarter of 2000, the Company announced that it was studying whether goodwill and fixed assets related to this operation had been impaired. Based upon this evaluation, it was determined that goodwill had been impaired resulting in a non-cash charge of \$6,897,000 in the fourth quarter of 2000. The goodwill impairment charge is not included in the MH segment results. In January 2001 the axle and tire refurbishing operation closed two of its five factories and, in July 2001, a third such operation was sold for cash of approximately \$1.8 million, helping reduce operating losses by \$.6 million from the year 2000. In addition, raw material costs of this operation declined in 2001 after having increased in 2000. New business obtained in early 2002 should further the improvement in operating results.

Better Bath had sales of \$13.2 million for the seven months since its acquisition. The results of operations of Better Bath were accretive to earnings.

RV Segment

The downturn in the RV industry, which began in 2000, continued in 2001 with shipments decreasing 14 percent, but is beginning to show signs of improving. RV industry sales were down only 2 percent during December 2001. The improvement in RV industry sales was temporarily interrupted by the events of September 11, as consumer confidence, a barometer of the RV industry, was severely affected. Monthly consumer confidence indices have been mixed, but generally trending higher in recent months. The RV industry has reported that retail sales were somewhat stronger than wholesale shipments, suggesting that retailers have reduced inventory levels. Consequently, any increase in retail demand will quickly lead to increases in production which will ultimately increase demand for the segment's RV products. Also, the recent improvement in industry-wide RV sales may be partly the result of consumer preference for not flying and for vacationing and traveling in the U.S. rather than abroad.

Sales of the Company's RV products segment for 2001 increased 6 percent to \$108 million, compared to an industry-wide decline of 14 percent in RV shipments, reflecting the continuation of the Company's market share growth. Sales increases were achieved in all product categories.

Operating profit of the RV segment increased \$2.4 million (34 percent) for the year. This increase is attributable to the increase in sales as well as a reduction in steel costs, after an increase in such costs in 2000. In 2000, this segment incurred startup costs as a result of the opening of five new facilities to produce RV chassis. Operating efficiencies in this segment's RV chassis line improved in 2001. The improvement in operating efficiencies was less than expected because of the decline in the RV industry, which hampered sales growth of RV chassis. Selling, general and administrative costs increased proportionately to the sales increase. The segment's profit margin increased to 8.6 percent of sales for 2001, compared to 6.8 percent in 2000.

Amortization of Intangibles, Corporate and Other

Amortization of intangibles for 2001 of \$2,603,000 was \$91,000 less than 2000 as a result of the \$6.9 million writedown of goodwill in the fourth quarter of 2000, partially offset by additions resulting from the acquisition of Better Bath in June 2001.

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," which requires, among other things, that goodwill and intangible assets with indefinite lives no longer be amortized, but rather be tested for impairment at least annually. Such amortization aggregated approximately \$1.9 million before income taxes in 2001. After the income tax provision, the effect on net income was \$1.6 million, or \$.17 per share. In accordance with SFAS No. 142, the Company is presently evaluating the fair value of the \$39 million of goodwill that arose in connection with acquisitions, to determine if the value of those assets have been impaired. It is likely that during the first quarter of 2002, the Company will record a charge to write-off a portion of such goodwill pursuant to the new accounting guidelines. If required, the charge will be recorded net of taxes, as a cumulative effect of a change in accounting principle. Net income and earnings per share before such charge will be reported separately.

Corporate and other expenses for 2001 approximated the same as 2000.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

MH Segment

Net sales of the MH segment declined 24 percent in 2000 from 1999 primarily as a result of a decline in industry-wide shipments of manufactured homes. Industry shipments declined 28 percent for the year after a decline of 7 percent for the year 1999. The Company's market share of vinyl window sales continued to expand as sales of such windows decreased only 1 percent in 2000. Sales of axles and tires were down 32 percent primarily as a result of the continuation of competitive pressures in the refurbished products line.

The slump in the manufactured housing industry, which began in the spring of 1999, continued throughout 2000. Although some progress was reportedly made in reducing the inventory of homes at manufacturers and retail dealers, an oversupply persisted. The problem was exacerbated by the lack of mortgage financing and higher mortgage interest rates, along with increased repossessions of homes by lenders.

Operating profit of the MH segment decreased \$16 million (56 percent) in 2000 from 1999 primarily as a result of the reduction in sales. In addition, increases in the cost of labor and services could not be fully passed on to the customers due to competition. For the year 2000, plant consolidation, start-up costs and related production inefficiencies of about \$1.0 million also impacted operating profit. Selling, general and administrative expenses were down in dollar terms, however, they increased as a percentage of sales due to the effect of lower sales on fixed costs.

Drew's axle and tire refurbishing operation had not performed well for several years, primarily due to increased competition, which severely affected operating margins. At the end of the third quarter of 2000, the Company announced that it was studying whether goodwill and fixed assets related to this operation had been impaired. Based upon this evaluation, it was determined that goodwill had been impaired, resulting in a non-cash charge of \$6,897,000, which, along with a charge of \$409,000 for plant closing expenses, were recorded in the fourth quarter. The goodwill impairment charge is not included in the MH segment results.

RV Segment

Net sales of the RV segment increased 30 percent for 2000 compared to 1999. The five manufacturing plants opened by the Company in 2000 were primarily to accommodate the expansion of the Company's RV chassis product line, which reflected an 80 percent increase in sales. In addition, sales of RV windows and doors increased 8 percent. The RV industry reported a 4 percent decline in shipments in 2000.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Operating profit of the RV segment decreased 22 percent for the year 2000. Such reduction in operating profit was largely due to plant consolidation, startup costs and related production inefficiencies of \$1.7 million. Excluding these start-up and related costs, operating profit of this segment was 8.5 percent of net sales in 2000 compared to 11 percent in 1999. This decline resulted largely from increased material and labor costs that could not be passed on to customers due to competition.

Amortization and Writedown of Intangibles, Corporate and Other

Amortization and writedown of intangibles in 2000 included a non-cash charge of \$6.9 million to reflect an impairment of goodwill relating to the Company's axle and tire refurbishing operation. Corporate and other expenses decreased \$2 million in 2000 largely as a result of a reduction in incentive compensation.

Interest Expense, Net

Interest expense increased \$4 million to \$4.3 million in 2001 as a result of the capitalization of \$4 million of interest in 2000. The average debt balance for 2001 was only slightly higher than 2000. Mortgage debt of \$13 million added during 2001 is subject to a higher interest rate than the Company's line of credit debt, which declined since 2000.

Interest expense, net increased \$.6 million in 2000 as debt was increased to fund higher than normal capital expenditures, as well as \$13 million of treasury stock purchases offset by cash flow from operations. In addition, \$.4 million of interest was capitalized in 2000.

Provision for Income Taxes

The effective tax rate for the year 2001 was approximately 39.6 percent compared to 56.7 percent in 2000 and 39.8 percent in 1999. The higher rate in 2000 resulted from the impact of permanent differences on lower pretax income.

New Accounting Standards

Effective January 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." The adoption of these pronouncements has not had a material impact on the earnings or financial position of the Company.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. It also states that intangible assets acquired in a purchase combination must meet specific criteria to be recognized apart from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized, but rather be tested for impairment at least annually. Other intangible assets will continue to be amortized over their useful lives. The provisions of SFAS No. 141 are effective immediately, with the exception of transitional provisions related to business combinations initiated prior to June 30, 2001, which are delayed until the adoption of SFAS No. 142. The provisions of SFAS No. 142 are required to be adopted effective January 1, 2002.

The Company will apply the transitional provisions of SFAS No. 141 and the provisions of SFAS No. 142 beginning in the first quarter of 2002. The Company will evaluate its existing intangible assets and goodwill and make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141. In accordance with SFAS No. 142, the Company will reassess the useful lives of its intangible assets and will test its goodwill and intangible assets for impairment and recognize any impairment loss as a cumulative effect of change in accounting principle in 2002. The Company expects that the application of the non-amortization provisions of SFAS No. 142 will result in the elimination of annual goodwill amortization expense of approximately \$1.9 million. In accordance with SFAS No. 142, the Company is presently evaluating the fair value of the \$39 million of goodwill that arose in connection with acquisitions, to determine if the value of those assets have been impaired. It is likely that during the first quarter of 2002, the Company will record a charge to write-off a portion of such goodwill pursuant to the new accounting guidelines. If required, the charge will be recorded net of taxes, as a cumulative effect of a change in accounting principle. Net income and earnings per share before such charge will be reported separately.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires companies to record a liability for asset retirement obligations associated with the retirement of long-lived assets. Such liabilities should be recorded at fair value in the period in which a legal obligation is created, which typically would be upon acquisition or completion of construction. The provisions of SFAS No. 143 are effective for fiscal years beginning after June 15, 2002. The Company is in the process of reviewing the impact of SFAS No. 143 and does not anticipate that it will have a material impact on the earnings and financial position of the Company.

Also in August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 144 retains the fundamental provision of SFAS No. 121 related to the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of, but excludes goodwill from its scope and provides additional guidance on the accounting for long-lived assets held for sale. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. The Company does not expect that the impact of the implementation of SFAS No. 144 will materially differ from the impact of the existing requirements under SFAS No. 121.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flows provided by operating activities of \$28.2 million in 2001 allowed the Company to significantly reduce debt while investing \$8.2 million in capital expenditures and \$11.6 million for acquisitions of businesses.

The Statements of Cash Flows reflect the following (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Net cash flows provided by operating activities	\$ 28,159	\$ 9,853	\$ 29,626
Net cash flows (used for) investment activities	\$(17,162)	\$(21,537)	\$(12,963)
Net cash flows (used for) provided by financing activities	\$(10,300)	\$ 7,124	\$(14,243)

Net cash provided by net income, combined with reductions in net operating assets, resulted in a favorable year-to-year comparison of net cash provided by operations. A \$6.2 million reduction in inventories reflects management's successful efforts to increase inventory turnover. The accounts receivable reduction of \$4.1 million was attributable to the timing of collections. In 2000, inventories increased as a result of the sudden downturn in the industry during the latter part of the year. Accounts receivable increased in 2000 as a result of a slowdown in customer payments until after the first of the year 2001.

Cash flows used for investing activities includes capital expenditures and the acquisition of Better Bath. Capital expenditures for 2001 were \$8.2 million, including a continuation of the expansion of the RV business. The acquisition of Better Bath for \$10.2 million adds another major product to the Company's MH product line. The Company also acquired the assets and business of two small RV product operations for \$1.4 million. In July 2001, the Company sold the business of one of its axle and tire refurbishing operations for cash of approximately \$1.8 million. The Company had previously closed two factories of its axle and tire business early in the year, and now has two such refurbishing factories remaining. Capital expenditures for 2002 are expected to approximate \$8 million and will be funded from operating cash flow and new financing secured by real estate and equipment.

In 2001, the Company improved its liquidity by raising \$13.3 million through long-term equipment and real estate mortgages, and \$3.7 million from the sale and leaseback of equipment. Cash flows used for financing activities represent a net reduction in debt of \$13.5 million for 2001 offset by the sale and leaseback of equipment. This lease has been recorded as an operating lease. Cash flows provided by financing activities for 2000 included increases in debt of approximately \$20.6 million of which \$13.5 million was used to acquire treasury stock.

Availability under the Company's line of credit was \$23.3 million at December 31, 2001. This availability combined with cash flow from operations, is adequate to finance the Company's working capital, capital expenditure and debt service requirements throughout 2002. As of November 14, 2001, the Company entered into a Restated and Amended Credit Agreement (the "Restated Agreement"), which extends the expiration date of the notes payable pursuant to the Credit Agreement to October 15, 2003. The Restated Agreement reduced maximum borrowings from \$30 million to \$25 million. The Restated Agreement also provides for an increase in the interest rate on LIBOR loans, from LIBOR plus 1 percent, to LIBOR plus a rate margin ranging from 1.5 percent to 2.3 percent, depending on the Company's Debt Service Coverage Ratio, as defined. Pursuant to the performance schedule, the interest rate on LIBOR loans is LIBOR plus 1.7 percent at December 31, 2001. The Company is in compliance with all of its debt covenants and expects to remain in compliance throughout 2002.

On June 16, 2000, the Company purchased 1,449,425 shares of its common stock at \$8.00 per share, net to the sellers in cash, or an aggregate of \$11.8 million including expenses, pursuant to a self-tender offer. Earlier in 2000, the Company purchased, on the open market, 190,000 shares of its common stock at an average cost of \$8.80 per share. The Company used its line of credit to purchase such shares.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Future commitments relating to the Company's contractual obligations are as follows (in thousands):

	2002	2003	2004	After 2004	Total
Long-term debt	\$ 9,630	\$ 9,998	\$ 9,912	\$23,781	\$53,321
Operating leases	3,909	3,132	1,901	1,257	10,199
Employment contracts	919	800	400		2,119
Total	\$14,458	\$13,930	\$12,213	\$25,038	\$65,639

INFLATION

The prices of raw materials, consisting primarily of aluminum, vinyl, steel, glass, ABS resin, axles and tires, are influenced by demand and other factors specific to these commodities rather than being directly affected by inflationary pressures. Prices of certain commodities have historically been volatile. In order to hedge the impact of future price fluctuations on a portion of its future aluminum raw material requirements, the Company periodically purchases aluminum futures contracts on the London Metal Exchange. The Company purchased no futures contracts in 2001, and at December 31, 2001 and 2000, the Company had no futures contracts outstanding. The Company experienced modest increases in its labor costs in 2001.

USE OF ESTIMATES

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, intangible assets, income taxes, warranty obligations, insurance obligations, lease termination obligations, post-retirement benefits, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates under different assumptions or conditions.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This report contains certain statements, including the Company's plans and expectations regarding its operating strategies, products, and costs, and its views of the prospects of the manufactured housing and recreational vehicle industries, which are forward-looking statements and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. These forward-looking statements reflect the Company's views, at the time such statements were made, with respect to the Company's future plans, objectives, events, and financial results such as revenues, expenses, income, earnings per share, capital expenditures, and other financial items. Forward-looking statements are not guarantees of future performance; they are subject to risks and uncertainties. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

There are a number of factors, many of which are beyond the Company's control, which could cause actual results and events to differ materially from those described in the forward-looking statements. These factors include pricing pressures due to competition, raw material costs (particularly aluminum, vinyl, steel, glass, ABS resin, axles, and tires), availability of retail and wholesale financing for manufactured homes, availability and costs of labor, inventory levels of retailers and manufacturers, interest rates, and adverse weather conditions impacting retail sales. In addition, general economic conditions and consumer confidence may affect the retail sale of manufactured homes and recreational vehicles.

Consolidated Statements of Income

(In thousands, except per share amounts)

	Year Ended December 31,		
	2001	2000	1999
Net sales	\$269,469	\$287,765	\$324,455
Cost of sales	208,072	230,600	249,129
Gross profit	61,397	57,165	75,326
Selling, general and administrative expenses	42,292	42,733	43,392
Writedown of goodwill		6,897	
Operating profit	19,105	7,535	31,934
Interest expense, net	4,310	3,959	3,368
Income before income taxes	14,795	3,576	28,566
Provision for income taxes	5,861	2,029	11,375
Net income	\$ 8,934	\$ 1,547	\$ 17,191
Income per common share:			
Net income per common share (basic)	\$.92	\$.15	\$ 1.51
Net income per common share (diluted)	\$.92	\$.15	\$ 1.51

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

Consolidated Balance Sheets

(In thousands, except shares and per share amounts)

December 31,

	2001	2000
ASSETS		
Current assets		
Cash and short-term investments	\$ 1,247	\$ 550
Accounts receivable, trade, less allowances of \$699 in 2001 and \$1,023 in 2000	10,733	13,451
Inventories	27,898	33,703
Prepaid expenses and other current assets	4,427	3,476
Total current assets	44,305	51,180
Fixed assets, net	69,944	66,301
Goodwill, net	38,303	37,240
Other assets	4,423	4,577
Total assets	\$156,975	\$159,298
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable, including current maturities of long-term indebtedness	\$ 9,630	\$ 8,867
Accounts payable, trade	6,025	5,435
Accrued expenses and other current liabilities	16,174	14,511
Total current liabilities	31,829	28,813
Long-term indebtedness	43,691	58,076
Other long-term liabilities	245	245
Total liabilities	75,765	87,134
Commitments and contingencies		
Stockholders' equity		
Common stock, par value \$.01 per share: authorized 20,000,000 shares; issued 11,820,078 shares in 2001 and 11,805,754 shares in 2000	118	118
Paid-in capital	25,079	24,967
Retained earnings	75,480	66,546
Total stockholders' equity	100,677	91,631
Treasury stock, at cost—2,149,325 shares in 2001 and 2000	(19,467)	(19,467)
Total liabilities and stockholders' equity	\$156,975	\$159,298

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

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 8,934	\$ 1,547	\$ 17,191
Adjustments to reconcile net income to cash flows provided by operating activities:			
Depreciation and amortization	8,534	8,954	8,142
Writedown of goodwill		6,897	
Deferred taxes	84	(2,304)	1,054
Loss (gain) on disposal of fixed assets	156	264	(82)
Changes in assets and liabilities, excluding acquisitions of businesses:			
Accounts receivable, net	4,071	(2,148)	2,256
Inventories	6,155	(321)	2,018
Prepaid expenses and other assets	(750)	363	799
Accounts payable, accrued expenses and other liabilities	975	(3,399)	(1,752)
Net cash flows provided by operating activities	28,159	9,853	29,626
Cash flows from investing activities:			
Capital expenditures	(8,194)	(21,890)	(13,384)
Acquisitions of companies' net assets and businesses	(11,613)		
Proceeds from sale of Alabama axle and tire refurbishing operation	1,850		
Proceeds from sales of fixed assets	795	353	421
Net cash flows used for investing activities	(17,162)	(21,537)	(12,963)
Cash flows from financing activities:			
Proceeds from loans secured by real estate and equipment	13,316	4,561	
Proceeds from sale and leaseback of equipment	3,700		
Proceeds from other notes and loans		350	400
Proceeds under line of credit and other borrowings	61,900	88,995	17,550
Repayments under line of credit and other borrowings	(88,838)	(73,310)	(30,329)
Acquisition of treasury stock		(13,472)	(3,891)
Exercise of stock options and other	(378)		2,027
Net cash flows (used for) provided by financing activities	(10,300)	7,124	(14,243)
Net increase (decrease) in cash	697	(4,560)	2,420
Cash and cash equivalents at beginning of year	550	5,110	2,690
Cash and cash equivalents at end of year	\$ 1,247	\$ 550	\$ 5,110
Supplemental disclosure of cash flows information:			
Cash paid during the year for:			
Interest on debt	\$ 4,567	\$ 4,103	\$ 3,421
Income taxes, net of refunds	\$ 4,998	\$ 3,653	\$ 9,058

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

Consolidated Statements of Stockholders' Equity

(In thousands, except shares)

	Common Stock	Treasury Stock	Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance—December 31, 1998	\$ 115	\$ (2,104)	\$22,943	\$47,808	\$ 68,762
Net income				17,191	17,191
Issuance of 292,052 shares of common stock pursuant to stock option plan	3		1,230		1,233
Income tax benefit relating to issuance of common stock pursuant to stock option plan			794		794
Purchase of 333,700 shares of treasury stock		(3,891)			(3,891)
Balance—December 31, 1999	118	(5,995)	24,967	64,999	84,089
Net income				1,547	1,547
Purchase of 1,640,025 shares of treasury stock		(13,472)			(13,472)
Balance—December 31, 2000	118	(19,467)	24,967	66,546	72,164
Net income				8,934	8,934
Issuance of 14,324 shares of common stock pursuant to stock option plan			99		99
Income tax benefit relating to issuance of common stock pursuant to stock option plan			13		13
Balance—December 31, 2001	\$ 118	\$(19,467)	\$25,079	\$75,480	\$ 81,210

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

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Consolidated Financial Statements include the accounts of Drew Industries Incorporated and its subsidiaries. There are no unconsolidated subsidiaries. Drew's wholly-owned active subsidiaries are Kinro, Inc. and its subsidiaries ("Kinro"), Lippert Components, Inc. and its subsidiaries ("LCI"), and Lippert Tire and Axle, Inc. and its subsidiaries ("LTA"). Drew, through its wholly-owned subsidiaries, supplies a broad array of components for manufactured homes and recreational vehicles. All significant intercompany balances and transactions have been eliminated.

Manufactured products include aluminum and vinyl windows, doors, chassis, chassis parts, bath and shower units, galvanized roofing and new and refurbished axles. The Company also distributes new and refurbished tires. Approximately 60 percent of the Company's sales are made by its manufactured housing products segment and 40 percent are made by its recreational vehicles products segment. At December 31, 2001, the Company operated 41 plants in 18 states and Canada.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Investments, which consist of government-backed money market funds are recorded at cost which approximates market value.

Inventories

Inventories are stated at the lower of cost (using the first-in, first-out method) or market. Cost includes material, labor and overhead; market is replacement cost or realizable value after allowance for costs of distribution.

The Company periodically purchases commodity futures to hedge the impact of future price fluctuations on a portion of its aluminum raw material requirements. Gains and losses on such futures contracts are deferred until recognized in income as a component of cost of sales when the finished products are sold. Cash flow from such futures contracts are included in operating activities in the Consolidated Statements of Cash Flows.

Fixed Assets

Fixed assets are depreciated principally on a straight-line basis over the estimated useful lives of properties and equipment. Leasehold improvements and leased equipment are amortized over the shorter of the lives of the leases or the underlying assets. Amortization of assets recorded under capital leases is included in depreciation expense. Maintenance and repairs are charged to operations as incurred; significant betterments are capitalized.

Income Taxes

The Company and its subsidiaries file a consolidated Federal income tax return. The Company's subsidiaries generally file separate state income tax returns on the same basis as the Federal income tax return.

Goodwill

Goodwill is the excess of cost over the fair value of net tangible assets of the business acquired and is amortized on a straight-line basis primarily over twenty to thirty years. The Company periodically reviews the value of its goodwill to determine if an impairment has occurred. The Company measures the potential impairment of recorded goodwill by the undiscounted value of expected future operating cash flows in relation to the goodwill and other long lived assets of the subsidiary. Based on its review, the Company recorded an impairment charge in 2000 of \$6,897,000 on the goodwill applicable to its axle and tire refurbishing operation.

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," which requires, among other things, that goodwill and intangible assets with indefinite lives no longer be amortized, but rather be tested for impairment at least annually. In accordance with SFAS No. 142, the Company is presently evaluating the fair value of the \$39 million of goodwill that arose in connection with acquisitions, to determine if the value of those assets have been impaired. It is likely that during the first quarter of 2002, the Company will record a charge to write-off a portion of such goodwill pursuant to the new accounting guidelines. If required, the charge will be recorded net of taxes, as a cumulative effect of a change in accounting principle. Net income and earnings per share before such charge will be reported separately.

Stock Options

The Company adopted the disclosure-only option under SFAS No. 123, "Accounting for Stock-Based Compensation" rather than recognizing the compensation cost for the Company's stock option plan in the income statement.

Notes to Consolidated Financial Statements (Continued)

Revenue Recognition

Revenue is primarily recognized upon shipment of goods to customers.

Shipping and Handling Costs

The Company records shipping and handling costs within selling, general and administrative expenses. Such costs aggregated \$11,911,000, \$11,357,000 and \$11,151,000 in 2001, 2000 and 1999, respectively.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, intangible assets, income taxes, warranty obligations, insurance obligations, lease termination obligations, post-retirement benefits, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates under different assumptions or conditions.

2. SEGMENT REPORTING

The Company has two reportable operating segments, the manufactured housing products segment (the "MH segment") and the recreational vehicle products segment (the "RV segment"). The MH segment manufactures a variety of products used in the construction of manufactured homes, including aluminum and vinyl windows, chassis, chassis parts, bath and shower units, galvanized roofing, and new and refurbished axles. The MH segment also imports new tires and refurbishes used tires, which it supplies to producers of manufactured homes. The RV segment manufactures a variety of products used in the production of recreational vehicles, including windows, doors and chassis. The MH segment and the RV segment primarily sell their products to the producers of manufactured homes and recreational vehicles, respectively. Each segment also supplies related products to other industries, but sales of these products represent less than 5 percent of the segment's net sales. The Company has only an insignificant amount of intersegment sales.

Decisions concerning the allocation of the Company's resources are made by the Company's key executives. This group evaluates the performance of each segment based upon segment profit or loss, defined as income before interest, amortization of intangibles and income taxes. Management of debt is considered a corporate function. The accounting policies of the MH and RV segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements.

Information relating to segments follows (in thousands):

	Segments			Corporate and Other	Intangibles	Total
	MH	RV	Total			
Year ended December 31, 2001						
Revenues from external customers (a)	\$161,965	\$107,504	\$269,469			\$269,469
Segment operating profit (loss)	14,807	9,208	24,015	\$ (2,307)	\$(2,603)	19,105
Segment assets (b)	61,820	46,706	108,526	7,458	40,991	156,975
Expenditures for long-lived assets (c)	9,329	4,129	13,458			13,458
Depreciation and amortization	3,479	2,315	5,794	18	2,722	8,534
Year ended December 31, 2000						
Revenues from external customers (a)	\$186,593	\$101,172	\$287,765			\$287,765
Segment operating profit (loss)	12,574	6,853	19,427	\$ (2,301)	\$(9,591) (d)	7,535
Segment assets (b)	61,792	51,614	113,406	5,790	40,102	159,298
Expenditures for long-lived assets (c)	7,793	14,083	21,876	14		21,890
Depreciation and amortization	4,003	1,979	5,982	18	2,954	8,954
Year ended December 31, 1999						
Revenues from external customers (a)	\$246,509	\$ 77,946	\$324,455			\$324,455
Segment operating profit (loss)	28,330	8,819	37,149	\$ (2,521)	\$(2,694)	31,934
Segment assets (b)	63,949	31,608	95,557	10,865	49,622	156,044
Expenditures for long-lived assets (c)	7,311	6,049	13,360	323	54	13,737
Depreciation and amortization	3,830	1,309	5,139	17	2,986	8,142

- (a) One customer of the RV segment accounted for 15 percent of the Company's net sales in 2001. Another customer of both segments accounted for 13 percent, 15 percent and 14 percent of the Company's net sales in the years ended December 31, 2001, 2000 and 1999, respectively.
- (b) Segment assets include accounts receivable, inventory and fixed assets. Corporate and other assets include cash and cash equivalents, prepaid expenses and other current assets, deferred taxes and other assets, excluding intangible assets. Intangibles include goodwill and deferred charges which are not considered in the measurement of each segment's performance.
- (c) Segment expenditures for long-lived assets include capital expenditures and fixed assets purchased as part of the acquisition of companies and businesses. In 2001, the Company purchased \$5,264,000 of fixed assets as part of the acquisitions of businesses. Expenditures for other long-term assets are not included in the segment since they are not considered in the measurement of each segment's performance.
- (d) Includes a non-cash charge of \$6,897,000 to reflect an impairment of goodwill related to the Company's axle and tire refurbishing operation.

3. ACQUISITIONS AND GOODWILL

Acquisition of Better Bath

On June 1, 2001, the Company's subsidiary, Kinro, acquired the assets and business of the Better Bath division of Kevco, Inc. Better Bath manufactures and sells thermo-formed bath and shower units for the manufactured housing industry and had sales of approximately \$27.7 million in 2000, and \$22.3 million in 2001, including \$13.2 million in the seven months since its acquisition by the Company.

The acquisition has been accounted for as a purchase. The aggregate purchase price of approximately \$10.2 million has been allocated to the underlying assets based upon their respective estimated fair values. The excess of purchase price over the fair value of net assets acquired ("goodwill") was approximately \$3.1 million, which is being amortized over 20 years. The results of the acquired business have been included in the Company's consolidated statement of income beginning June 1, 2001.

The following pro forma condensed consolidated results of operations assumes that the acquisition had occurred at the beginning of 2000. The unaudited pro forma data below is not necessarily indicative of the future results of operations of the combined operations (in thousands, except per share amounts):

	Pro Forma Year Ended December 31,	
	2001	2000
Net sales	\$278,502	\$315,503
Net income	\$ 9,135	\$ 2,540
Net income per common share:		
Basic	\$.95	\$.25
Diluted	\$.95	\$.25
Average common shares outstanding:		
Basic	9,661	10,348
Diluted	9,666	10,348

Other Acquisitions

The Company also acquired for an aggregate of \$1.4 million two small manufacturers of RV chassis, which added new customers, and manufacturing facilities closer to existing customers.

Goodwill

Goodwill of \$38,303,000 at December 31, 2001, is net of accumulated amortization of \$6,772,000. At December 31, 2000, goodwill of \$37,240,000 was net of amortization of \$5,159,000. Amortization of goodwill was \$1,613,000, \$1,797,000 and \$1,800,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," which requires, among other things, that goodwill and intangible assets with indefinite lives no longer be amortized, but rather be tested for impairment at least annually. In accordance with SFAS No. 142, the Company will test its goodwill and intangible assets for impairment and expects to recognize any impairment loss as a cumulative effect of change in accounting principle in the first quarter of 2002.

Drew's axle and tire refurbishing operation has not performed well over the past several years, primarily due to increased competition, which severely affected operating margins. At the end of the third quarter of 2000, the Company announced that it was studying whether goodwill and fixed assets related to this operation had been impaired. Based upon this evaluation, it was determined that goodwill had been impaired resulting in a non-cash charge of \$6,897,000 in the fourth quarter of 2000. In January 2001 the axle and tire refurbishing operation closed two of its five factories and in July 2001, a third such operation was sold for cash of approximately \$1.8 million.

Notes to Consolidated Financial Statements (Continued)

4. INVENTORIES

Inventories consist of the following (in thousands):

	December 31,	
	2001	2000
Finished goods	\$ 7,272	\$ 8,637
Work in process	1,449	1,938
Raw materials	19,177	23,128
Total	\$27,898	\$33,703

5. FIXED ASSETS

Fixed assets, at cost, consist of the following (in thousands):

	December 31,		Estimated Useful Life in Years
	2001	2000	
Land	\$ 7,132	\$ 6,762	
Buildings and improvements	50,030	44,733	10 to 39
Leasehold improvements	1,413	1,225	2 to 11
Machinery and equipment	30,845	30,396	3 to 10
Transportation equipment	2,217	2,244	3 to 7
Furniture and fixtures	3,408	3,269	3 to 10
Construction in progress	75	13	
	95,120	88,642	
Less accumulated depreciation and amortization	25,176	22,341	
Fixed assets, net	\$69,944	\$66,301	

Depreciation and amortization of fixed assets consists of (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Charged to cost of sales	\$ 5,134	\$ 5,047	\$ 4,167
Charged to selling, general and administrative expenses	678	953	989
	\$ 5,812	\$ 6,000	\$ 5,156

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following (in thousands):

	December 31,	
	2001	2000
Accrued employee compensation and fringes	\$ 6,671	\$ 6,134
Income taxes	1,647	885
Accrued expenses and other	7,856	7,492
Total	\$16,174	\$14,511

7. RETIREMENT AND OTHER BENEFIT PLANS

The Company has discretionary defined contribution profit sharing plans covering substantially all eligible employees. The Company contributed \$621,000, \$833,000 and \$784,000 to these plans during the years ended December 31, 2001, 2000 and 1999, respectively.

8. LONG-TERM INDEBTEDNESS

Long-term indebtedness consists of the following (in thousands):

	December 31,	
	2001	2000
Senior Notes payable at the rate of \$8,000 per annum commencing January 28, 2001 with interest payable semiannually at the rate of 6.95% per annum	\$32,000	\$40,000
Notes payable pursuant to a credit agreement expiring October 15, 2003 consisting of a revolving loan, not to exceed \$25,000; interest at prime rate or LIBOR plus a rate margin based upon the Company's performance (a)	200	17,700
Industrial Revenue Bonds, fixed rate 5.68% to 6.28%, due 2008 through 2015; secured by certain real estate and equipment	6,846	7,419
Real estate mortgage payable at the rate of \$70,000 per month with a balloon payment of \$3,371,000 in May 2006, interest at 9.03% per annum	5,268	
Other loans secured by certain real estate and equipment, due 2006 to 2011, primarily fixed rate 7.25% to 7.90%	9,007	1,534
Other		290
	53,321	66,943
Less current portion	9,630	8,867
Total long-term indebtedness	\$43,691	\$58,076

(a) As of November 14, 2001, the Company entered into a Restated and Amended Credit Agreement (the "Restated Agreement"), which extends the expiration date of the notes payable pursuant to the Credit Agreement to October 15, 2003 and reduces maximum borrowings from \$30 million to \$25 million. The Restated Agreement also provides for an increase in the interest rate on LIBOR loans, from LIBOR plus 1 percent, to LIBOR plus a rate margin ranging from 1.5 percent to 2.3 percent, depending on the Company's Debt Service Coverage Ratio, as defined. Pursuant to the performance schedule, the interest rate on LIBOR loans is LIBOR plus 1.7 percent at December 31, 2001.

Pursuant to the Senior Notes, the credit agreement, and certain of the other loan agreements, the Company is required to maintain minimum net worth and interest and fixed charge coverages and meet certain other financial requirements. Borrowings under the Senior Notes and the credit facility are secured only by capital stock of the Company's subsidiaries.

The Company pays a commitment fee, accrued at the rate of $\frac{3}{8}$ of 1 percent per annum, on the daily unused amount of the revolving line of credit.

The approximate amount of maturities of long-term indebtedness (in thousands) are:

2003	\$ 9,998
2004	9,912
2005	9,697
2006	4,516
2007	811
2008 to 2012	6,465
2013 to 2017	2,292
Total	\$43,691

The Company believes the interest rates on instruments similar to its debt, except for the Senior Notes at December 31, 2000, approximate the rates paid by the Company. Therefore, the book value of such debt approximates fair value at December 31, 2001 and December 31, 2000. At December 31, 2000 the Company believes that interest rates on instruments similar to its \$40 million Senior Notes were higher than rates paid by the Company, and that the fair value of such notes was approximately \$38.6 million at December 31, 2000.

9. INCOME TAXES

The income tax provision in the Consolidated Statements of Income is as follows (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Current:			
Federal	\$5,224	\$ 3,611	\$ 9,031
State	553	722	1,290
Deferred:			
Federal	111	(2,216)	938
State	(27)	(88)	116
Total income tax provision	\$5,861	\$ 2,029	\$11,375

Notes to Consolidated Financial Statements (Continued)

The provision for income taxes differs from the amount computed by applying the Federal statutory rate to income before income taxes for the following reasons (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Income tax at Federal statutory rate	\$5,178	\$ 1,252	\$ 9,998
State income taxes, net of Federal income tax benefit	342	412	914
Non-deductible expenses	465	453	456
Other	(124)	(88)	7
Provision for income taxes	\$5,861	\$ 2,029	\$11,375

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000 are as follows (in thousands):

	December 31,	
	2001	2000
Deferred tax assets:		
Accounts receivable	\$ 222	\$ 324
Inventories	686	669
Goodwill and other assets	3,033	3,155
Accrued insurance	551	464
Employee benefits	858	698
Other accruals	743	577
Sale and leaseback	111	
Total deferred tax assets	6,204	5,887
Deferred tax liabilities:		
Fixed assets	3,059	2,779
Net deferred tax asset	\$ 3,145	\$ 3,108

The Company concluded that it is more likely than not that the deferred tax assets at December 31, 2001 will be realized in the ordinary course of operations based on scheduling of deferred tax liabilities and income from operating activities.

Net deferred income tax assets are classified in the Consolidated Balance Sheets as follows (in thousands):

	December 31,	
	2001	2000
Prepaid expenses and other current assets	\$ 3,013	\$ 2,575
Other assets	132	533
	\$ 3,145	\$ 3,108

10. COMMITMENTS AND CONTINGENCIES

Leases

The Company's lease commitments are primarily for real estate, equipment and vehicles. The significant real estate leases provide for renewal options and periodic rental adjustments to reflect price index changes and require the Company to pay for property taxes and all other costs associated with the leased property. Most vehicle leases provide for contingent payments based upon miles driven and other factors.

Future minimum lease payments under operating leases at December 31, 2001 are summarized as follows (in thousands):

2002	\$ 3,909
2003	3,132
2004	1,901
2005	750
2006	339
Thereafter	168
Total lease obligations	\$10,199

Included in the above table are commitments regarding a \$3,700,000 sale and leaseback of equipment made during 2001. The Company has an option to repurchase such equipment for \$1,554,000 in 2004.

Rent expense was \$4,929,000, \$4,303,000 and \$3,754,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

In order to hedge the impact of future price fluctuations on a portion of its aluminum raw material requirements, the Company periodically purchases aluminum futures contracts on the London Metal Exchange. At December 31, 2001 and 2000, the Company had no futures contracts outstanding and had no futures purchases during 2001.

The Company has employment contracts with three of its employees, which expire on various dates through December 2004. The minimum commitments under these contracts are \$919,000 in 2002, \$800,000 in 2003, and \$400,000 in 2004. In addition arrangements with three employees of the Company provide for incentives to be paid, based on a percentage of profits as defined.

11. STOCKHOLDERS' EQUITY

Stock Options

Pursuant to the Drew Industries Incorporated Stock Option Plan (the "Plan"), the Company may grant its directors and/or key employees options to purchase Drew Common Stock. The Plan provides for the grant of stock options that qualify as incentive stock options ("ISOs") under Section 422 of the Internal Revenue Code and non-qualified stock options ("NQSOs").

Under the Plan, the Stock Option Committee ("the Committee") determines the period for which each stock option may be exercisable, but in no event may a stock option be exercisable more than 10 years from the date of grant thereof. The number of shares available under the Plan, and the exercise price of options granted under the Plan, are subject to adjustments that may be made by the Committee to reflect stock splits, stock dividends, recapitalization, mergers, or other major corporate action.

The exercise price for options granted under the Plan shall be at least equal to 100 percent of the fair market value of the shares subject to such option on the date of grant. The exercise price may be paid in cash or in shares of Drew Common Stock. Options granted under the Plan become exercisable in annual installments as determined by the Committee.

Transactions in stock options under this plan are summarized as follows:

	Number of Option Shares	Option Price
Outstanding at December 31, 1998	692,286	
Granted	557,000	\$ 8.81-\$ 9.31
Exercised	(292,052)	\$ 3.67-\$ 6.94
Canceled	(13,500)	\$12.13-\$12.50
Outstanding at December 31, 1999	943,734	
Granted	15,000	\$5.68
Expired	(10,000)	\$7.35
Canceled	(42,000)	\$ 8.81-\$12.50
Outstanding at December 31, 2000	906,734	
Granted	262,500	\$ 9.10-\$ 9.25
Exercised	(14,324)	\$ 6.94
Canceled	(33,000)	\$ 8.82-\$12.50
Expired	(15,000)	\$10.75
Outstanding at December 31, 2001	1,106,910	\$ 5.68-\$12.50
Exercisable at December 31, 2001	499,290	\$ 5.68-\$12.50

The respective number of shares available for granting options were 70,666, 285,166, and 248,166 at December 31, 2001, 2000 and 1999, respectively.

The Company adopted the disclosure-only option under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions used for grants included no dividend yields, risk-free interest rates of 5.0 percent, 5.0 percent and 6.0 percent; assumed expected volatilities of 33.0 percent, 29.4 percent and 27.8 percent; and expected lives of 5, 5 and 5 years for 2001, 2000 and 1999, respectively.

Notes to Consolidated Financial Statements (Continued)

If compensation cost for the Company's stock option plan had been recognized in the income statement based upon the fair market method, net income would have been reduced to the pro forma amounts indicated below:

	Year Ended December 31,		
	2001	2000	1999
Net income (in thousands):			
As reported	\$8,934	\$1,547	\$17,191
Pro forma	\$8,563	\$1,232	\$16,902
Earnings per share (basic):			
As reported	\$.92	\$.15	\$ 1.51
Pro forma	\$.89	\$.12	\$ 1.48
Earnings per share (diluted):			
As reported	\$.92	\$.15	\$ 1.51
Pro forma	\$.89	\$.12	\$ 1.48

The following table summarizes information about stock options outstanding at December 31, 2001:

Option Exercise Price	Shares Outstanding	Option Remaining Life (Years)	Shares Exercisable
\$ 5.68	15,000	4.0	15,000
\$ 6.94	10,810	1.1	10,810
\$ 8.81	324,000	3.9	129,600
\$ 9.10	247,500	6.0	0
\$ 9.20	15,000	3.0	15,000
\$ 9.25	15,000	5.0	15,000
\$ 9.31	150,000	3.0	60,000
\$11.63	33,000	3.3	13,200
\$11.79	15,000	2.0	15,000
\$12.13	262,600	1.9	208,280
\$12.48	15,000	1.0	15,000
\$12.50	4,000	2.6	2,400

Outstanding stock options expire in five to six years from the date they are granted; options vest over service periods that range from zero to five years.

Treasury Stock

In accordance with authorizations of the Board of Directors, on June 16, 2000, the Company purchased 1,449,425 shares of its common stock at \$8.00 per share, net to the sellers in cash, or an aggregate of \$11.8 million including expenses, pursuant to a self-tender offer. Earlier in the year 2000, the Company purchased, on the open market, 190,600 shares of its common stock at an average cost of \$8.80 per share. The Company purchased 333,700 shares of its common stock at a cost of \$3,891,000 in 1999.

Weighted Average Common Shares Outstanding

The following reconciliation details the denominator used in the computation of basic and diluted earnings per share:

	Year Ended December 31,		
	2001	2000	1999
Weighted average shares outstanding for basic earnings per share	9,660,501	10,347,725	11,385,400
Common stock equivalents pertaining to:			
Stock options	5,368	687	33,579
Warrants			931
Total for diluted shares	9,665,869	10,348,412	11,419,910

The numerator is constant for both the basic and diluted earnings per share calculations.

12. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

Interim unaudited financial information follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Year Ended December 31, 2001					
Net sales	\$58,894	\$71,794	\$75,283	\$63,498	\$269,469
Gross profit	11,865	16,724	17,773	15,035	61,397
Net income	867	2,970	2,995	2,102	8,934
Net income per common share (basic)	\$.09	\$.31	\$.31	\$.22	\$.92
Net income per common share (diluted)	.09	.31	.31	.22	.92
Year Ended December 31, 2000					
Net sales	\$74,660	\$79,152	\$74,915	\$59,038	\$287,765
Gross profit	16,088	16,227	13,326	11,524	57,165
Net income	2,760	2,384	1,026	(4,623)	1,547
Net income per common share (basic)	\$.25	\$.22	\$.11	\$ (.48)	\$.15
Net income per common share (diluted)	.25	.22	.11	(.48)	.15

The sum of net income per common share for the four quarters does not equal the total net income per common share for 2001 and 2000 due to changes in the average number of shares outstanding.

Independent Auditors' Report

The Board of Directors and Stockholders
Drew Industries Incorporated:

We have audited the accompanying consolidated balance sheets of Drew Industries Incorporated and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2001. 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 audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Drew Industries Incorporated and subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Stamford, Connecticut
February 6, 2002

Management's Responsibility for Financial Statements

The management of the Company has prepared and is responsible for the consolidated financial statements and related financial information included in this report. These consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America which are consistently applied and appropriate in the circumstances. These consolidated financial statements necessarily include amounts determined using management's best judgements and estimates. Such estimates, which are evaluated on an ongoing basis, are based on historical experience and other factors believed to be reasonable under the circumstances.

The Company maintains accounting and other control systems which provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company. Although accounting controls are designed to achieve this objective, it must be recognized that errors or irregularities may occur. In addition, it is necessary to assess and consider the relative costs and the expected benefits of the internal accounting controls.

The Company's independent auditors, KPMG LLP, provide an independent, objective review of the consolidated financial statements and underlying transactions. They perform such tests and other procedures as they deem necessary to express an opinion on the financial statements. The report of KPMG LLP accompanies the consolidated financial statements.



Leigh J. Abrams
President and Chief Executive Officer



Fredric M. Zinn
Executive Vice President and Chief Financial Officer

Per Share Market Price Range

The Company's common stock is traded on the American Stock Exchange. A summary of the high and low closing prices of the Company's common stock on the American Stock Exchange is as follows:

	2001		2000	
	High	Low	High	Low
Quarter Ended March 31	\$ 7.38	\$4.75	\$9.44	\$7.00
Quarter Ended June 30	\$ 7.50	\$5.05	\$8.13	\$6.88
Quarter Ended September 30	\$ 9.98	\$7.70	\$8.06	\$6.25
Quarter Ended December 31	\$10.75	\$8.55	\$6.38	\$5.25

The closing price per share for the common stock on March 7, 2002 was \$14.65 and there were 870 holders of Drew Common Stock, not including approximately 1200 beneficial owners of shares held in broker and nominee names.

DIVIDEND INFORMATION

Drew has not paid any cash dividends on its outstanding shares of Common Stock.

Corporate Information

BOARD OF DIRECTORS

Edward W. Rose, III (a)
*Chairman of the Board of
Drew Industries Incorporated
President of Cardinal
Investment Company*

James F. Gero (a)
*Chairman and Chief Executive Officer
of Sierra Technologies, Inc.*

Gene Bishop (a)
Retired Bank Executive

Leigh J. Abrams
*President and Chief Executive Officer
of Drew Industries Incorporated*

L. Douglas Lippert
*President and Chief Executive Officer
of Lippert Components, Inc., Lippert
Tire and Axle, Inc. and Coil Clip, Inc.*

David L. Webster
*President and Chief Executive Officer
of Kinro, Inc.*

*(a) Members of Audit Committee and
Compensation Committee of the
Board of Directors*

CORPORATE OFFICERS

Leigh J. Abrams
President and Chief Executive Officer

Fredric M. Zinn
*Executive Vice President and
Chief Financial Officer*

Harvey J. Kaplan
Treasurer and Secretary

John F. Cupak
Controller

FORM 10-K

A copy of the Annual Report on Form 10-K as filed by the Corporation with the Securities and Exchange Commission is available upon request, without charge, by writing to:

Treasurer
Drew Industries Incorporated
200 Mamaroneck Avenue
White Plains, NY 10601

GENERAL COUNSEL

Harvey F. Milman, Esq.
Phillips Nizer Benjamin
Krim & Ballon LLP
666 Fifth Avenue
New York, NY 10103-0084

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

KPMG LLP
Stamford Square
3001 Summer Street
Stamford, CT 06905

TRANSFER AGENT AND REGISTRAR

American Stock Transfer
& Trust Company
59 Maiden Lane
New York, NY 10038
(212) 936-5100
(800) 937-5449
Website: www.amstock.com

EXECUTIVE OFFICES OF DREW INDUSTRIES INCORPORATED

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White Plains, NY 10601
(914) 428-9098
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E-mail: drew@drewindustries.com

KINRO, INC.

Better Bath, a division of Kinro, Inc.

David L. Webster
President and Chief Executive Officer

Corporate Headquarters

4381 Green Oaks Boulevard West
Arlington, TX 76016
(817) 483-7791

LIPPERT COMPONENTS, INC.

Lippert Tire and Axle, Inc.
Coil Clip, Inc.

L. Douglas Lippert
President and Chief Executive Officer

Corporate Headquarters

2375 Tamiami Trail North, Suite 110
Naples, FL 34103
(941) 659-2005

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This report contains certain statements, including the Company's plans and expectations regarding its operating strategy, products and costs, and its views of the prospects of the manufactured housing and recreational vehicle industries, which are forward-looking statements and are made pursuant to the safe harbor provisions of the Securities Litigation Act of 1995. These forward-looking statements reflect the Company's views, at the time such statements were made, with respect to the Company's future plans, objectives, events and financial results, such as revenues, expenses, income, earnings per share, capital expenditures, and other financial items. Forward-looking statements are not guarantees of future performance; they are subject to risks and uncertainties. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

There are a number of factors, many of which are beyond the Company's control, which could cause actual results and events to differ materially from those described in the forward-looking statements. These factors include pricing pressures due to competition, raw material costs (particularly aluminum, vinyl, steel, glass, ABS resin, and tires), availability of retail and wholesale financing for manufactured homes, availability and costs of labor, inventory levels of retailers and manufacturers, interest rates, and adverse weather conditions impacting retail sales. In addition, general economic conditions and consumer confidence may affect the retail sale of manufactured homes and RV's.



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