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## -- COMPANY PROFILE --

**FLEETWOOD ENTERPRISES, INC.** is one of the nation's largest producers of recreational vehicles, and a leader in the building, retailing and financing of manufactured homes. A Fortune 1000 company, Fleetwood is headquartered in the city of Riverside in Southern California. Fleetwood's stock is listed on the New York Stock Exchange under the symbol FLE. The Company, which employs approximately 14,000 people, operates throughout the nation in strategically located facilities that include recreational vehicle and manufactured housing plants, retail home centers, and supply subsidiary plants.

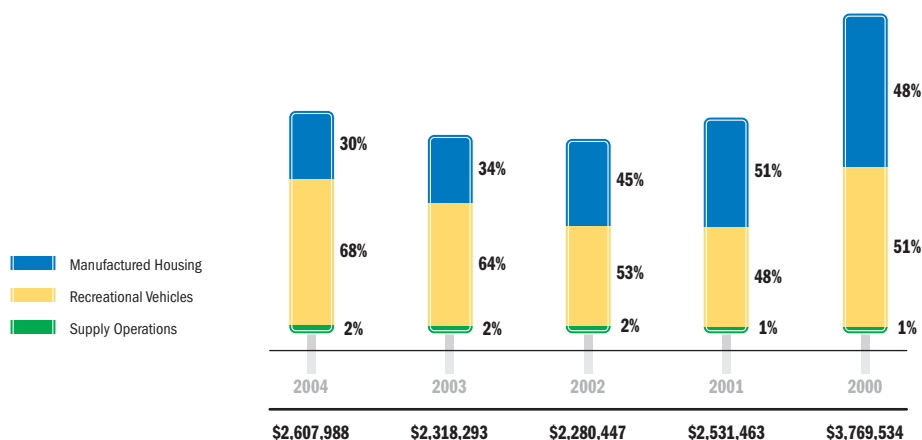
Established in 1950, Fleetwood today manufactures a full range of recreational vehicle products, including motor homes, travel trailers, and folding camping trailers. The Company is also a vertically integrated producer of a popular line of manufactured homes, making it one of the nation's largest homebuilders. Fleetwood retails its manufactured homes through Fleetwood Retail Corp., as well as independent dealers, and offers financing through its HomeOne Credit division. Fleetwood's supply operations provide components for its manufacturing businesses and outside customers. The Company is dedicated to providing quality, innovative products that offer exceptional value to its customers.

## -- FINANCIAL SUMMARY --

FISCAL YEARS ENDED APRIL  
(DOLLARS IN THOUSANDS, EXCEPT PER-SHARE DATA)

	2004	2003	2002	2001	2000
Sales	\$2,607,988	\$2,318,293	\$2,280,447	\$2,531,463	\$3,769,534
Operating income (loss)	41,330	(26,431)	(90,403)	(307,209)	163,155
Net income (loss)	(22,261)	(70,739)	(161,928)	(283,990)	83,494
Earnings (loss) per share – diluted	(.58)	(1.97)	(3.90)	(8.67)	2.41
Dividends declared per common share	–	–	.08	.46	.76
Cash flow from operations	(30,515)	(12,293)	34,597	11,844	(4,757)
Shareholders' equity	246,282	110,968	174,743	286,148	584,805
Return (loss) on average shareholders' equity	(12.5)%	(49.5)%	(70.3)%	(65.2)%	14.3%

## REVENUE DISTRIBUTION



**FLEETWOOD ENTERPRISES IS ONE OF** the most powerful forces in both the recreational vehicle and manufactured housing industries today. With more than 50 years of experience, Fleetwood has prevailed not only as a sales leader but also as a leader in quality and innovation in both industries. Looking forward, these accomplishments serve as the underpinning for Fleetwood's growth and profitability. Looking back over the last year, we want to report on our substantial progress toward our goals.

Last year in this forum, we discussed our focus on reinventing our processes, renewing our products, rebuilding our financial strength, and regaining our momentum. We were pleased to report progress in each of these areas. This year, we made even greater strides in these arenas. We firmly believe that our progress stems from the fact that our energies are

focused properly and positively.

To reinforce our drive for preeminence, our entire organization has embraced a focused vision statement built around four core principles: Fleetwood Enterprises will lead our businesses in providing quality products, with a passion for customer-driven innovation; we will emphasize training, embrace diversity and

provide growth opportunities for our associates and our dealers; we will lead our industries in the application of appropriate technologies; and we will deliver tangible value to our shareholders through consistent, positive results with category-leading profitability, and through the practice of exemplary corporate governance.

In embracing these strategies, Fleetwood has committed to squarely face the challenges that remain. We will draw on

reservoirs of strength and experience, both from our industry veterans and from the fresh thinking of our new leaders. Most importantly, we will build on the solid foundation for growth that we have constructed in order to begin to deliver the results our shareholders expect.

## -- A YEAR OF REINVENTION AND REBUILDING SHOWED PROMISE --

One of the clearest examples of our progress can be seen in our significant year-over-year sales improvement – particularly in the fourth quarter, in which every segment had double-digit growth. This was a particularly significant achievement in our Housing Group, because the manufactured housing industry as a whole was still experiencing a decline during that period.

Indeed, the improvement in sales was reflected in our operating income for the year, which totaled \$41.3 million compared to a loss of \$26.4 million last year. The RV Group was led by the motor home division's operating income of \$57.1 million versus \$40.5 million the prior year. Travel trailers made an operating profit of \$1.9 million versus a loss of \$6.1 million the prior year, or an \$8.0 million improvement year over year. Although folding trailers lost \$0.9 million versus a profit of \$1.0 million the prior year, this was primarily due to a continued decline in the overall folding trailer market, which was off 16 percent compared to the prior fiscal year.

Manufactured housing, too, made significant progress in the face of a continued fall in industry shipments. Our wholesale division earned an operating profit of \$5.4 million versus a loss of \$13.5 million in fiscal 2003, while retail reduced its loss to \$35.9 million versus a loss of \$49.7 million last year.

We expect to see these trend lines of improvement in our results continue over the course of fiscal 2005.

There were a number of factors that, combined, brought us up short of bottom-line profitability, and led to an overall net loss of \$22.3 million. These included \$2.4 million in charges relating to the recent successful call for redemption of our 9.5% convertible trust preferred securities, and a further non-cash charge of \$15 million



**THOMAS B. PITCHER**  
Chairman of the Board

**EDWARD B. CAUDILL**  
President and CEO

against our deferred tax asset. Paradoxically, as Fleetwood's financial condition and common stock price have improved over the past few months, the market value of our 6% convertible trust preferred securities has likewise increased, which in turn has reduced the value of one of our potential tax strategies.

We transformed our balance sheet during the year, although the process continued beyond the end of our fiscal reporting period. We issued \$100 million in 5% convertible debt in December 2003 to enhance our liquidity and pay down our bank line of credit. Subsequently, we renegotiated a significantly more favorable bank credit facility, which included better pricing and an increase in borrowing availability. Both transactions provide significant long-term liquidity to build our businesses.

In addition, we used a portion of the proceeds of the 5% convertible debt offering to help us convert or redeem our most expensive debt – \$188 million in 9.5% convertible trust preferred securities. Most converted into common stock subsequent to the redemption call, and the rest – \$20.8 million worth – were redeemed for cash. This eliminates \$17.9 million of annual interest payments.

Also in December, we successfully negotiated a \$75 million warehouse line for our manufactured housing finance company, HomeOne Credit Corp. We believe that this increased lending capacity gives us a competitive advantage, as it will allow us to extend additional prudent loans to our customers.

The result of these actions is rebuilt financial strength and a greatly enhanced capital structure to take advantage of what we believe will be a strong future in both businesses.

#### **-- NEW INITIATIVES HAVE IMPROVED OPERATIONS --**

Fleetwood also continued to reinvent operations, making investments that are vital to extending our position as a leader in our industries.

We have studied our plants, and made moves to modernize them and improve efficiencies. In the case of our two

gasoline motor home plants, this included installing state-of-the-art paint systems. This gives us the option of applying full-body paint – an increasingly popular option for high-end motor homes – to our gas-powered products.

Six of our housing plants have been certified to produce modular homes (built to model building codes) as well as our traditional manufactured housing product (built to the federal HUD code), and all 22 plants have been certified to build ENERGY STAR qualified homes. We continue to explore ways to introduce factory-built housing to a wider audience in both traditional and non-traditional sites and markets, including inner cities, sales to developers, and other channels. In doing so, we expect to help meet the desperate demand for affordable housing with attractive, quality homes.

We are always seeking opportunities to cut our costs and improve margins, and we successfully achieved greater efficiencies during fiscal '04. We created strategic alliances with some outstanding suppliers, including Caterpillar, Goodyear and DuPont, enabling us to lower costs and enhance quality. We consolidated all of purchasing – for Corporate, RVs, Housing and Supply – into one unit. At the same time, we sold our drapery operation in Georgia because we determined that, in this particular case, we could buy the products at lower cost than we could make them. We also completed a number of projects to consolidate suppliers of various components, resulting in improved quality and reduced pricing. Additionally, we mitigated most of the rising commodity prices, including prices for lumber, steel and aluminum, with timely surcharges.

This year's consolidation of the Housing Group's wholesale and retail sales and marketing teams provides synergies and an alignment of team vision and goals that we had been missing. In a similar move on the RV side, we reorganized and combined the aftermarket parts and service functions of our travel trailer and motor home divisions for better dealer service and availability. We also began to align the operations of the travel trailer and folding trailer divisions.

Information technology investments are ongoing. Recent upgrades support the speed needed in today's world for

financial reporting, product design, customer feedback, dealer relations, associate communications and more. In fact, it's difficult to think of an area of operations that doesn't require technological speed and reliability. And so we are currently investing in upgrading our infrastructure and introducing an entirely new enterprise system.

The magnitude of these changes has sometimes been difficult to digest, but they're essential to us because when we complete the reinvention of our company, we will be leaner, stronger, and more nimble.

### -- OUR PRODUCT IMPROVEMENT IS PAYING OFF --

We have continued to focus on product improvement and we are proud of the consumer response to our efforts, which is reflected in our rising market share in major segments of both RVs and Housing. Through the first quarter of calendar 2004, we strengthened our lead as the nation's largest supplier of Class A motor homes to almost 22 percent of the market and, in Housing, our progress in retail market share made us the leader in multi-section housing. In fact, throughout fiscal 2004 our overall share of the wholesale market increased year over year in every month but one, which was flat.

While our products are a major focus of the rest of this annual report, we would like to point in particular to the success of our *Southwind* and *Pace Arrow* brands, which are now first and third, respectively, among all gasoline-powered motor homes. We successfully launched a new *Excursion* diesel unit in March. We're also very pleased with the launch of our *GearBox*, a new product offering that we estimate has already become the second-best selling activity-support travel trailer in the market. On the Housing side, the *Entertainer* has the continued distinction of being the best-selling house in America. We also won three design awards, the most of any manufacturer, at the Manufactured Housing Institute's Spring Symposium. These coveted awards from MHI again underscore the strides we are making in product innovation and in reinventing the way we approach our products and view our markets.

### -- OUR ASSOCIATES AND AFFILIATES MAKE THE DIFFERENCE --

As always, we thank our RV and housing dealers, our suppliers and you, our shareholders, for the support we've enjoyed while we continue to progress toward our financial goals. We also appreciate the remarkable commitment and guidance shown by our Board of Directors, and we welcome Danny Villanueva, who joined us in September. Danny is a proven business leader, and his contributions of money, time and energy back to his community, particularly in the inner city, are exemplary.

Most of all, we thank our associates. None of our accomplishments would be possible without the dedication and hard work of almost 14,000 Fleetwood employees. As a result of their efforts and abilities, we believe that we consistently provide the best value possible to our customers. These talented professionals have been the key to the progress we have made, and we anticipate their continued commitment to this great Company will enable us to meet the challenge we have set for ourselves: to build a Fleetwood that is stronger, richer, deeper, and more energized than it has ever been. ●



**EDWARD B. CAUDILL**

President and CEO



**THOMAS B. PITCHER**

Chairman of the Board



-- RECREATIONAL VEHICLES --

**-- LEARNING FROM THE PAST --**

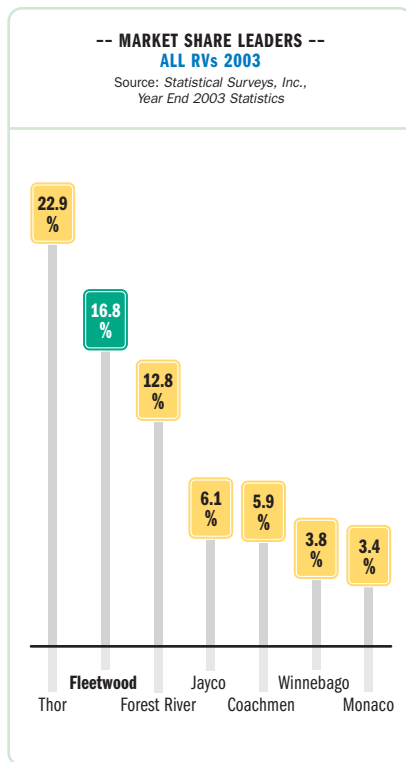
Taking the focus off product development can be disastrous. We know this well.

Back in the late 1990s, Fleetwood's RV Group was enjoying record volumes, record revenues, and record net income. That made it easy to overlook the fact that the Company's market share had been gradually slipping for a few years. Travel trailer market share was down to 20.5 percent in 1999 from a high of 28.6 percent in 1991. Even worse, our motor home market share, which had peaked at 34.0 percent in 1992, was at 24.6 percent.

It all came to a head in the spring of 2000, which was widely expected to be the start of yet another strong selling season. Instead, the stock market and consumer confidence plunged, along with RV sales. Fleetwood

held excess finished goods and raw materials, and our dealers had bloated retail inventory. When customers came back to the market, it was clear that "old" products – those that didn't have slide-outs or updated interiors or extra amenities – were not going to sell briskly. Unfortunately, many of those products were ours.

It was a crash course in the need to focus on the customer and product innovation, and Fleetwood took it to heart. Our entire product line has been dramatically updated since then, and we are now among the industry's leaders in incorporating innovative features into our floorplans, offering a variety of fresh looks, and making our RVs feel like home – qualities that our customers demand, and that we're delivering.

**-- EXCELLING IN THE PRESENT --****INDUSTRY PROGRESS**

Calendar 2003 proved to be a near-record year for recreational vehicle sales in the United States with 320,800 units sold, the second-highest shipment level in nearly a quarter century according to the Recreation Vehicle Industry Association (RVIA). Retail sales in excess of \$12 billion in 2003 were by far the highest in the industry's history – more than a billion dollars over the previous record, set in 2002. These milestones were accomplished despite the fact that, as a result of the start of the war in Iraq, sales slowed at the outset of the traditional spring selling season. Shortly thereafter, sales rebounded.

Strong industry sales continued into the first half of 2004, with double-digit improvements in shipments in most months over the prior year – impressive despite the soft market last spring. RVIA's current projection shows shipments of 347,800 units expected for 2004, a rise of 7.7 percent over 2003.

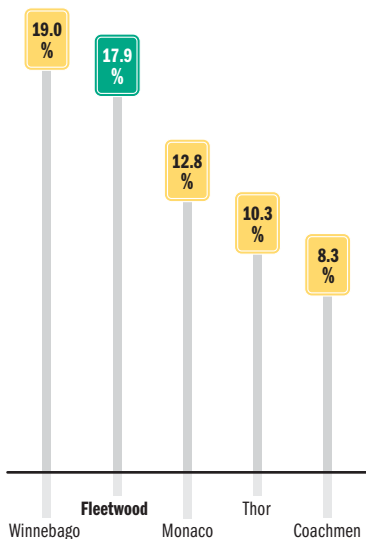




**“RETAIL SALES IN EXCESS OF \$12 BILLION IN 2003 WERE BY FAR THE HIGHEST IN THE INDUSTRY’S HISTORY – MORE THAN A BILLION DOLLARS OVER THE PREVIOUS RECORD ... ”**

-- MARKET SHARE LEADERS --  
**ALL MOTOR HOMES 2003**

Source: Statistical Surveys, Inc.,  
 Year End 2003 Statistics



### CLEAR PRODUCT SUCCESS

Fleetwood's RV sales increased 20 percent in the fiscal year, with a total of \$1.78 billion compared with \$1.48 billion in the prior year. Motor home sales grew 20 percent to \$1.10 billion, and sales of travel trailers increased 29 percent to \$570 million. Only our folding trailer division realized a sales decline, dropping 15 percent to \$104 million, predominantly as a result of sluggish market demand for this product type.

Fleetwood's continued commitment to investment in its products through product development, ongoing quality improvement, and plant modernization contributed to this sales success. David Warren joined the Company as vice president-engineering for the RV Group. In this new role, David is responsible for product development. As a specialist in "design for manufacture," he is charged with ensuring that new designs can be built cost effectively and efficiently in Fleetwood's manufacturing facilities. Luc van Herle, an 18-year Fleetwood associate, was promoted to director of product planning for both motor homes and travel trailers. Luc's group is the primary conduit for customer feedback and market segmentation.







Customer input is vital to the decisions we make about product introductions and improvements. An emphasis on functionality has given Fleetwood an edge over many of its competitors. We put a great deal of consideration into storage placement, access, and convenience.

Many recent additions to our trailers make life easier *outside* the unit, such as two-way radios with chargers; a pass-through drawer between the kitchen and an outdoor access, complete with ice chest; exterior retractable sinks; outdoor showers; and our full-width/full-height rear storage compartment with options to accommodate various types of sporting equipment. Other units feature residential luxury, with gourmet-style kitchens, high-end appliances, plush furniture, king-size beds, fireplaces, and surround-sound stereo systems.

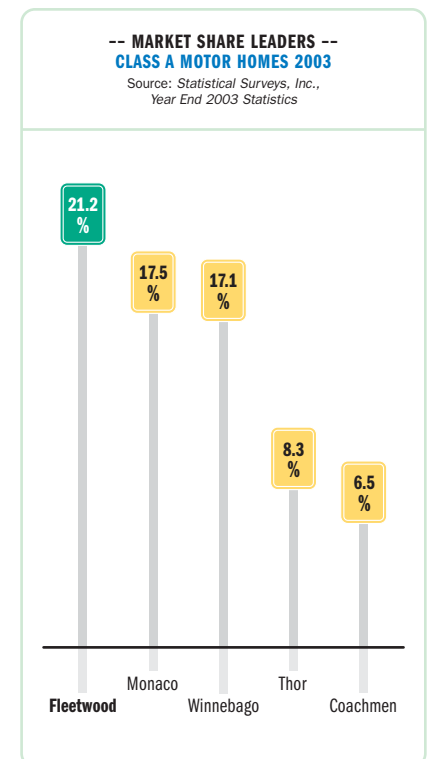
Our patented Power Platform and Liberty Chassis provide the flexibility needed to add value to our motor homes through the extensive use of triple and quadruple slide-out floorplans and our recent introduction of 84" ceilings in many of our high-end products. We are proud to employ name brand building materials and components from the ground up, as evidenced by our use of Goodyear tires and Caterpillar engines.

New paint booth systems were constructed at our two gasoline motor home plants, in California and Pennsylvania, during the year. These state-of-the-art facilities ensure that not only can we now paint more efficiently, safely, and cost effectively, but we can apply full-body paint – an increasingly popular option for high-end motor homes. This investment also provides diesel production capacity on either coast if needed, because most of our diesel motor homes come standard with full-body paint.

#### ROBUST MOTOR HOME PERFORMANCE

Fleetwood's focus on product innovation has continued to pay off in our motor home division. Market share stats for calendar 2003 show that Fleetwood's edge in Class A motor homes grew to a 21.2 percent share at the end of the year, up from 20.8 percent the prior year. During the first quarter of calendar 2004, Fleetwood improved further to 21.6 percent, overtaking the leader in Class A gasoline motor homes and closing in on the leader in diesels.

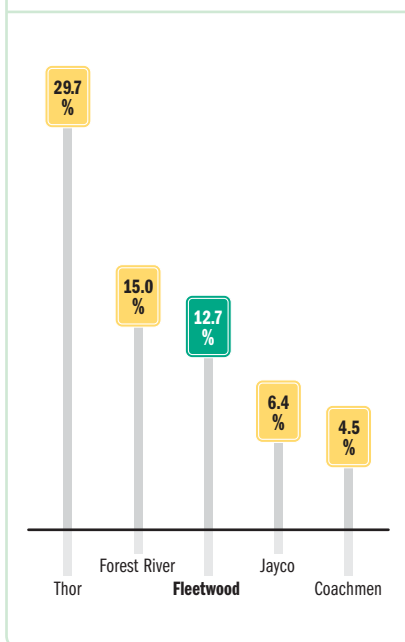
Most of the Company's motor home products are performing well, but a few are worth special mention. At the end of calendar 2003, Fleetwood had two of the top five diesel motor homes, three of the top five



Class A gasoline motor homes, and two of the top-10 Class C motor homes in the industry. *Pace Arrow*, with its diesel-like appearance, increased ceiling height, and innovative floorplans, has increased its 2004 year-to-date market share by 39 percent to become the best-selling motor home in its price range, and the third best-selling gasoline Class A motor home overall. *Southwind* is the top seller in the gasoline category thus far in 2004, and *Bounder* is number four.

-- MARKET SHARE LEADERS --  
TRAVEL TRAILERS 2003

Source: Statistical Surveys, Inc.,  
Year End 2003 Statistics



Fleetwood's motor home sales jumped 20 percent in fiscal 2004, from \$918.7 million to \$1.10 billion. This, along with operating margins that improved from 4.4 percent to 5.2 percent, led to operating income of \$57.1 million, a 41 percent improvement over the \$40.5 million this division earned in 2003.

#### RECAPTURED TRAVEL TRAILER PROFITABILITY

Many of the Company's travel trailer nameplates have strong customer loyalty. *Prowler* remains the best-selling travel trailer in the country, and *Wilderness* is in the top 10. Among conventional travel trailers, *Pioneer* sales improved by 63 percent during the year to earn the nameplate the number five position. Fleetwood's groundbreaking activity-support vehicle, *GearBox*, which was introduced in the West in the fall of 2003, is now the second best-selling product in its category, by our estimation. The *GearBox* hauls "big toys" such as ATVs and motorcycles. It was introduced this spring on the East Coast, where it is built with an option that allows customers to haul snowmobiles.

Our lineup of travel trailer products has changed significantly over the past two years, which unfortunately was a primary factor in this line's disappointing operating margins. The large number of new products we introduced, particularly late in 2002, proved inefficient to build and our plants struggled to meet demand. Overtime and higher material costs combined to make profitable operations challenging for several quarters. At the same time, the division was working to regain shelf space at its dealers, which it lost while products were stale. This lessened price elasticity. Since those introductions, modifications have been made to products and to manufacturing processes, and the division now is experiencing improved efficiencies in its plants, as we continue to fine-tune the products at their proper price points.





Although the travel trailer division did not fare as well overall as the motor home division, it did show financial improvement during the fiscal year. Sales were up 29 percent to \$570 million, and operating income reached \$1.9 million, compared to a loss of \$6.1 million in 2003. Operating margins did not meet expectations at just 0.3 percent, but the positive trend made 2004 the first profitable fiscal year for the division since 2000.

#### **SLUGGISH FOLDING TRAILER MARKET**

The folding trailer division continued its tradition of quality, as shown by its consistently high Customer Satisfaction and Dealer Satisfaction Index scores. Nonetheless, it experienced a difficult year. The industry has been down since mid-summer 2002, and unit retail sales were off by 16 percent in calendar 2003 compared with 2002. Fortunately, the slippage slowed in the first quarter of calendar 2004, with sales down by just 2 percent.

*Fleetwood Folding Trailers* continue to dominate the camping trailer marketplace, with more than 40 percent market share. A branding change to emphasize the Fleetwood name generated additional expenditures, and those combined with a 15 percent decline in fiscal 2004 revenues to create a \$0.9 million operating loss for the division. In fiscal 2003, again because of the sector downturn, the division earned just \$1.0 million at the operating line on revenues of \$122 million.





#### RE-ENERGIZED FOCUS ON PLACEMENT, PRICE, AND PROMOTION

Product, while arguably the most important, is only one of the four traditional “Ps” of marketing. Our Company also places a heavy emphasis on the other three – placement, price, and promotion – and has made bold moves to improve its marketing over the past 18 months.

As far as placement, our products are available nationwide. Our network of 1200 independent dealers is outstanding, and our consistent training program ensures that sales representatives know those features that make each Fleetwood product a great value. We also encourage dealers to take advantage of additional training to become authorized service centers for Fleetwood.

Value is a watchword for our Company. It is our goal that customers feel that they get what they pay for – and more. Our goal is to consistently offer the highest-quality product at an attractive value that is not exclusively price-driven. From the chassis to the floorplans, from the appliances to the décor, Fleetwood works to put features where they count for the customer.



From creating a new logo and the “Driven to Explore” tagline, to product placement and website updates, Fleetwood RV is grabbing attention through promotion. Fleetwood’s RVs can be spotted on big and small



screens as game show prizes or transportation for reality shows. *Pace Arrow*, for instance, has a featured role in the upcoming sequel to “Meet the Parents” and had an appearance on TV’s “The Bachelor.”

New promotional partnerships with complementary companies have created opportunities, too. As an example, through its *GearBox* product, Fleetwood has joined forces with dirt bike enthusiast media outlets and performance accessory manufacturers.

Our growing relationship with NASCAR has resulted in introductions of Fleetwood products to a different type of RV user – one who might use the vehicles for events and entertainment more often than for travel and vacations. This new trend is one of the reasons that RVs are attracting younger buyers, and why dealers have said that the average Fleetwood buyer is younger than the average RV buyer. Fleetwood is pursuing other opportunities, such as joint events, with NASCAR, whose fan base is remarkably similar to the RV target market.

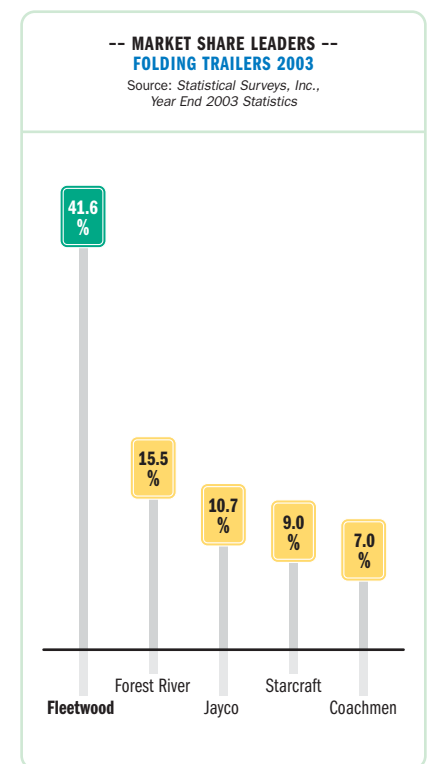
The RV Group’s website, [www.fleetwoodrv.com](http://www.fleetwoodrv.com), is being constantly updated and tested for customer friendliness and usability. One of the many new features allows a potential customer to compare and contrast the features of two different Fleetwood products.

Fleetwood is proud of the accomplishments of fiscal 2004. Progress in product, promotions, and profitability has put the Company in an enviable position to take full advantage of the coming growth in the RV market.

### -- FOCUSING ON THE FUTURE --

We at Fleetwood are optimistic about the future of the RV industry, and about the positive role we’ll play in it for decades to come.

RVIA-commissioned studies on the changing demographics of RV buyers and potential customers suggest that the outlook is quite bright. Long-term signs point to substantial RV market growth, as the University of Michigan study estimates a gain of 15 percent between 2001–2010 to a total of nearly 8 million RV households by 2010, outpacing overall U.S. household growth of 10 percent.







Two other important demographic factors are also of note. The age bracket of RV buyers is expanding, as people have begun buying recreational vehicles at a younger age and the increasing healthy lifespan keeps them active longer. Also, ownership rates in American households have grown, which has been attributable to worries about international tensions and discomfort with domestic air travel, as well as to increased emphasis on family. Consider that more people are now coming into the typical RV-buying years, the percentage of those people who are interested in RVs is increasing, trends show recent buyers are inclined to purchase more expensive vehicles, and the number of years that each customer will be in the market is stretching because of longer, healthier lifespans. We believe that the country is only at the beginning of a number of these cycles, in an industry that already hit a record \$12 billion in retail value in calendar 2003.

Fleetwood intends to continue recovering market share through product innovation and attention to customer needs. We will also continue pushing for higher operating profit margins from each of our divisions. This all bodes well for the Company's future, and provides optimism for stronger profitability.

People of all ages are discovering the benefits of RVing: freedom, flexibility, and fun. And, Fleetwood will continue to ensure that its products fit the needs of all RV users – from its folding trailers for camping enthusiasts to its high-end, luxury motor homes for people who want to travel with all the comforts of home. ●





-- MANUFACTURED HOUSING --

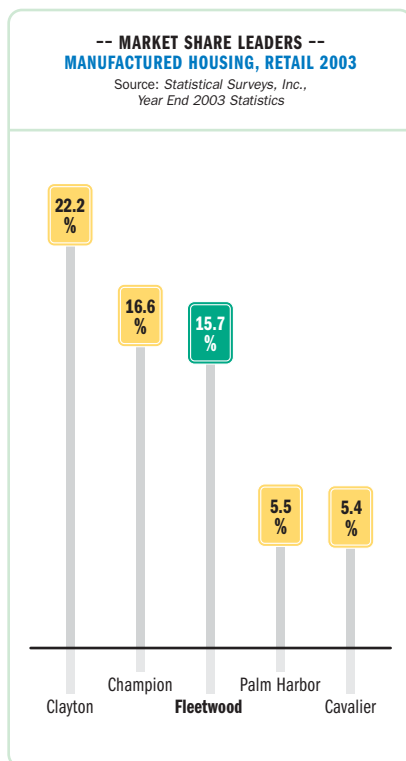
**-- REGROUPING FROM THE PAST --**

The manufactured housing industry has a long history of providing affordable housing to American families. In the 1920s, manufacturers began producing factory-built trailers that were often used to meet temporary housing needs. After World War II, housing shortages led to an increased use of factory-built homes as inexpensive housing that could be moved as families pursued new job opportunities.

Fleetwood's story began in 1950, and we have grown as the industry has grown. In 1976 HUD developed national building standards and a federal oversight program, and manufactured homes today bear little resemblance to the early models in terms of quality, safety, durability and appearance. Increasingly, demand is for larger homes that are permanently sited, and include more amenities. Today, Fleetwood builds houses that are virtually indistinguishable from site-built homes.

After the HUD Code was adopted, the acceptability of manufactured homes accelerated and, by 2000, according to MHI, 22 million Americans, representing about 8 percent of the population, lived in 10 million manufactured homes.

Industry shipments from the mid-1970s to the mid-1990s were relatively stable, averaging about 250,000 homes per year. However, undisciplined lending practices prevalent in the late 1990s led to an increased level of borrower defaults and repossessed homes, and caused lenders to retreat from our industry. In the past year, however, the default rate has fallen, and the inventory of repossessed homes has declined. In addition, Warren Buffett's investments in the industry, through Berkshire Hathaway, have prompted a cautious re-emergence of national lenders, applying more rational lending practices. Fleetwood proactively supports industry initiatives to prevent future lending abuses. It is widely believed that calendar 2003 will prove to be the trough of the recent down cycle.

**-- WORKING STRATEGICALLY IN THE PRESENT --**

Calendar 2003 hit a low in national manufactured housing shipments that few thought possible. With only 131,000 new manufactured homes entering the market, the percentage of new single-family housing starts represented by the industry sank to 9 percent, from a high of 23 percent in 1998. Knowing that throughout this time period the industry continued to improve its quality and aesthetics without losing its central claim to affordability, it becomes clear that outside factors were at work.

The industry received a healthy dose of good news in late 2003 with the announced entry of several quality lenders to the business and a decline in repossessed homes in retail inventory. Although the magnitude and effect of both of these factors is difficult to quantify, MHI projected at the beginning of the year that 143,000 homes would be shipped in calendar 2004, an increase of 9 percent over 2003. Following four



**"THE MANUFACTURED HOUSING INSTITUTE ... PROJECTED AT THE BEGINNING OF THE YEAR THAT 143,000 HOMES  
WOULD BE SHIPPED IN CALENDAR 2004, AN INCREASE OF 9 PERCENT OVER 2003."**



years of declines that averaged 21.5 percent per year, and reported shipments still down on a year-over-year basis through the first five months of calendar 2004, this projected upturn holds the promise of welcome relief.

#### **GROWING MARKET SHARE IS BENEFITING FINANCIAL RESULTS**

Fleetwood management believes that the “normal” retail market for manufactured homes is approximately 250,000 new homes per year, almost double what was shipped last year. Much of the demand in the past few years has been met by repossessed homes – as many as 100,000 just last year. Plus, a significant segment of the customer base has been unable to qualify for loans under the new, restrictive lending criteria set since the onslaught of repossessions began and lenders started to exit the market. In calendar 2003, we shipped 19,653 homes, a 21.5 percent drop from calendar 2002.

That said, broad product acceptance and new community introductions helped sales to jump 21 percent year-over-year in our fourth quarter and, as a result, Fleetwood’s revenues for all of fiscal 2004 were down just 2 percent from the prior year. With the rest of the industry still experiencing year-over-year declines, our market share improved during the first quarter of calendar 2004, making Fleetwood the largest provider of multi-section housing.





Fiscal year revenues of \$783 million included wholesale factory sales of \$540 million to independent dealers and retail sales of \$243 million by Fleetwood Retail Corp., or FRC. Wholesale revenue for the year was down just 1 percent to \$657 million, including sales of \$117 million to Company-operated retail stores.

Both the wholesale, or manufacturing, division and the retail division saw substantial financial improvements over the prior year. The Housing Group lost \$28.8 million during the year at the operating line, a 50 percent improvement compared with a loss of \$57.6 million last year, after deducting intercompany profit on retail inventory of \$1.6 million and \$5.6 million, respectively. The wholesale division earned \$5.4 million in operating income, while the retail division lost \$35.9 million, compared to losses of \$13.5 million and \$49.7 million in fiscal 2003, respectively.

Improvements in wholesale labor efficiencies, manufacturing overhead, and quality, combined with a successful reorganization of the service organization, were the primary factors in the transition to profitability. Both higher home prices and reduced expenses drove the retail division's financial improvement, even though 277 fewer homes were sold. The average new-home selling price at FRC increased by 10 percent, and selling, general and administrative expenses dropped by \$15 million, or 15 percent, from the prior year.

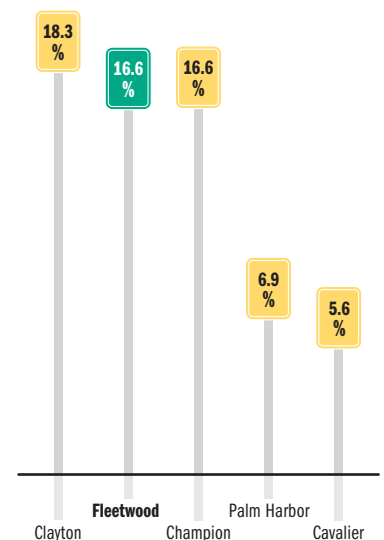
#### EFFECTIVE OPERATING STRATEGIES PROVIDE A COMPETITIVE ADVANTAGE

Fleetwood has pursued a strategy of vertical integration to combat the effects of our industry's down cycles and further capitalize on its up cycles. We are continuing to create and utilize synergies among our manufacturing, retailing, and financing divisions, and are now the only national, publicly traded company to operate in all three areas. We expect our efforts will result in a more stable wholesale distribution network and consistent availability of financing.

Vertical integration provides a variety of competitive advantages among the three divisions. Wholesale operations benefit by having a steady customer in FRC, which today represents almost 18 percent of Fleetwood's production. Our wholesale division also garners insights about customer behaviors and demands from its sister company, learning quickly what does and doesn't work out in the field, which, in turn, improves our product offerings to independent dealers. And our finance arm, HomeOne Credit Corp., should help our wholesale operations by smoothing out finance-related industry cycles.

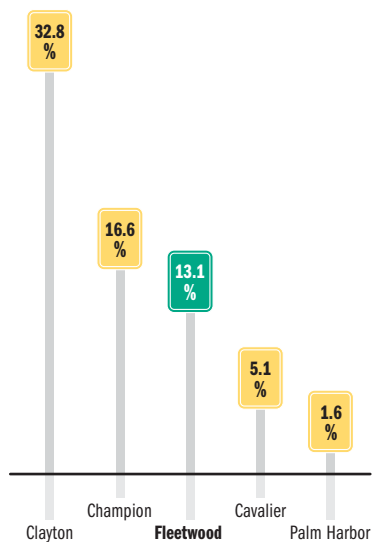
#### -- MARKET SHARE LEADERS -- MANUFACTURED HOUSING - MULTI-SECTIONS, RETAIL 2003

Source: Statistical Surveys, Inc.,  
Year End 2003 Statistics



-- MARKET SHARE LEADERS --  
**MANUFACTURED HOUSING - SINGLE SECTIONS,  
 RETAIL 2003**

Source: Statistical Surveys, Inc.,  
 Year End 2003 Statistics



FRC also gains from having a single, related supplier – 99 percent of new inventory is Fleetwood product – by realizing a steady supply of product and having a ready and willing recipient of product enhancement ideas. A special floorplan, the *Inspiration Home*, has been developed for sale exclusively through our Company-operated sales centers. HomeOne provides our retail division with access to competitive loans for their customers, and a staff trained to make decisions based on individual circumstances rather than inflexible matrices.

HomeOne also has advantages over independent lenders because of its association with the rest of the Housing Group. The business model offers synergies that enhance both retail operations and the performance of the loan portfolio. The retail general managers participate in the finance income as long as the loans are performing. This encourages an active participation in customer payment collection activities. Additionally, when loans default, the retail managers realize the economic loss from the loan, which encourages them to minimize repossession and refurbishment costs, and maximize the resale sale price. The result is superior portfolio performance and manageable loan servicing costs.

Finally, we believe that HomeOne will provide our wholesale division with a competitive advantage by further strengthening our retailer relationships. In the fourth quarter of fiscal 2004, HomeOne began extending finance programs to a select group of independent retailers in our wholesale division's Pinnacle Program. Pinnacle retailers, who agree to sell Fleetwood products exclusively, receive valuable marketing support and training from Fleetwood in return. These new finance programs also provide HomeOne with another source of growth.







### **A FOCUS ON FINANCING EXPANDS OUR OPPORTUNITIES**

Fleetwood was founded in 1950 to build travel trailers, which over time evolved into both the modern, recreational vehicle version, and into manufactured housing. Manufacturing a quality, high-value product and distributing it through independent dealers was the business model that enabled the Company to grow. Although our commitment to providing our customers with the best value in affordable housing never wavered, the industry changed.

The Company entered the retail business in 1998. This move was made largely to prevent the decimation of our independent dealer network by two of our competitors who had determined that the fastest way to build an internal, quality network of retailers was to buy our independent dealers. We made 26 acquisitions – most notably HomeUSA, a public consortium of housing retailers with 68 locations – and by 1999 we had opened an additional 75 greenfield centers. That year we initiated a central finance platform to pave the way toward financing our own customers.

As it happened, 1999 was the height of the manufactured housing market. We built FRC up to 244 retail stores by October 2000, but then began downsizing. Over the next three and a half years, consolidation was key. We closed unprofitable stores at the same time that we pursued the goal of centralizing the operations.



Today, the retail division has 126 Company-operated sales centers. While we have closed unprofitable locations, we also opened a handful of sales centers in geographically desirable locations over the past few years, and plan to open at least 10 new locations in the coming year. The centralization initiative was successful, as all centers and the Houston headquarters use the same systems, procedures, and operating platform. We set ourselves apart from other retailers by offering consistent training of FRC managers and staff, including classes on financing programs and mandatory general manager training that focuses on operational excellence.

We took steps during fiscal 2004 to more closely integrate the wholesale and retail divisions through changes in personnel, structure, and functions. The wholesale and retail sales organizations and marketing teams were consolidated through management changes under one senior officer who has overall responsibility for housing distribution. We held an inaugural sales meeting earlier this year that brought all of the FRC general managers and our wholesale sales team together to exchange ideas and discuss best practices.

Meanwhile, the investment in our financing arm continued, and we launched the finance organization in 2002. We are now carefully building a portfolio of loans, balanced between the need for high performance and the desire to provide financing for customers who have not been able to secure a loan for their manufactured homes. This “make-sense” lending has been successful.

HomeOne has originated over \$55 million in loans to date, adding \$33 million during fiscal 2004. At the end of the year, the company was recording a 30+-day delinquency rate of less than 1 percent. Delinquencies have remained low due to a focus on originating quality assets, employing aggressive collection techniques at the first sign of problems, and leveraging the retail organization to facilitate collection activities. The investment that participating Pinnacle retailers have in the financial performance of their loans also aligns performance between the two.

In December 2003, Fleetwood established a warehouse lending facility for HomeOne with Greenwich Capital. We expect to accelerate HomeOne’s gradual growth with this short-term funding in place, and





continue to invest in our technology and people – an investment dedicated to improving operating efficiency and effectiveness.

### **MOVING OUTSIDE OUR TRADITIONAL MARKET OPENS NEW DOORS**

The unusually slow traditional market for manufactured housing has prompted research into new markets. For example, we formed a team focused on developing relationships with manufactured housing communities. Substantially increased business from national community operators was developed almost immediately as a result of the focused efforts we have directed toward this increasingly important segment of the overall housing market. Additionally, Fleetwood's new executive director of global business development is pursuing international opportunities and other special projects, along with possible new distribution channels and markets.

Fleetwood also began exploring the possibility of using manufactured housing for urban infill projects. The lower cost, faster setup, and lack of neighborhood disruption when compared to site-built housing makes it an attractive alternative. Zoning laws in many areas, however, necessitate that we gain cooperation from local governments, and so we are working to do so in various areas. Six of our housing plants were certified to build modular homes built to the UBC (Uniform Building Code) rather than the HUD code. UBC homes are often not subject to the same zoning and financing restrictions.



We also are working to build houses that appeal to specific populations. Our *LifeStages* homes, for example, are constructed to make it easier for people to stay in their homes during various life changes. The lever door handles, for instance, make it possible to open doors while holding a load of groceries or if arthritis makes turning a doorknob difficult. Wider doorframes and lower light switches and sinks also add flexibility. We continue to research the requirements and tastes of other growing groups, such as immigrant populations, that are potential markets for our homes.

Traditional business remains the core competency of the Company, and we are ready to capitalize on the recovery of the industry. One of the houses we developed in 2001, our *Entertainer* home, continues to do well and inspire imitators. The house, which is built around the concept of an open floorplan with a central great room complete with entertainment center, continues to be the best-selling home in America.

We are pleased to report that Housing sales increased 21 percent in the final quarter and backlogs were up 80 percent over the prior year as fiscal 2004 drew to a close. In fact, in June 2004 we announced that we were re-opening a plant in Georgia to meet growing demand in that region. By first opening plants such as this one, which is adjacent to an existing operating facility, we have the advantage of being able to run the new plant using the same management team. We have seven other idle plants with similar circumstances. All in all, we believe that when the market turns, we will be in an exceptional competitive position to take advantage of the increased need for manufactured housing.







### -- POSITIONED FOR THE *FUTURE* --

The manufactured housing industry offers several competitive advantages over site-built housing. Because of these intrinsic advantages, we believe that the market will eventually return to a shipment level of approximately 250,000 homes per year. This near doubling of the market, coupled with our belief that we can improve our market share while simultaneously improving our margins, bodes extremely well for future profitability.

The primary benefit of manufactured housing will always be affordability, as the average price of a site-built house is \$76 per square foot and a manufactured home costs \$32 per square foot, according to MHI statistics. There is no doubt that America will always need affordable housing, and current demographics are closely aligned with those of the typical manufactured housing customer. Unusually low mortgage rates for site-built homes over the past several years quite likely have been a detriment to our industry, as the gap between interest rates for financing a home-only, or chattel, loan and a mortgage loan exceeded 500 basis points. The disparity in more normal markets has approximated 300 basis points. According to published reports, it appears that several significant lenders, some of which had been involved in the past and some of which are new, will be participating in manufactured housing finance as calendar 2004 progresses. As a result, we believe that the current rise in mortgage rates will coincide with stability in chattel rates as some competition among lenders begins. That can only be helpful as the industry works to return to normal levels.

The industry, and Fleetwood in particular, continues to improve the aesthetics of manufactured housing, both inside and out. We are working toward breaking into new markets. And most importantly, we have developed a strong, vertically integrated Housing Group. We believe these initiatives will lead to increased growth and strong profitability in the future. ●

## RECREATIONAL VEHICLES



**DISCOVERY**  
Class A – Diesel



**SOUTHWIND**  
Class A – Gas



**TIOGA**  
Class C



**PROWLER**  
Fifth Wheel



**PIONEER**  
Travel Trailer



**FLEETWOOD FOLDING TRAILER**  
Folding Trailer

## MANUFACTURED HOUSING



**SINGLE SECTION**



**TWO STORY**



**MULTI SECTION**



-- FINANCIAL RESULTS --

## TEN-YEAR SUMMARY OF SELECTED FINANCIAL DATA

FISCAL YEARS ENDED APRIL  
(DOLLARS [EXCEPT PER-SHARE AMOUNTS] AND SHARES OUTSTANDING ARE IN THOUSANDS)

	2004	2003	2002
<b>SUMMARY OF OPERATIONS:</b>			
Sales	\$2,607,988	\$2,318,293	\$2,280,447
Gross profit	470,211	425,657	438,089
Operating expenses	433,488	453,863	508,727
Impairment of goodwill and other, net	(4,607)	(1,775)	19,765
Operating income (loss)	41,330	(26,431)	(90,403)
Income (loss) from continuing operations	(22,261)	(70,739)	(161,928)
Net income (loss)	(22,261)	(70,739)	(161,928)
Earnings (loss) from continuing operations per share — diluted	(.58)	(1.97)	(3.90)
Earnings (loss) per share — diluted	(.58)	(1.97)	(3.90)
<b>FINANCIAL POSITION:</b>			
Total assets	\$1,075,709	\$ 954,094	\$1,015,700
Property, plant and equipment, net	259,052	260,318	273,695
Long-term debt	102,159	2,357	8,741
Convertible subordinated debentures	272,791	403,905	403,905
Shareholders' equity	246,282	110,968	174,743
Book value per share	4.73	3.09	4.95
<b>OTHER STATISTICS:</b>			
Gross profit percentage	18.0%	18.4%	19.2%
Depreciation	\$ 23,774	\$ 26,505	\$ 29,761
Capital expenditures	27,727	19,857	20,473
Dividends declared	—	—	2,621
Dividends declared per common share	—	—	.08
Weighted average common shares — diluted	38,357	35,869	33,942
Approximate number of shareholders of record	1,100	1,200	1,200
Market price per share:			
— High	\$ 16.06	\$ 11.22	\$ 17.25
— Low	4.83	2.37	7.60
— Close	15.62	4.98	10.74

2001	2000	1999	1998	1997	1996	1995
\$2,531,463	\$3,769,534	\$3,555,519	\$3,121,278	\$2,945,777	\$2,872,890	\$2,860,225
481,016	792,614	727,224	572,362	519,768	507,404	487,689
587,939	630,438	536,913	402,167	380,209	375,872	365,460
200,286	(979)	649	285	772	5,142	700
(307,209)	163,155	189,662	169,910	138,787	126,390	121,529
(283,990)	83,494	107,121	108,545	90,052	69,901	75,998
(283,990)	83,494	107,121	108,545	124,830	79,609	84,633
(8.67)	2.41	2.94	3.01	2.30	1.50	1.63
(8.67)	2.41	2.94	3.01	3.19	1.71	1.82
\$1,135,753	\$1,545,585	\$1,540,076	\$1,138,372	\$ 871,547	\$1,108,932	\$ 940,374
294,813	312,067	303,934	277,211	278,331	266,587	262,640
3,676	80,000	55,000	55,000	55,000	80,000	—
296,392	296,392	296,392	296,392	—	—	—
286,148	584,805	586,703	376,026	443,095	649,137	608,143
8.74	17.88	16.67	11.96	12.40	14.22	13.20
19.0%	21.0%	20.5%	18.3%	17.6%	17.7%	17.1%
\$ 29,930	\$ 28,567	\$ 27,615	\$ 27,538	\$ 25,581	\$ 25,857	\$ 21,973
36,921	55,078	49,757	37,809	56,184	32,916	67,864
15,059	24,957	24,672	23,744	24,408	27,551	25,778
.46	.76	.72	.68	.64	.60	.56
32,755	39,194	40,171	36,933	39,162	46,469	46,531
1,300	1,400	1,500	1,500	1,600	1,800	2,000
\$ 16.00	\$ 29.25	\$ 46.44	\$ 48.00	\$ 37.25	\$ 29.00	\$ 27.25
8.10	14.00	25.00	25.13	24.13	18.13	17.75
12.34	14.63	28.19	46.13	25.13	26.38	23.00

## FIVE-YEAR HISTORY OF SELECTED SEGMENT DATA

FISCAL YEARS ENDED APRIL  
(DOLLARS IN THOUSANDS)

	2004	2003	2002	2001	2000
<b>OPERATING REVENUES:</b>					
RV Group					
Motor homes	\$1,104,624	\$ 918,742	\$ 716,734	\$ 637,833	\$1,193,609
Travel trailers <sup>(1)</sup>	570,420	441,885	378,412	451,872	599,051
Folding trailers	104,189	121,968	117,758	117,085	128,944
	1,779,233	1,482,595	1,212,904	1,206,790	1,921,604
Housing Group					
Wholesale	657,388	667,087	842,536	981,366	1,517,681
Retail	242,505	245,076	327,760	552,904	591,895
Less intercompany	(117,135)	(115,903)	(137,187)	(242,589)	(312,093)
	782,758	796,260	1,033,109	1,291,681	1,797,483
Supply Group	41,120	37,178	34,032	32,992	50,447
Financial Services	4,877	2,260	402	—	—
	\$2,607,988	\$2,318,293	\$2,280,447	\$2,531,463	\$3,769,534
<b>OPERATING INCOME (LOSS):</b>					
RV Group	\$ 58,146	\$ 35,355	\$ (36,837)	\$ (71,463)	\$ 103,839
Housing Group	(28,841)	(57,598)	(38,347)	(47,303)	73,960
Supply Group	6,065	2,079	8,868	6,033	20,678
Financial Services	(1,627)	(2,089)	(1)	(55)	—
Corporate and other	7,587	(4,178)	(24,086)	(194,421)	(35,322)
	\$ 41,330	\$ (26,431)	\$ (90,403)	\$ (307,209)	\$ 163,155
<b>UNITS SOLD:</b>					
RV Group					
Motor homes	11,203	9,935	8,366	8,148	16,294
Travel trailers <sup>(1)</sup>	34,351	30,016	27,263	32,987	41,936
Folding trailers	14,543	17,118	17,946	19,090	21,890
	60,097	57,069	53,575	60,225	80,120
Housing Group					
Wholesale factory shipments					
Single-section	4,627	4,203	6,863	9,426	21,200
Multi-section	16,232	17,973	23,193	26,775	38,258
	20,859	22,176	30,056	36,201	59,458
Retail					
Single-section	1,164	916	1,903	3,667	5,308
Multi-section	3,563	4,088	5,835	9,085	9,220
	4,727	5,004	7,738	12,752	14,528
Less intercompany	(3,414)	(3,790)	(4,886)	(8,657)	(11,768)
	22,172	23,390	32,908	40,296	62,218

(1) Includes sales of slide-in truck camper units.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### -- CRITICAL ACCOUNTING POLICIES --

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. This requires us to make estimates and assumptions that affect the amounts reported in the financial statements and notes. We evaluate these estimates and assumptions on an ongoing basis and use historical experience factors and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates under different assumptions or conditions.

The following is a list of the accounting policies that we believe reflect our more significant judgments and estimates, and that could potentially result in materially different results under different assumptions and conditions.

#### REVENUE RECOGNITION

Revenue for manufacturing operations is generally recorded when all of the following conditions have been met:

- an order for a product has been received from a dealer;
- written or verbal approval for payment has been received from the dealer's flooring institution;
- a common carrier signs the delivery ticket accepting responsibility for the product as agent for the dealer; and
- the product is removed from Fleetwood's property for delivery to the dealer who placed the order.

Most manufacturing sales are made on cash terms, with most dealers financing their purchases under flooring arrangements with banks or finance companies. Products are not ordinarily sold on consignment; dealers do not ordinarily have the right to return products; and dealers are typically responsible for interest costs to floorplan lenders. On average, we receive payments from floorplan lenders on products sold to independent dealers within 15 days of the invoice date.

For retail sales from Company-owned retail stores, sales revenue is recognized when the home has been delivered, set up and accepted by the consumer; risk of ownership has been transferred; and funds have been received either from the finance company or the homebuyer.

#### WARRANTY

Fleetwood provides customers of our products with a warranty covering defects in material or workmanship for periods ranging from one to two years, with longer warranties on certain structural components. We record a liability based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors we use in estimating the warranty liability include a history of units sold to customers, the average cost incurred to repair a unit and a profile of the distribution of warranty expenditures over the warranty period. A significant increase in dealer shop rates, the cost of parts or the frequency of claims could have a material adverse impact on our operating results for the period or periods in which such claims or additional costs materialize.

#### INSURANCE RESERVES

Generally, we are self-insured for health benefit, workers' compensation, products liability and personal injury insurance. Under these plans, liabilities are recognized for claims incurred (including those incurred but not reported), changes in the reserves related to prior claims and an administration fee. At the time a claim is filed, a liability is estimated to settle the claim. The liability for workers' compensation claims is guided by state statute. Factors considered in establishing the estimated liability for products liability and personal injury claims are the nature of the claim, the geographical region in which the claim originated, loss history, severity of the claim, the professional judgment of our legal counsel, and inflation. Any material change in the aforementioned factors could have an adverse impact on our operating results. We maintain excess liability insurance with outside insurance carriers to minimize our risks related to catastrophic claims.

#### DEFERRED TAXES

Deferred tax assets and liabilities are determined based on temporary differences between income and expenses reported for financial reporting and tax reporting. We are required to record a valuation allowance to reduce our net deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we historically have considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies, projected future taxable income and recent financial performance. Since we have had cumulative losses in recent years, the accounting guidance suggests that we should not look to future earnings to support the realizability of the net deferred tax asset. As a result, we concluded that a partial valuation allowance against our deferred tax asset was appropriate. Accordingly, in fiscal year 2003, the deferred tax asset was reduced by \$28.4 million to \$89.8 million with a corresponding adjustment to the provision for income taxes. The book value of the net deferred tax asset was supported by the availability of various tax strategies which, if executed, were expected to generate sufficient taxable income to realize the remaining asset. In the fourth quarter of fiscal 2004, we determined that available tax strategies were sufficient to support a deferred tax asset of \$74.8 million, and we recorded an adjustment to the provision for income taxes of \$15 million with a corresponding reduction to the asset. The primary reason for this reduction was an increase in the market value of our convertible preferred securities of Fleetwood Capital Trust I. An improved overall financial condition combined with upward movement in our stock price has contributed to a lower discount from par value and has diminished the magnitude of unrealized taxable gains in these securities. We continue to believe that the combination of all positive and negative factors will enable us to realize the full value of the deferred tax assets; however, it is possible that the extent and availability of tax planning strategies will change over time and impact this evaluation. One potentially beneficial development is that both the House and Senate have initially passed legislation that would allow a carryback of the Company's \$76 million net operating loss generated in the prior fiscal years. If the legislation becomes law without any significant change in the relevant provisions, the utilization of this net operating loss would generate a current federal refund of approximately \$25 million. This along with any other aspects of the new law could result in an income statement benefit through a reduction in the required valuation allowance on the deferred tax asset. If, after

future assessments of the realizability of our deferred tax assets, we determine an adjustment is required, we would record the provision or benefit in the period of such determination.

#### LEGAL PROCEEDINGS

We are regularly involved in legal proceedings in the ordinary course of our business. Because of the uncertainties related to the outcome of the litigation and range of loss on cases other than breach of warranty, we are generally unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. In other cases, including products liability (discussed above) and personal injury cases, we prepare estimates based on historical experience, the professional judgment of our legal counsel, and other assumptions that we believe are reasonable. As additional information becomes available, we reassess the potential liability related to pending litigation and revise our estimates. Such revisions and any actual liability that greatly exceeds our estimates could materially impact our results of operations and financial position.

#### REPURCHASE COMMITMENTS

Producers of recreational vehicles and manufactured housing customarily enter into repurchase agreements with lending institutions that provide wholesale floorplan financing to independent dealers. Our agreements generally provide that, in the event of a default by a dealer in its obligation to these credit sources, we will repurchase product. With most repurchase agreements, our obligation ceases when the amount for which we are contingently liable to the lending institution has been outstanding for more than 12, 18 or 24 months, depending on the terms of the agreement. The contingent liability under these agreements approximates the outstanding principal balance owed by the dealer for units subject to the repurchase agreement less any scheduled principal payments waived by the lender. Although the maximum potential contingent repurchase liability approximated \$148 million for inventory at manufactured housing dealers and \$644 million for inventory at RV dealers as of April 25, 2004, the risk of loss is reduced by the potential resale value of any products that are subject to repurchase, and is spread over numerous dealers and financial institutions. The gross repurchase obligation will vary depending on the season and the level of dealer inventories. Typically, the fiscal third quarter repurchase obligation will be greater than other periods due to high dealer inventories. The RV repurchase obligation is significantly more than the manufactured housing obligation due to a higher average cost per motor home and more units in dealer inventories. Past losses under these agreements have not been significant and lender repurchase demands have been funded out of working capital. In the past three fiscal years we have had the following repurchase activity:

(AMOUNTS IN MILLIONS, EXCEPT UNITS)	2004	2003	2002
Units	177	182	417
Repurchase amount	\$3.7	\$4.4	\$10.5
Loss recognized	\$0.6	\$ —	\$ 2.1

#### -- BUSINESS OUTLOOK --

The combination of an improved RV market and positive acceptance of our new motor home products has been reflected in increased market share and higher production rates, resulting in significantly improved motor home earnings compared with the past two years. The travel trailer division introduced new products covering 60 percent of its model line-up at the national trade show in December 2002. The new products were well received, as evidenced by the double-digit percentage sales growth since introduction. However, due to the breadth of change in terms of the number of models, content and resulting complexities, the impact of the new products on manufacturing efficiencies negatively affected the operating results in the last half of fiscal year 2003 and in fiscal 2004. We anticipate more normalized operational efficiencies in the future. We expect the strong RV market to continue in fiscal 2005. However, increasing interest rates, high gas prices and global tensions may impact consumer confidence and curtail recent growth trends.

Conditions in the manufactured housing market have been in decline since 1999, and further deteriorated in calendar year 2003. Competition from repossessed homes, more stringent lending standards, relatively high retail interest rates for manufactured housing and the shortage of retail financing have adversely affected the industry. These conditions were aggravated by the exit of several consumer lenders in calendar 2002, and as a result there has been a reduction in the volume of loans being written, particularly in the chattel, or home-only, portion of the business, related largely to single-section homes.

In late 2002, Conseco and Oakwood Homes, which at the time were two of the major providers of retail financing to the manufactured housing industry, filed for bankruptcy protection and effectively withdrew from this market. Subsequently, Conseco and Oakwood aggressively liquidated their inventories of repossessed homes, which depressed demand and pricing for new homes even further. We expect the industry will benefit in the future from these accelerated efforts to liquidate repossessed homes, thereby reducing the competition with new homes. In fact, there are indications that inventories of foreclosed homes are declining. However, we expect we will continue to be challenged by the overhang of repossessions in the near term. In the meantime, industry home shipments for calendar year 2003 were lower than in any year since 1962. As a result of these conditions, over the past three years there have been significant industry manufacturing and retail capacity reductions.

We expect that the operating environment for manufactured housing will stabilize in fiscal 2005, but will continue to be challenging. New national lenders have begun providing manufactured housing retail financing, although in limited amounts and using conservative underwriting practices. Depending on the extent of the financing actually resulting from these and other developments, combined with financing made available through Fleetwood's own HomeOne Credit Corp. finance subsidiary, it is anticipated that manufactured housing industry conditions could begin to moderate in future months. Recent industry shipments appear to support a stabilization of the wholesale market.

For fiscal 2005, we expect to achieve improved profitability in the RV Group and the wholesale division of the Housing Group, although we still expect to incur an operating loss at our retail division. Due largely to continued strength in our RV business, we expect to be profitable for the full fiscal year.

## -- RESULTS OF OPERATIONS --

The following table sets forth certain statements of operations data expressed as a percentage of net sales for the periods indicated:

FISCAL YEARS ENDED APRIL	2004	2003	2002
Net sales	100.0%	100.0%	100.0%
Cost of products sold	82.0	81.6	80.8
Gross profit	18.0	18.4	19.2
Operating and other expenses	16.4	19.5	23.2
Operating income (loss)	1.6	(1.1)	(4.0)
Other income (expense)			
Investment income	0.1	0.2	0.2
Interest expense	(1.7)	(1.9)	(1.7)
Other, net	(0.1)	—	—
Loss before income taxes and cumulative effect of accounting change	(0.1)	(2.8)	(5.5)
Benefit (provision) for income taxes	(0.7)	(0.2)	1.9
Loss before cumulative effect of accounting change	(0.8)	(3.0)	(3.6)
Cumulative effect of accounting change, net of income taxes	—	—	(3.5)
Net loss	(0.8)%	(3.0)%	(7.1)%

## -- CONSOLIDATED RESULTS FISCAL YEAR 2004 COMPARED WITH FISCAL YEAR 2003 --

### CONSOLIDATED RESULTS:

The following table presents net loss and diluted loss per share for fiscal 2004 and 2003:

FISCAL YEARS ENDED APRIL (AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)	2004		2003		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Net loss	\$ (22,261)	(0.8)%	\$ (70,739)	(3.0)%	\$ 48,478	68.5%
Diluted loss per share	\$ (.58)		\$ (1.97)		\$ 1.39	

Our net loss decreased by \$48.5 million to \$(22.3) million, primarily due to a 12.5 percent increase in sales and a resulting \$67.8 million increase in operating income. A strong RV market, particularly in motor homes, combined with a stabilizing Housing market contributed to the smaller net loss. The net losses for both fiscal 2004 and 2003 were negatively impacted by adjustments of \$15 million and \$28.4 million, respectively, to reduce our net deferred tax asset. The \$15 million adjustment in the fourth quarter of fiscal 2004 was caused by a reduction in available tax planning opportunities. The primary reason for this reduction was an increase in the market value of our convertible trust securities of Fleetwood Capital Trust I.

## NET SALES

The following table presents consolidated net sales by group for fiscal 2004 and 2003:

(AMOUNTS IN THOUSANDS)	2004		2003		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
RV	\$1,779,233	68.2%	\$1,482,595	64.0%	\$296,638	20.0%
Housing	782,758	30.0	796,260	34.3	(13,502)	(1.7)
Supply	41,120	1.6	37,178	1.6	3,942	10.6
Financial services	4,877	0.2	2,260	0.1	2,617	115.8
Net sales	\$2,607,988	100.0%	\$2,318,293	100.0%	\$289,695	12.5%

Consolidated net sales increased by 12.5 percent or \$289.7 million. A strong recreational vehicle market and improved motor home products drove a 20 percent sales increase in RVs, offset by a 1.7 percent decline in Housing Group revenues. The manufactured housing market continued to show signs of recovery from a prolonged slump, and Housing Group revenues for our fourth quarter increased by 21 percent compared to the prior year.

### CONSOLIDATED NET SALES, COST OF SALES AND GROSS PROFIT

The following table presents consolidated net sales, cost of sales and gross profit for fiscal 2004 and 2003:

(AMOUNTS IN THOUSANDS)	2004		2003		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Net sales	\$2,607,988	100.0%	\$2,318,293	100.0%	\$289,695	12.5%
Cost of sales	2,137,777	82.0	1,892,636	81.6	245,141	13.0
Gross profit	\$ 470,211	18.0%	\$ 425,657	18.4%	\$ 44,554	10.5%

Gross profit margin fell slightly to 18.0 percent of sales compared to 18.4 percent last year. All areas of our business experienced rising raw material costs as prices for timber, steel, aluminum and other commodities increased. These material cost increases, combined with the introduction of new products, offset the positive impacts of higher pricing and a shift to higher-margin products. Overall, gross margins for RVs decreased from 14.5 percent to 14.3 percent. Housing Group gross margin improved from 24.4 percent to 24.9 percent. The Wholesale division was able to manage cost increases more effectively and also benefited from improving operating efficiencies to raise gross margin by 1.3 percent to 22.2 percent. Retail gross margin was down 0.4 percent from the effects of competitive market conditions and reducing aged inventory.

### OPERATING EXPENSES

The following table presents operating expenses for fiscal 2004 and 2003:

(AMOUNTS IN THOUSANDS)	2004		2003		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Selling	\$ 87,370	3.4%	\$ 78,567	3.4%	\$ 8,803	11.2%
Warranty and service	103,195	3.9	118,239	5.1	(15,044)	(12.7)
General and administrative	236,419	9.1	252,708	10.9	(16,289)	(6.4)
Operating expenses	\$426,984	16.4%	\$449,514	19.4%	\$ (22,530)	(5.0)%

Higher RV sales and enhanced marketing initiatives accounted for most of the increase in selling expenses, which remained flat as a percentage of sales. The Housing Group reduced product warranty and service expense following a reorganization of the service organization in fiscal 2003. Warranty expenses at the RV Group increased on higher sales but still decreased as a percentage of revenue. General and administrative expenses for fiscal 2003 include \$6.8 million for the legal settlement of two class action suits and \$9.8 million for retail adjusting entries. Excluding these items, expenses increased by \$0.3 million but decreased by 1.1 percent as a percentage of sales.

#### OTHER, NET

Other charges, net in fiscal 2004 consists exclusively of net gain on sale of fixed assets of \$4.6 million. The sale of the drapery facility along with two idle plants generated \$4.4 million of the gain. The prior year net gain of \$1.8 million included net gains on sale of fixed assets of \$5.8 million related to the sale of facilities and land. The prior year also included \$1.2 million of asset impairment charges and \$2.8 million of restructuring costs in the Housing Group.

#### OTHER INCOME (EXPENSE)

Other income (expense) increased by \$5.3 million to \$(45.1) million in fiscal 2004 when compared to the previous year. Net interest expense increased by \$2.0 million as a result of the issuance of the \$100 million convertible debentures combined with lower interest income. Also, in the fourth quarter of fiscal 2004, we entered into various privately negotiated transactions with the holders of convertible preferred securities of Fleetwood Capital Trust III to convert their securities to common stock prior to their redemption dates. We paid a premium of \$2.4 million in excess of interest accrued that is included in Other income (expense).

#### RECREATIONAL VEHICLES:

The following table presents RV Group net sales by division for fiscal 2004 and 2003:

(AMOUNTS IN THOUSANDS)	2004		2003		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Motor homes	\$1,104,624	62.1%	\$ 918,742	62.0%	\$185,882	20.2%
Travel trailers	570,420	32.1	441,885	29.8	128,535	29.1
Folding trailers	104,189	5.8	121,968	8.2	(17,779)	(14.6)
Net sales	\$1,779,233	100.0%	\$1,482,595	100.0%	\$296,638	20.0%

The motor home division's performance was the result of improved market conditions and favorable acceptance of our mid-line diesel products and new Class A gas motor home products. For fiscal year 2004, Class A diesel product shipments rose 14 percent while Class A gas and Class C shipments rose 3 percent and 29 percent, respectively. Travel trailer revenues increased 29.1 percent to \$570.4 million on a 14 percent increase in unit volume. The disproportionate increase in travel trailer revenues to shipments reflects the sales growth of larger, higher-priced floor plans in the conventional and fifth wheel products offered. Folding trailer sales declined 14.6 percent to \$104 million on a 15 percent decline in unit volume.

The RV Group earned \$58.1 million of operating income in the fiscal year ended April 25, 2004, compared to \$35.3 million in the prior fiscal year. The \$22.8 million increase in profitability was mainly due to the increase in diesel sales, which have higher selling prices and gross margins, and profit in travel trailers compared to an operating loss in the prior period as a result of higher

revenues and gross margins. Operating expenses decreased from 12.2 percent of sales to 11.1 percent but increased \$16.5 million in the current year primarily due to higher selling costs from expanded RV market initiatives and higher warranty costs.

#### MANUFACTURED HOUSING:

The following table presents Housing Group net sales by division for fiscal 2004 and 2003:

(AMOUNTS IN THOUSANDS)	2004		2003		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Wholesale	\$657,388	84.0%	\$667,087	83.8%	\$ (9,699)	(1.5)%
Retail	242,505	31.0	245,076	30.8	(2,571)	(1.0)
Intercompany sales	(117,135)	(15.0)	(115,903)	(14.6)	(1,232)	(1.1)
Net sales	\$782,758	100.0%	\$796,260	100.0%	\$(13,502)	(1.7)%

Results for the wholesale division include sales to our retail division. Transactions between these operating divisions are eliminated in consolidation, including any intercompany profit in retail division inventory.

Housing Group revenues declined by 1.7 percent to \$782.8 million. Operating losses decreased from \$57.6 million in fiscal 2003 to \$28.8 million in fiscal 2004 after deducting intercompany profit on retail inventory of \$5.6 million and \$1.6 million, respectively.

#### WHOLESALE OPERATIONS

Gross manufacturing revenues in fiscal year 2004 were \$657.4 million, down 1.5 percent from the prior year, and included \$117.1 million of intercompany sales to Company-owned retail sales centers. Manufacturing unit volume declined 6 percent to 20,859 homes, but the total number of housing sections was down 8 percent to 37,443 due to a slight shift in sales mix toward single-section homes. Multi-section homes represented 78 percent of factory shipments versus 81 percent last year.

Sales volume was below the prior year because of a weaker manufactured housing market, which has been adversely affected by competition from repossessed units and restrictive retail financing conditions. In addition, the industry's two largest retail lenders and the two largest inventory floorplan lenders exited the business.

Gross profit margin for the wholesale division increased from 20.9 percent to 22.2 percent of sales, mainly as a result of improving labor efficiencies and reducing manufacturing overhead. Operating costs declined \$12.5 million or 8 percent as a result of reduced product warranty expenses. The reduction in warranty service costs is attributable to the fiscal 2003 reorganization of the service organization. Overall results improved from an operating loss of \$13.5 million to an operating profit of \$5.4 million due to the improvement in gross margins and the reduction in warranty costs.

#### RETAIL OPERATIONS

Retail housing's revenues declined 1 percent from \$245.1 million to \$242.5 million for fiscal year 2004. Unit sales for the retail operation were down 6 percent to 4,727 homes. The average unit price increased by 14 percent to \$50,323 for the current year due to the sale of more multi-section homes and less discounting of prices. As a result of aggressively selling aged inventory, gross margins declined from 20.1 percent in the prior year to 19.7 percent. The retail division incurred an operating loss of \$35.9 million in fiscal year 2004,

before interest expense on inventory financing, compared to an operating loss of \$49.7 million last year. The improvement mainly resulted from a 15.4 percent reduction in operating expenses. The operating expense reduction included a \$9.8 million charge in the prior year for incorrect balance sheet adjusting entries related to integrating and then converting unique accounting systems from previously acquired dealers into a single system. Interest expense on inventory financing decreased slightly from \$2.3 million to \$2.1 million.

The following table presents key operational information for the retail division:

	FISCAL YEAR ENDED <sup>(1)</sup>	
	March 2004	March 2003
Number of retail stores		
Beginning	136	138
New	9	6
Closed	(16)	(8)
Ending	129	136
Average number of retail stores	133	136
Unit volume		
Retail – new		
Single-section	710	794
Multi-section	3,434	3,541
Total	4,144	4,335
Retail – pre-owned	583	669
Grand total	4,727	5,004
Average number of homes sold per store	36	37
Average sales price		
New		
Single-section	\$29,842	\$26,973
Multi-section	\$60,215	\$54,542
Pre-owned	\$17,003	\$ 9,620
Average unit inventory per store at quarter end		
New	17	20
Pre-owned	2	3

(1) The above information is as of Fleetwood Retail Corp.'s (FRC) fiscal year end, which is the last day in March.

## SUPPLY OPERATIONS

Including intercompany sales, our Supply Group contributed revenues of \$209.9 million in fiscal 2004 compared to \$173.9 million in fiscal 2003, of which \$41.1 million and \$37.2 million, respectively, were sales to third-party customers. Operating income increased from \$2.1 million to \$6.1 million primarily as a result of a \$3.6 million gain on the sale of the drapery operation.

## CONSOLIDATED RESULTS FISCAL YEAR 2003 COMPARED WITH FISCAL YEAR 2002

### CONSOLIDATED RESULTS:

The following table presents net loss and diluted loss per share for fiscal 2003 and 2002:

(AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)	2003		2002		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Net loss	\$(70,739)	(3.0)%	\$(161,928)	(7.1)%	\$91,189	56.3%
Diluted loss per share	\$ (1.97)		\$ (3.90)		\$ 1.93	

The net loss for fiscal year 2003 was negatively impacted by a \$28.4 million or 79 cent per diluted share partial valuation allowance against our deferred tax assets. The significantly lower net loss in fiscal year 2003 was the result of a \$72.2 million turnaround in the RV Group operating results from a loss of \$36.8 million in fiscal 2002 to an operating profit of \$35.4 million in fiscal 2003. Partially offsetting the RV Group results was an increase in the Housing Group operating loss from \$38.3 million to \$57.6 million. A substantial portion of the loss in fiscal 2002 was attributable to an \$80.6 million non-cash charge, net of tax, for impairment of goodwill related to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," and \$19.9 million of other restructuring and impairment charges.

Between fiscal 2001 and 2003, we were downsizing our operations, resulting in significant restructuring and other unusual charges that have negatively impacted our results. A summary is provided below to illustrate the type of adjustments, the business segments affected and the magnitude of the adjustments. Generally, warranty reserve adjustments and inventory write-downs related to closed facilities are not considered restructuring:

(AMOUNTS IN THOUSANDS)	RV	Housing	Other	Total
<b>FISCAL YEAR 2003</b>				
Restructuring and impairment				
Asset impairments	\$ –	\$ 1,242	\$ –	\$1,242
Severance	–	2,590	–	2,590
Future lease obligations of closed stores	–	170	–	170
Subtotal	–	4,002	–	4,002
Other				
Legal reserves	–	–	6,758	6,758
Severance	184	565	56	805
Total	\$ 184	\$ 4,567	\$ 6,814	\$ 11,565

<b>FISCAL YEAR 2002</b>				
Goodwill impairment	\$ –	\$ –	\$80,635	\$ 80,635
Restructuring and impairment				
Asset impairments	1,670	9,535	1,300	12,505
Severance	1,000	–	–	1,000
Future lease obligations of closed stores	–	4,200	–	4,200
Plant/store shutdown costs	–	2,200	–	2,200
Subtotal	2,670	15,935	1,300	19,905
Other				
Legal reserves	–	–	8,375	8,375
Inventory write-downs	–	12,714	–	12,714
Warranty – closed plants/recalls	1,200	5,800	–	7,000
Severance	–	276	4,300	4,576
Total	\$3,870	\$34,725	\$94,610	\$133,205



**NET SALES**

The following table presents net sales by group for fiscal 2003 and 2002:

(AMOUNTS IN THOUSANDS)	2003		2002		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
RV	\$1,482,595	64.0%	\$1,212,904	53.2%	\$269,691	22.2%
Housing	796,260	34.3	1,033,109	45.3	(236,849)	(22.9)
Supply	37,178	1.6	34,032	1.5	3,146	9.2
Financial services	2,260	0.1	402	—	1,858	462.2
Net sales	\$2,318,293	100.0%	\$2,280,447	100.0%	\$ 37,846	1.7%

Consolidated revenues for fiscal year 2003 rose 1.7 percent to \$2.32 billion compared to \$2.28 billion for the prior year. A strong recreational vehicle market and improved products drove a 22.2 percent sales increase in RVs, which was offset by a 22.9 percent decline in housing revenues.

**CONSOLIDATED NET SALES, COST OF SALES AND GROSS PROFIT**

The following table presents consolidated net sales, cost of sales and gross profit for fiscal 2003 and 2002:

(AMOUNTS IN THOUSANDS)	2003		2002		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Net sales	\$2,318,293	100.0%	\$2,280,447	100.0%	\$ 37,846	1.7%
Cost of sales	1,892,636	81.6	1,842,358	80.8	50,278	2.7
Gross profit	\$ 425,657	18.4%	\$ 438,089	19.2%	\$(12,432)	(2.8)%

Gross profit margin fell to 18.4 percent of sales compared to 19.2 percent last year, mainly due to a decline in Housing margin from 26 percent to 24.4 percent. Overall RV gross margins in fiscal year 2003 improved from 12.9 percent to 14.5 percent.

**OPERATING EXPENSES**

The following table presents operating expenses for fiscal 2003 and 2002:

(AMOUNTS IN THOUSANDS)	2003		2002		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Selling	\$ 78,567	3.4%	\$ 91,978	4.0%	\$(13,411)	(14.6)%
Warranty and service	118,239	5.1	143,997	6.3	(25,758)	(17.9)
General and administrative	252,708	10.9	272,385	12.0	(19,677)	(7.2)
Operating expenses	\$449,514	19.4%	\$508,360	22.3%	\$(58,846)	(11.6)%

Included in the prior year operating expense was \$8.4 million for the legal settlement of two class action suits, compared to \$6.8 million this year related to potential legal settlements. Selling expenses declined 14.6 percent to \$78.6 million and decreased as a percentage of sales from 4 percent to 3.4 percent on lower payroll-related costs, and product warranty costs decreased by 17.9 percent. General and administrative expenses fell \$19.7 million or 7.2 percent to \$252.7 million and decreased as a percentage of sales from 12 percent to 10.9 percent. The reduction in cost was mainly due to staff reductions resulting from manufacturing plant and retail store closures in prior periods. Partially offsetting the reductions were the above-mentioned legal

settlements and \$9.8 million to reverse incorrect balance sheet adjusting entries at the retail operation, which were related primarily to the integration and conversion of accounting systems from previously acquired entities.

**OTHER, NET**

Other charges, net for fiscal 2003 included a \$5.8 million net gain from the sale of fixed assets, which included three parcels of land and three facilities. In the prior year, there were \$19.9 million of restructuring and other expenses related to asset impairment and plant and store closures compared to \$4.0 million this year.

**OTHER INCOME (EXPENSE)**

Other income (expense) was \$39.8 million compared with \$35.5 million in the prior year. The increase related to a full year of interest expense of the Trust II and III convertible trust preferred securities. The prior year included interest expense of \$2.3 million for yield maintenance charges related to the early retirement of the senior unsecured notes on July 30, 2001. Excluding these items, interest expense was lower this year mainly due to a smaller retail housing inventory floorplan liability resulting from a reduction in inventories, combined with lower interest expense on other borrowings. Investment income was down 11.2 percent from the prior year as a result of lower interest rates on lower invested balances.

**RECREATIONAL VEHICLES:**

The following table presents RV Group net sales by division for fiscal 2003 and 2002:

(AMOUNTS IN THOUSANDS)	2003		2002		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Motor homes	\$ 918,742	62.0%	\$ 716,734	59.1%	\$202,008	28.2%
Travel trailers	441,885	29.8	378,412	31.2	63,473	16.8
Folding trailers	121,968	8.2	117,758	9.7	4,210	3.6
Net sales	\$1,482,595	100.0%	\$1,212,904	100.0%	\$269,691	22.2%

In fiscal year 2003, recreational vehicle sales increased 22.2 percent over the prior year to \$1.48 billion. Motor home revenues increased by 28.2 percent to \$918.7 million on a 19 percent increase in shipments from 8,366 units to 9,935 units. This mainly reflects improved retail demand and motor home dealer confidence beginning late in calendar year 2001. In the towable recreational vehicle category, travel trailer sales increased 16.8 percent from \$378.4 million to \$441.9 million. Folding trailer sales rose 3.6 percent to \$122.0 million. Fiscal year unit shipments for travel trailers and folding trailers were 30,016 (including slide-in truck campers) and 17,118 respectively, representing an increase of 10 percent for travel trailers and a decrease of 5 percent for folding trailers.

The RV Group generated \$35.4 million in operating income for the year compared with a \$36.8 million loss in fiscal year 2002. The operating profit was due to a reduction in the travel trailer loss of \$6.1 million compared to a loss of \$38.0 million in fiscal 2002. Motor homes earned \$40.5 million compared to income of \$228,000 in the prior year. The significant improvement in earnings was the result of a 22.2 percent increase in sales, improved gross margins and reduced operating expenses. Folding trailers earned \$1.0 million compared to \$357,000 in the prior year. Last year's RV Group results were positively impacted by improved material and labor efficiencies. Gross profit margin for the RV Group increased from 12.9 percent to 14.5 percent due to

improvement in both motor home and travel trailer margins. Motor home gross margin improvement was primarily due to a shift in product mix from Class C product to higher-priced Class A motor homes. RV Group operating costs were 7.1 percent lower than the prior year.

#### MANUFACTURED HOUSING:

The following table presents Housing Group net sales by division for fiscal 2003 and 2002:

(AMOUNTS IN THOUSANDS)	2003		2002		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Wholesale	\$667,087	83.8%	\$ 842,536	81.6%	\$(175,449)	(20.8)%
Retail	245,076	30.8	327,760	31.7	(82,684)	(25.2)
Intercompany	(115,903)	(14.6)	(137,187)	(13.3)	21,284	15.5
Net sales	\$796,260	100.0%	\$1,033,109	100.0%	\$(236,849)	(22.9)%

Results for the wholesale division include sales to our retail division. Transactions between these operating divisions are eliminated in consolidation, including any intercompany profit in retail division inventory.

Housing Group revenues declined by 22.9 percent to \$796.3 million. Operating losses increased from \$38.3 million in fiscal 2002 to \$57.6 million in fiscal 2003 after deducting intercompany profit on retail inventory of \$10.5 million and \$5.6 million, respectively.

#### WHOLESALE OPERATIONS

Gross wholesale revenues in fiscal year 2003 were \$667.1 million, down 21 percent from the prior year, and included \$115.9 million of intercompany sales to Company-owned retail sales centers. Wholesale unit volume declined 26 percent to 22,176 homes, but the number of housing sections was off a lesser 25 percent to 40,557 due to the continuing shift in sales mix toward multi-section homes. Multi-section homes represented 81 percent of factory sales versus 77 percent in the prior year.

Sales volume was below the prior year because of a weaker manufactured housing market, which has been adversely affected by competition from repossessed units and restrictive retail financing conditions. This condition has further deteriorated in the past year because of legislation in Texas, the largest manufactured housing state, which had the effect of restricting the use of chattel financing. During the same period, the industry's two largest retail lenders and the two largest inventory floorplan lenders exited the business.

Gross profit margin for the wholesale division declined from 24.8 percent to 20.9 percent of sales, mainly as a result of improving the competitiveness of the product by adding features without commensurate price increases. Operating costs declined \$39.6 million or 21 percent as a result of reduced product warranty expenses and lower employee compensation due to staffing reductions in prior quarters. Overall operating results declined from an operating profit of \$16.5 million to a loss of \$13.5 million.

#### RETAIL OPERATIONS

Retail housing's revenues declined 25 percent from \$327.8 million to \$245.1 million for fiscal year 2003. Unit sales for the retail operation were off 35 percent to 5,004 homes. The smaller decrease in revenues resulted from a rise in the average unit price of 10 percent to \$44,162 for fiscal year 2003 due to the sale of more multi-section homes and fewer homes at discounted prices. As a result, gross margins improved from 15.1 percent in the prior year to

20.1 percent. The retail division incurred an operating loss of \$49.7 million in fiscal year 2003, before interest expense on inventory financing, compared to an operating loss of \$65.4 million in fiscal 2002. The reduced loss mainly resulted from the higher gross margin and a 13.7 percent reduction in operating expenses. The operating expense reduction was negatively affected by a \$9.8 million charge for incorrect balance sheet adjusting entries related to integrating and then converting unique accounting systems from previously acquired dealers into a single system. Interest expense on inventory financing decreased 48 percent from \$4.4 million to \$2.3 million as a result of lower interest rates, an 11 percent reduction in inventories and a related pay-down of the flooring liability.

The following table presents key operational information for the retail division:

	FISCAL YEAR ENDED <sup>(1)</sup>	
	March 2003	March 2002
Number of retail stores		
Beginning	138	216
New	6	12
Closed	(8)	(50)
Transferred	—	(40)
Ending	136	138
Average number of retail stores	136	154
Unit volume		
Retail — new		
Single-section	794	1,600
Multi-section	3,541	4,905
Total	4,335	6,505
Retail — pre-owned	669	1,233
Grand total	5,004	7,738
Average number of homes sold per store	37	50
Average sales price		
New		
Single-section	\$26,973	\$26,524
Multi-section	\$54,542	\$51,996
Pre-owned	\$ 9,620	\$ 8,110
Average unit inventory per store at quarter end		
New	20	20
Pre-owned	3	4

(1) The above information is as of Fleetwood Retail Corp.'s (FRC) fiscal year end, which is the last day in March.

#### SUPPLY OPERATIONS:

Including intercompany sales, our Supply Group contributed revenues of \$173.9 million in fiscal 2003 compared to \$168.7 million in fiscal 2002, of which \$37.2 million and \$34 million, respectively, were sales to third-party customers. Operating income decreased from \$8.9 million to \$2.1 million, primarily due to the introduction of a rebate structure with other group operations.

### -- LIQUIDITY AND CAPITAL RESOURCES --

We use external funding sources, including the issuance of debt and equity instruments, to supplement working capital, fund capital expenditures and meet internal cash flow requirements on an as-needed basis. Cash totaling \$30.5 million was used in operating activities during fiscal year 2004 compared to

\$12.3 million for the similar period one year ago. In fiscal 2004, the most significant use of cash related to receivable, inventory and accounts payable working capital requirements totaling \$43.6 million stemming from the 12.5 percent increase in revenues. In fiscal 2003, these same working capital requirements used \$19.6 million in cash, principally due to a planned build-up of motor home and travel trailer inventories. The increase in other liabilities includes \$13.7 million and \$12.9 million for interest expense accrued but deferred on the 6% convertible trust preferred securities in fiscal 2004 and 2003, respectively.

Additional cash outlays in fiscal years 2004 and 2003 included \$27.7 million and \$19.9 million in capital expenditures. Also, HomeOne generated finance loans receivable of \$30 million and \$13.2 million in fiscal 2004 and 2003, respectively.

At fiscal year end, short-term borrowings under our secured syndicated credit facility, led by Bank of America, N.A., as administrative agent, were \$5.7 million. At year end, lender commitments to the facility totaled \$130 million. Our borrowing capacity, however, is governed by the amount of a borrowing base, consisting of inventories and accounts receivable, that fluctuates significantly from week to week. The borrowing base is revised weekly for changes in receivables and monthly for changes in inventory balances. Under the borrowing agreement as it was in effect at the end of the fiscal year, \$30 million had to be maintained as minimum unused availability, with the remainder available to support standby letters of credit and fund borrowings. This provision was eliminated upon completion of our amended and restated credit agreement discussed below. At the end of the fiscal year, the borrowing base totaled \$170 million. After consideration of the unused minimum requirement, collateral reserves of \$2.5 million, \$47.7 million in standby letters of credit and the outstanding borrowings, unused borrowing capacity was approximately \$40.8 million. Short-term borrowings also include \$4.7 million from our warehouse line used to fund HomeOne finance loans receivable. Long-term debt increased by approximately \$100 million as a result of the senior convertible subordinated debenture offering.

As a result of the above-mentioned changes, cash and marketable investments increased \$54.0 million from \$69.8 million as of April 27, 2003, to \$123.8 million as of April 25, 2004.

#### CREDIT AGREEMENT AMENDMENTS

On July 21, 2003, the EBITDA covenant in the credit facility was amended to accommodate additional losses at our retail operation. In addition, we requested and obtained consent to the amendment from Textron Financial Corporation (Textron), in that our wholesale financing agreement with Textron is subject to a cross-default provision and a covenant, in which Fleetwood agreed that it would not modify the adjusted EBITDA covenant in the senior credit facility without their prior consent.

On December 15, 2003, we announced that we had further amended the credit facility, primarily to enable the issuance of \$100 million of the 5% convertible senior subordinated debentures. The amendment provided for the priority use of the proceeds from the sale of the new securities to pay off the then-outstanding loan balance under the facility, without a reduction to the amount of the credit commitment. Provisions were also added to allow, for a period of six months, the use of cash in the amount of the proceeds to redeem debentures underlying any of our Trust Preferred Securities and retire them.

On February 27, 2004, we announced that the lenders in the syndicated line had agreed to again restate the financial covenant relating to cumulative EBITDA. In return, Fleetwood paid a fee of one-eighth of a percent of the commitment amount to the syndicate. We also announced at the same time that we had amended our inventory financing agreement with Textron for the same covenant.

Subsequent to our fiscal year end, on May 17, 2004, we announced the early renewal and extension of the credit facility to July 31, 2007, under a fully underwritten arrangement with Bank of America. The terms of the amended and restated agreement provide for an increase of \$20 million in the amount of the facility, to a commitment level of \$150 million. Among other changes was the elimination of the previous requirement for the Company to maintain \$30 million in unused borrowing capacity, which directly enhances our potential borrowing availability. The requirement for excess "boot" collateral, held in the form of a security interest in real estate, was also reduced from \$75 million to \$50 million.

Under the new agreement, we are not subject to a financial performance covenant, except in the case that our average monthly liquidity, defined as cash, cash equivalents and unused borrowing capacity, falls below \$60 million within the borrowing subsidiaries or \$90 million including the parent company. Under these circumstances we are required to meet a designated cumulative EBITDA requirement that has been restated to reflect the current outlook for earnings. In addition, pricing under the new facility was reduced in all areas, including fees for letters of credit, unused facility fees and interest charges on borrowings. Simultaneous with the signing of the agreement, we paid closing and administrative fees to the bank equal to 0.55 percent of the new \$150 million credit commitment. It was the bank's intent to syndicate the facility subsequent to the closing.

In conjunction with the restatement of the credit agreement, we executed covenant amendments to our flooring finance agreement with Textron that mirror the new bank agreement.

#### CONVERTIBLE TRUST PREFERRED SECURITIES

On December 11, 2001, we commenced an offer of up to an aggregate of \$37.95 million in liquidation amount of new 9.5% Convertible (Trust II) Preferred Securities due February 15, 2013, in exchange for up to an aggregate of \$86.25 million of the \$287.5 million in liquidation amount of outstanding 6% Convertible (Trust I) Trust Preferred Securities due February 15, 2028. The exchange offer expired on January 4, 2002, and was completed on January 10, 2002. Each new trust preferred security issued in the exchange offer was convertible, at the option of the holder, at any time into 1.752 shares of Fleetwood common stock (i.e., a conversion price of \$12.56 per common share). With 1.725 million shares of new trust preferred issued in the exchange offer, the potential dilution to common shareholders upon conversion of the new exchange offer trust preferred was 3.0 million common shares. As a result of the exchange, debentures supporting the exchanged convertible trust preferred securities were cancelled, resulting in a taxable gain of \$46.2 million. After deducting taxes of \$16.8 million, the remainder of \$29.4 million was reported as an increase to additional paid-in capital and treated as income attributable to common shareholders in the calculation of earnings per share.

In conjunction with the exchange offer, we offered to sell for cash \$150 million of 9.5% Convertible (Trust III) Preferred Securities due February 15, 2013. The cash offer closed on December 14, 2001. Each Trust III preferred security issued in the cash offer was convertible, at the option of the holder, at any time into 4.826 shares of Fleetwood common stock (i.e., a conversion price of \$10.36 per common share). With 3.0 million shares of new trust preferred issued in the cash offer, the potential dilution to common shareholders upon conversion of the new cash offer trust preferred was 14.5 million common shares.



On March 9, 2004, the Company announced that it was calling \$50 million aggregate principal amount of the Trust III preferred securities for redemption. Subsequently, on March 30, 2004, the Company called the remaining \$100 million aggregate principal amount of Trust III preferred securities for redemption. Subsequently, virtually all of the holders of the Trust III preferred securities converted their securities into an aggregate of 14,478,578 shares of the Company's common stock, including some who had entered into privately negotiated transactions with the Company to convert their securities, prior to the respective redemption dates, in exchange for a cash incentive. As a result, as of April 25, 2004, there remained 377,726 shares of Trust III preferred securities outstanding, with an aggregate principal amount of \$18.9 million, and as of April 29, 2004, which was the final redemption date pursuant to the Company's calls for redemption, there were no Trust III preferred securities outstanding.

Subsequent to fiscal year end, on May 5, 2004, the Company called the Trust II preferred securities for redemption with a redemption date of June 4, 2004. Several of the holders of the Trust II preferred securities converted their holdings to shares of the Company's common stock, including some who entered into privately negotiated transactions with the Company to convert their securities, prior to the redemption date, in exchange for a cash incentive. Accordingly, as of the June 4 redemption date, pursuant to the Company's call for redemption, 781,065 shares of the Trust II preferred securities had been converted into an aggregate of 1,368,074 shares of the Company's common stock, and 943,935 shares of the Trust II preferred securities were redeemed for an aggregate of \$22.5 million in cash, representing \$20.8 million in aggregate amount, \$1.3 million in redemption premium and \$104,000 in accrued but unpaid interest to the redemption date.

#### DIVIDENDS AND DISTRIBUTIONS

On October 30, 2001, the board of directors discontinued the payment of dividends on our common stock in conjunction with an election to defer distributions on our existing 6% convertible trust preferred securities. We have the right to elect to defer distributions for up to 20 consecutive quarters under the trust indenture governing the existing 6% convertible trust preferred securities. When we defer a distribution on the 6% convertible trust preferred securities, we are prevented from declaring or paying dividends on our common stock during the period of the deferral. In light of our business environment and recent operating results, we currently anticipate that we will find it necessary to defer distributions on the existing 6% convertible trust preferred securities for the foreseeable future, subject to the terms of the governing documents. At the end of fiscal 2004, we have deferred \$35.3 million, including accrued interest at 6 percent on the deferred amounts.

#### OTHER

In the opinion of management, the combination of existing cash resources, expected future cash flows from operations, and available lines of credit will be sufficient to satisfy our foreseeable cash requirements for the next 12 months, including up to \$45 million for capital expenditures, to be utilized primarily for enhancements to motor home manufacturing facilities.

#### -- CONTRACTS AND COMMITMENTS --

Below is a table showing payment obligations for long-term debt, capital leases, operating leases and purchase obligations for the next five years and beyond:

(AMOUNTS IN THOUSANDS)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Long-term debt <sup>(1)</sup>	\$102,159	\$ —	\$ 462	\$ 335	\$101,362
Capital lease obligations	1,360	770	576	14	—
Operating leases <sup>(2)</sup>	66,194	12,601	16,899	11,011	25,683
Purchase obligations <sup>(3)</sup>	6,115	6,115	—	—	—
Other long-term liabilities:					
Deferred compensation and non-qualified retirement plans	49,473	8,082	11,718	9,182	20,491
Insurance reserves	32,916	32,916	—	—	—
Convertible subordinated debentures <sup>(4)</sup>	272,791	—	—	—	272,791
<b>Total</b>	<b>\$531,008</b>	<b>\$60,484</b>	<b>\$29,655</b>	<b>\$20,542</b>	<b>\$420,327</b>

(1) On December 22, 2003, we completed the sale of \$100 million aggregate principal amount of 5% convertible senior subordinated debentures due in 2023. Interest on the debentures is payable semi-annually at the rate of 5.00%. The debentures are convertible, under certain circumstances, into the Company's common stock at an initial conversion rate of 85.0340 shares per \$1,000 principal amount of debentures, equivalent to an initial conversion price of \$11.76 per share of common stock.

(2) Most of the Company's retail sales locations and certain of its other facilities are leased under terms that range from monthly to 18 years. Also included in the above amounts are equipment leases. Management expects that in the normal course of business, leases will be renewed or replaced by other leases to support continuing operations.

(3) We have an operating agreement with a large dealer who manages 31 retail store locations for FRC. Either party may terminate the agreement by giving written notice 120 days in advance of the date of the termination. If termination notice is provided, Fleetwood is obligated to repurchase the outstanding inventory at that time for the amount of the dealer's obligations to its flooring institutions. Similarly, an equivalent amount is included in the aggregate repurchase obligation described in Note 16 to the Company's financial statements contained elsewhere in this Report. That repurchase obligation would become due and payable to the flooring institution only in the event the dealer defaults prior to its agreement with Fleetwood being terminated.

(4) The convertible subordinated debentures were issued in three separate transactions, and are currently reflected on the balance sheet as a long-term liability. In fiscal 1998, Fleetwood, through a wholly owned Delaware business trust, issued \$287.5 million aggregate liquidation amount of 6% convertible trust preferred securities due in 2028. In fiscal 2002, Fleetwood, through another Delaware business trust, exchanged \$86.25 million in liquidation amount of the existing 6% convertible trust preferred securities for \$37.95 million in liquidation amount of new 9.5% convertible trust preferred securities due in 2013. Also in fiscal 2002, Fleetwood, again through a Delaware business trust, issued \$150 million in aggregate liquidation amount of new 9.5% convertible trust preferred securities due in 2013. The obligations of the business trusts to holders of the convertible trust preferred securities are supported by convertible subordinated debentures issued by Fleetwood to the respective business trusts and a guarantee by Fleetwood of certain of the trusts' obligations. The interest is payable quarterly. Currently, as permitted by the trust documents, payment of interest is being deferred on the outstanding 6% convertible trust preferred securities. Subsequent to the end of the fiscal year, all outstanding 9.5% convertible trust preferred securities were either converted into common stock or redeemed.

**-- OFF-BALANCE SHEET ARRANGEMENTS --**

In March 2000, Fleetwood entered into a sale and leaseback agreement involving 22 manufactured housing retail stores. The minimum rental payments required under this agreement are included in the Contractual Obligations schedule above, under operating leases. The agreement includes a contingent rental reset provision which provides that, in the event that the Company's credit rating falls below a certain level anytime prior to March 2005, the Company could be required, at the option of the lessor, to make an accelerated rent payment equal to the unamortized principal of the lessor's underlying debt. Since entering into the agreement, the Company's credit rating has fallen below the specified level, raising the possibility that the provision could be exercised in March 2005. The accelerated payment would be approximately \$20 million.

A number of alternatives to the accelerated rent payment are currently available to the Company and are being considered. It is likely that sometime prior to March 2005, the Company will move to restructure the arrangement to mitigate the potential negative cash impact.

We describe our aggregate contingent repurchase obligation in Note 16 to the Company's financial statements and under Critical Accounting Policies in this Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Report.

Under the senior credit agreement, Fleetwood Enterprises, Inc. is a guarantor of the borrowings of Fleetwood Holdings, Inc. (FHI) and Fleetwood Retail Corp. (FRC). FHI includes most of the wholly owned manufacturing subsidiaries and FRC includes all the retail housing subsidiaries. Only the FRC parent company, however, and seven of the retail subsidiaries are borrowers under the loan and covered under the guarantee. In addition, Fleetwood Enterprises, Inc. guarantees FRC's floorplan obligations to Textron and Bombardier Capital, Inc. pursuant to FRC's wholesale financing agreements with the two flooring institutions. Subsequent to the end of fiscal year 2004, these guarantees were renewed to extend through the term of the amended and restated agreement to July 2007.

Under the warehouse line of credit, initiated in December 2003, between HomeOne Credit Corp., our captive finance subsidiary, and Greenwich Capital Financial Products, Inc., Fleetwood Enterprises, Inc. is a guarantor of the borrowings.

Early in fiscal 2004, Fleetwood Enterprises, Inc. entered into three limited guarantees aggregating \$1,575,000, to certain obligations of certain retailers to floorplan lenders.

**-- NEW ACCOUNTING PRONOUNCEMENTS --**

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation specifies the disclosures to be made by a guarantor in its interim and annual financial statements concerning its obligations under certain guarantees that it has issued. FIN 45 also requires a guarantor to recognize a liability, at the inception of the guarantee, for the fair value of obligations it has undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods ending after December 15, 2002. The initial recognition and initial measurement requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. Accordingly, we adopted the disclosure provisions of FIN 45, which have been reflected in the accompanying

consolidated financial statements. The adoption of these provisions did not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We continue to account for stock-based compensation using the intrinsic method as permitted by SFAS No. 123 and prominently disclose the additional information required by SFAS No. 148 in our annual and interim reports.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement requires an issuer to classify a financial instrument issued in the form of shares that are mandatorily redeemable — that embodies an unconditional obligation requiring the issuer to redeem them by transferring its assets at a specified or determinable date — as a liability. This statement was adopted during fiscal 2004 and had no impact on our financial reporting.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which expands upon and strengthens existing accounting guidance concerning when a company should consolidate in its financial statements the assets, liabilities and activities of another entity. A revised Interpretation was issued in December 2003 (FIN 46R).

Prior to the issuance of FIN 46, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 now requires a variable interest entity, as defined in FIN 46, to be consolidated by a company only if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the Company is not required to consolidate but in which it has a significant variable interest.

The Company has owned three Delaware business trusts that were established for the purpose of issuing optionally redeemable convertible trust preferred securities. The obligations of the business trusts to the holders of the trust preferred securities were all supported by convertible subordinated debentures issued by Fleetwood to the respective business trusts. Subsequent to the end of the fiscal year the preferred securities of two of the trusts were either converted or redeemed, and the debentures cancelled. Under FIN 46, which was adopted by the Company as of January 25, 2004, the trust preferred securities continued to be presented as minority interests based on the fact that the Company has had the ability to "call" the trust preferred securities and that no single party holds a majority of the preferred securities; therefore, the Company was considered the primary beneficiary of the trusts. Under FIN 46R, which was

adopted by the Company as of April 25, 2004, the business trusts were deemed to have no primary beneficiary and as required, were deconsolidated, resulting in the presentation of the convertible subordinated debenture obligations to the underlying trusts as a long-term liability for all years presented. Amounts previously shown in the Statements of Operations as minority interest in Fleetwood Capital Trusts I, II and III, net of taxes, were reclassified for all periods presented to interest expense, with the related tax effect included in the tax provision. Other than as indicated, the Company does not believe that the adoption of FIN 46 or FIN 46R will have a material impact on the Company's financial position, results of operations or cash flows.

In December 2003, the FASB issued SFAS No. 132 Revised (SFAS 132R), "Employers' Disclosure about Pensions and Other Postretirement Benefits." A revision of the pronouncement originally issued in 1998, SFAS 132R expands employers' disclosure requirements for pension and postretirement benefits to enhance information about plan assets, obligations, benefit payments, contributions and net benefit cost. SFAS 132R does not change the accounting requirements for pensions and other postretirement benefits. This statement was implemented beginning with the fourth quarter of fiscal 2004. The Company has determined that there are no material benefits requiring disclosure under this pronouncement.

#### -- **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** --

We are exposed to market risks related to fluctuations in interest rates on marketable investments, investments underlying a Company-owned life insurance program (COLI), variable rate debt under the secured credit facility, the liability for flooring of retail housing inventories and the warehouse line of credit. With respect to the COLI program, the underlying investments are subject to both interest rate risk and equity market risk. Market-related changes to our 6% convertible trust preferred securities indirectly may impact the amount of the deferred tax valuation allowance, which is currently dependent on available tax strategies, including the unrealized gains on these securities. We do not currently use interest rate swaps, futures contracts or options on futures, or other types of derivative financial instruments.

The vast majority of our marketable investments are in institutional money market funds or fixed rate securities with average original maturity dates of two weeks or less, minimizing the effect of interest rate fluctuations on their fair value.

For variable rate debt, changes in interest rates generally do not influence fair market value, but do affect future earnings and cash flows. Based upon the amount of variable rate debt outstanding at the end of the year, and holding the variable rate debt balance constant, each one percentage point increase in interest rates occurring on the first day of an annual period would result in an increase in interest expense of approximately \$323,000. For both fixed rate loans and debt, changes in interest rates generally affect the fair market value, but not earnings or cash flows. Changes in fair market values as a result of interest rate changes are not currently expected to be material.

We do not believe that future market equity or interest rate risks related to our marketable investments or debt obligations will have a material impact on our results.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### -- **BOARD OF DIRECTORS AND SHAREHOLDERS FLEETWOOD ENTERPRISES, INC.** --

We have audited the accompanying consolidated balance sheets of Fleetwood Enterprises, Inc. as of April 25, 2004 and April 27, 2003, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended April 25, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fleetwood Enterprises, Inc. at April 25, 2004 and April 27, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended April 25, 2004, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

Orange County, California  
June 29, 2004

## CONSOLIDATED STATEMENTS OF OPERATIONS

FISCAL YEARS ENDED APRIL  
(AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)

	2004	2003	2002
Net sales:			
RV Group	\$1,779,233	\$1,482,595	\$1,212,904
Housing Group	782,758	796,260	1,033,109
Supply Group	41,120	37,178	34,032
Financial Services	4,877	2,260	402
	2,607,988	2,318,293	2,280,447
Cost of products sold	2,137,777	1,892,636	1,842,358
Gross profit	470,211	425,657	438,089
Operating expenses	426,984	449,514	508,360
Financial services expenses	6,504	4,349	367
Other, net	(4,607)	(1,775)	19,765
	428,881	452,088	528,492
Operating income (loss)	41,330	(26,431)	(90,403)
Other income (expense):			
Investment income	2,663	3,580	4,031
Interest expense	(45,375)	(43,386)	(38,712)
Other, net	(2,430)	—	(830)
	(45,142)	(39,806)	(35,511)
Loss before income taxes and cumulative effect of accounting change	(3,812)	(66,237)	(125,914)
Benefit (provision) for income taxes	(18,449)	(4,502)	44,621
Loss before cumulative effect of accounting change	(22,261)	(70,739)	(81,293)
Cumulative effect of accounting change, net of income taxes	—	—	(80,635)
Net loss	\$ (22,261)	\$ (70,739)	\$ (161,928)
Net loss attributable to common shareholders, diluted	\$ (22,261)	\$ (70,739)	\$ (132,525)

	2004		2003		2002	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Loss per common share:						
Loss before cumulative effect of accounting change	\$ (.58)	\$ (.58)	\$ (1.97)	\$ (1.97)	\$ (1.53)	\$ (1.53)
Cumulative effect of accounting change, net of income taxes	—	—	—	—	(2.37)	(2.37)
Net loss per common share	\$ (.58)	\$ (.58)	\$ (1.97)	\$ (1.97)	\$ (3.90)	\$ (3.90)
Weighted average common shares	38,357	38,357	35,869	35,869	33,942	33,942

See accompanying notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	APRIL 25, 2004	APRIL 27, 2003
<b>ASSETS</b>		
Cash	\$ 14,090	\$ 31,515
Marketable investments	109,732	38,261
Receivables	184,687	143,452
Inventories	262,810	240,521
Deferred taxes	56,904	58,488
Other current assets	20,256	20,230
Total current assets	648,479	532,467
Finance loans receivable, net	43,291	13,293
Property, plant and equipment, net	259,052	260,318
Deferred taxes	17,859	31,275
Cash value of Company-owned life insurance	48,809	55,004
Goodwill	6,316	6,366
Other assets	51,903	55,371
Total assets	\$1,075,709	\$ 954,094
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$ 98,804	\$ 78,890
Employee compensation and benefits	70,222	70,006
Product warranty reserve	53,921	62,137
Retail flooring liability	21,868	15,357
Other short-term borrowings	10,451	16,054
Accrued interest	38,868	26,314
Other current liabilities	77,954	79,566
Total current liabilities	372,088	348,324
Deferred compensation and retirement benefits	49,473	58,196
Insurance reserves	32,916	30,344
Long-term debt	102,159	2,357
Convertible subordinated debentures	272,791	403,905
Total liabilities	829,427	843,126
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$1 par value, authorized 10,000,000 shares, none outstanding	—	—
Common stock, \$1 par value, authorized 150,000,000 shares, outstanding 52,075,000 at April 25, 2004, and 35,935,000 at April 27, 2003	52,075	35,935
Additional paid-in capital	390,107	250,175
Accumulated deficit	(195,337)	(173,076)
Accumulated other comprehensive loss	(563)	(2,066)
	246,282	110,968
	\$1,075,709	\$ 954,094

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

FISCAL YEARS ENDED APRIL  
(AMOUNTS IN THOUSANDS)

	2004	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (22,261)	\$ (70,739)	\$ (161,928)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation expense	23,774	26,505	29,761
Amortization of financing costs	5,617	4,793	3,812
Impairment of goodwill	—	—	80,635
Other asset impairment charges	—	1,242	12,505
Gains on sales of property, plant and equipment	(4,607)	(5,777)	(140)
Non-cash charge for options and warrants issued to outside parties	—	—	1,469
Non-cash charge for interest on conversion of trust preferred securities	671	—	—
Issuance of stock in lieu of cash for interest on trust preferred securities	—	4,464	2,765
Changes in assets and liabilities —			
(Increase) decrease in receivables	(41,235)	2,444	(22,952)
(Increase) decrease in inventories	(22,289)	(22,516)	55,380
Decrease in income tax receivable	535	21,853	7,873
Decrease in deferred taxes	15,000	11,120	5,475
(Increase) decrease in cash value of Company-owned life insurance	6,195	6,292	(167)
(Increase) decrease in other assets	(8,620)	(3,769)	4,080
Increase in accounts payable	19,914	444	3,052
Increase (decrease) in employee compensation and benefits	(8,507)	330	(13,022)
Increase (decrease) in product warranty reserve	(8,216)	(5,909)	8,228
Increase in other liabilities	13,514	16,930	17,771
Net cash provided by (used in) operating activities	(30,515)	(12,293)	34,597
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of investment securities available-for-sale	(839,379)	(709,432)	(1,163,341)
Proceeds from sale of investment securities available-for-sale	767,951	756,198	1,114,710
Purchases of property, plant and equipment	(27,727)	(19,857)	(20,473)
Proceeds from sales of property, plant and equipment	9,826	11,264	6,253
Issuance of finance loans receivable	(29,998)	(13,178)	(115)
Net cash provided by (used in) investing activities	(119,327)	24,995	(62,966)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Dividends to common shareholders	—	—	(2,621)
Common stock issued — private placement	24,930	—	19,864
Proceeds from issuance of trust preferred securities, net	—	—	138,574
Motor home chassis inventory financing	—	—	(11,135)
Increase (decrease) in retail flooring	6,511	(8,884)	(61,620)
Increase (decrease) in short-term borrowings	(5,603)	5,642	10,412
Increase (decrease) in long-term debt	99,802	(6,384)	5,065
Repayment of senior unsecured notes payable	—	—	(80,000)
Proceeds from exercise of stock options	5,317	192	294
Net cash provided by (used in) financing activities	130,957	(9,434)	18,833
Foreign currency translation adjustment	1,460	2,164	(983)
Increase (decrease) in cash	(17,425)	5,432	(10,519)
Cash at beginning of year	31,515	26,083	36,602
Cash at end of year	\$ 14,090	\$ 31,515	\$ 26,083

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS)	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Number of Shares	Amount				
<b>BALANCE APRIL 29, 2001</b>	32,740	\$32,740	\$194,338	\$ 62,212	\$(3,142)	\$286,148
Comprehensive loss:						
Net loss	—	—	—	(161,928)	—	(161,928)
Other comprehensive loss:						
Foreign currency translation, net of taxes of \$636	—	—	—	—	(983)	(983)
Investment securities, net of taxes of \$38	—	—	—	—	(68)	(68)
Comprehensive loss						(162,979)
Cash dividends declared on common stock	—	—	—	(2,621)	—	(2,621)
Stock options and warrants issued	—	—	1,469	—	—	1,469
Stock options exercised (including related tax benefits)	30	30	264	—	—	294
Contribution from exchange of convertible trust preferred securities, net of taxes of \$16,750	—	—	29,403	—	—	29,403
Common stock issued for interest on trust preferred securities	295	295	2,470	—	—	2,765
Common stock issued — private placement	2,210	2,210	17,654	—	—	19,864
Common stock issued for acquisitions	15	15	385	—	—	400
<b>BALANCE APRIL 28, 2002</b>	35,290	35,290	245,983	(102,337)	(4,193)	174,743
Comprehensive loss:						
Net loss	—	—	—	(70,739)	—	(70,739)
Other comprehensive income (loss):						
Foreign currency translation, net of taxes of \$1,384	—	—	—	—	2,164	2,164
Investment securities, net of taxes of \$21	—	—	—	—	(37)	(37)
Comprehensive loss						(68,612)
Restricted stock issued	148	148	33	—	—	181
Stock options exercised (including related tax benefits)	20	20	172	—	—	192
Common stock issued for interest on trust preferred securities	477	477	3,987	—	—	4,464
<b>BALANCE APRIL 27, 2003</b>	35,935	35,935	250,175	(173,076)	(2,066)	110,968
Net loss	—	—	—	(22,261)	—	(22,261)
Other comprehensive income:						
Foreign currency translation, net of taxes of \$648	—	—	—	—	1,460	1,460
Investment securities, net of taxes of \$25	—	—	—	—	43	43
Comprehensive loss						(20,758)
Vesting of deferred compensation related to restricted stock issuance	—	—	142	—	—	142
Stock options exercised	810	810	4,507	—	—	5,317
Common stock issued — private placement	2,674	2,674	22,256	—	—	24,930
Conversion of trust preferred securities to common stock	12,656	12,656	113,027	—	—	125,683
<b>BALANCE APRIL 25, 2004</b>	52,075	\$52,075	\$390,107	\$(195,337)	\$ (563)	\$246,282

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fleetwood is the nation's leader in producing recreational vehicles, including motor homes, travel trailers and folding trailers, as well as one of the nation's largest producers of manufactured housing. We are also the third-largest retailer of manufactured homes in the United States and our subsidiary, Fleetwood Retail Corp., operated 129 retail sales locations at the end of fiscal 2004. Our vertically integrated housing operations also include our financial services subsidiary, HomeOne Credit Corp., which offers finance and insurance products to our retail customers. In addition, we operate four supply companies that provide components for the recreational vehicle and housing operations, while also generating outside sales.

Fleetwood's business began in 1950 through the formation of a California corporation. The present Company was incorporated in Delaware in September 1977, and succeeded by merger to all the assets and liabilities of the predecessor company. Fleetwood conducts manufacturing activities in 16 states within the U.S., and to a much lesser extent in Canada, and operates retail locations in 21 states. Our principal executive offices are located in Riverside, California.

### -- (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES --

#### PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Fleetwood Enterprises, Inc. and its wholly owned subsidiaries. The term "Company" or "Fleetwood" used herein means Fleetwood Enterprises, Inc. and its subsidiaries, unless otherwise indicated by the context. All material intercompany accounts and transactions have been eliminated.

#### ACCOUNTING PERIOD:

The Company's fiscal year ends on the last Sunday in April. The year-end dates for the past three fiscal years were April 25, 2004; April 27, 2003; and April 28, 2002. The consolidated financial statements include the results of Fleetwood Retail Corp. (FRC) and HomeOne Credit Corp. (HomeOne) for the 12-month periods ended March 31, 2004; March 31, 2003; and March 31, 2002, in order to ensure timely preparation of the consolidated financial statements.

#### USE OF ESTIMATES:

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

#### RECLASSIFICATION:

Certain amounts previously reported have been reclassified to conform with the 2004 presentation.

#### REVENUE RECOGNITION:

Revenue for manufacturing operations is generally recorded when all of the following conditions have been met:

- an order for a product has been received from a dealer;
- written or verbal approval for payment has been received from the dealer's financing institution;
- a common carrier signs the delivery ticket accepting responsibility for the product as agent for the dealer; and
- the product is removed from Fleetwood's property for delivery to the dealer.

Manufacturing sales are generally made for cash, with most dealers financing their purchases under financing arrangements with banks or finance companies. Products are not sold on consignment; dealers do not have the right to return products; and dealers are typically responsible for interest charges from floorplan lenders. On average, we receive payments from floorplan lenders on products sold to independent dealers within about 15 days of the invoice date.

For retail sales from Company-owned retail stores, sales revenue is recognized when the home has been delivered, set up and accepted by the consumer; risk of ownership has been transferred; and funds have been received either from the finance company or the homebuyer.

Amounts billed to dealers for delivery of products are recognized as revenue with the corresponding delivery expense charged to cost of sales. Also, cash sales incentives are treated as a reduction of revenue.

#### DEALER VOLUME REBATES AND SALES INCENTIVES:

Estimated costs related to dealer volume rebates and sales incentives are accrued at the time products are sold.

#### PRODUCT WARRANTY COSTS:

Fleetwood provides customers of our products with a warranty covering defects in material or workmanship for periods ranging from one to two years, with longer warranties on certain structural components. We record a liability based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors we use in estimating the warranty liability include a history of units sold to customers, the average cost incurred to repair a unit and a profile of the distribution of warranty expenditures over the warranty period.

#### DEPRECIATION:

Depreciation is provided using the straight-line method based on the following estimated useful lives:

- Buildings and improvements — 10-40 years
- Machinery and equipment — 3-15 years

#### RESEARCH AND DEVELOPMENT COSTS AND ADVERTISING EXPENSE:

The Company follows the policy of charging research and development costs against income in the periods incurred. Expenditures for product research and development activities were \$21.8 million in fiscal 2004, \$19.6 million in fiscal

2003 and \$19.3 million in fiscal 2002. Advertising expenditures, which were also charged against income in the periods incurred, totaled \$1.1 million in fiscal 2004, \$1.5 million in fiscal 2003 and \$2.2 million in fiscal 2002.

#### INCOME TAXES:

Deferred income tax assets or liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using the statutory marginal tax rate. Deferred income tax expenses or benefits are based on the changes in the deferred asset or liability from period to period. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

#### STOCK-BASED INCENTIVE COMPENSATION:

The Company accounts for stock-based incentive compensation plans, which are described more fully in Note 18, using the intrinsic method under which no compensation cost is recognized for stock option grants because the options are granted at fair market value at the date of grant. Had compensation costs for these plans been determined using the fair value method, under which a compensation cost is recognized over the vesting period of the stock option based on its fair value at the date of grant, the Company's net loss and loss per share would have been affected as indicated by the following table:

YEARS ENDED APRIL (AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE DATA)	2004	2003	2002
Net loss, as reported	\$(22,261)	\$(70,739)	\$(161,928)
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(4,071)	(2,439)	(3,383)
Pro forma net loss	\$(26,332)	\$(73,178)	\$(165,311)
Basic and diluted loss per share, as reported	\$ (.58)	\$ (1.97)	\$ (3.90)
Basic and diluted loss per share, pro forma	\$ (.69)	\$ (2.04)	\$ (4.00)

During fiscal 2002, \$401,000 of compensation cost, net of taxes, was included in the net loss as reported, as a result of a modification in terms of 200,000 options granted to an employee whose status changed from employee to non-employee. There was no stock-based employee compensation in fiscal 2004 or 2003.

#### CASH FLOW STATEMENTS:

For purposes of these statements, cash includes cash on hand and cash in banks in demand deposit accounts.

#### MARKETABLE INVESTMENTS:

All of the marketable investments of the Company are classified as available-for-sale securities. The Company does not hold investments classified as trading securities. Marketable investments classified as available-for-sale are reported on the consolidated balance sheet at their market value. The net unrealized gains or losses for these securities are reported, net of related taxes, as separate components of other comprehensive income (loss). Interest income from the securities portfolio is accrued as earned including the accretion of discounts and the amortization of premiums based on the original cost of each security. Realized gains or losses are recognized using the specific identification method.

#### INVENTORY VALUATION:

Inventories are valued at the lower of cost (first-in, first-out) or market. Manufacturing cost includes materials, labor and manufacturing overhead. Retail finished goods are valued at cost less intercompany manufacturing profit.

#### LONG-LIVED ASSETS:

The Company assesses the recoverability of its long-lived assets by determining whether the net book value can be recovered through projected cash flows over the remaining life. If projections indicate that the value of long-lived assets will not be recovered, an adjustment is made to reduce the asset to fair value based upon estimated recoverability upon sale, where appropriate, or other estimates of fair value such as discounting future cash flows. Cash flow projections, although subject to a degree of uncertainty, are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive, market and economic conditions. The Company recorded asset impairment charges of \$1.2 million and \$12.5 million for fiscal years 2003 and 2002, respectively (see Note 4).

#### GOODWILL:

Goodwill is not amortized but is tested at least annually for impairment and expensed against earnings when the implied fair value of a reporting unit, including goodwill, is less than its carrying amount (see Note 8).

#### INSURANCE RESERVES:

Insurance reserves primarily represent estimated liabilities for products liability and workers' compensation claims. Workers' compensation reserves mainly consist of estimated case reserves on known claims, as well as a factor for incurred but not reported claims. Products liability reserves include both case reserves on known claims as well as estimated liabilities for claims that have not been reported. Products liability reserves include estimated amounts for unpaid claims and claim adjustment expenses, which are based on historical experience and independent actuarial calculations.

#### FOREIGN CURRENCY TRANSLATION:

Exchange adjustments resulting from foreign currency transactions are recognized currently in income, whereas adjustments resulting from the translation of non-U.S. functional currency financial statements are reflected in other comprehensive income (loss) as a separate component of shareholders' equity. The assets and liabilities of the Canadian operation (which are not material) are translated to U.S. dollars at current exchange rates. Revenues and expenses are translated at the average exchange rates for the year. Gains or losses on foreign currency transactions in fiscal years 2004, 2003 and 2002 were not material.

#### NEW ACCOUNTING PRONOUNCEMENTS:

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation specifies the disclosures to be made by a guarantor in its interim and annual financial statements concerning its obligations under certain guarantees that it has issued. FIN 45 also requires a guarantor to recognize a liability, at the inception of the guarantee, for the fair value of obligations it has undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods ending after December 15, 2002. The initial recognition and initial measurement requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. Accordingly, we adopted the disclosure provisions of FIN 45, which have been reflected in the accompanying consolidated financial statements. The adoption of these provisions did not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We continue to account for stock-based compensation using the intrinsic method as permitted by SFAS No. 123 and prominently disclose the additional information required by SFAS No. 148 in our annual and interim reports.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement requires an issuer to classify a financial instrument issued in the form of shares that are mandatorily redeemable – that embodies an unconditional obligation requiring the issuer to redeem them by transferring its assets at a specified or determinable date – as a liability. This statement was adopted during fiscal 2004 and had no impact on our financial reporting.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which expands upon and strengthens existing accounting guidance concerning when a company should consolidate in its financial statements the assets, liabilities and activities of another entity. A revised Interpretation was issued in December 2003 (FIN 46R).

Prior to the issuance of FIN 46, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 now requires a variable interest entity, as defined in FIN 46, to be consolidated by a company only if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the Company is not required to consolidate but in which it has a significant variable interest.

The Company owns three Delaware business trusts that were established for the purpose of issuing optionally redeemable convertible trust preferred securities. The obligations of the business trusts to the holders of the trust preferred securities are supported by convertible subordinated debentures issued by Fleetwood to the respective business trusts. Under FIN 46, which was adopted by the Company as of January 25, 2004, the trust preferred securities continued to be presented as minority interests based on the fact that the Company has the ability to "call" the trust preferred securities and that no single party holds a majority of the preferred securities; therefore, the Company was considered the primary beneficiary of the trusts. Under FIN 46R, which was adopted by the Company as of April 25, 2004, the business trusts were deemed to have no primary beneficiary and as required, were deconsolidated, resulting in the presentation of the convertible subordinated debenture obligations to the underlying trusts as a long-term liability for all years presented. Amounts previously shown in the Statements of Operations as minority interest in Fleetwood Capital Trusts I, II and III, net of taxes, were reclassified for all periods presented to interest expense, with the related tax effect included in

the tax provision. Other than as indicated, the Company does not believe that the adoption of FIN 46 or FIN 46R will have a material impact on the Company's financial position, results of operations or cash flows.

In December 2003, the FASB issued SFAS No. 132 Revised (SFAS 132R), "Employers' Disclosure about Pensions and Other Postretirement Benefits." A revision of the pronouncement originally issued in 1998, SFAS 132R expands employers' disclosure requirements for pension and postretirement benefits to enhance information about plan assets, obligations, benefit payments, contributions and net benefit cost. SFAS 132R does not change the accounting requirements for pensions and other postretirement benefits. This statement was implemented beginning with the fourth quarter of fiscal 2004. The Company has determined that there are no material benefits requiring disclosure under this pronouncement.

## -- (2) SUPPLEMENTAL FINANCIAL INFORMATION --

### EARNINGS PER SHARE:

Basic earnings per share are computed by dividing income available to common shareholders by the weighted average number of common shares outstanding. The effect of stock options and convertible securities was anti-dilutive in fiscal 2004, 2003 and 2002, and was, therefore, not considered when determining diluted earnings (loss). However, during fiscal 2002, the Company exchanged new 9.5% convertible trust preferred securities with a liquidation value of \$37.95 million for existing 6% convertible trust preferred securities with a liquidation value of \$86.25 million. The \$29.4 million after-tax difference between the liquidation value of the two securities was excluded from the net loss as shown on the statement of operations. However, the gain did increase shareholders' equity and was therefore treated as additional income attributable to common shareholders for purposes of computing basic and diluted earnings per share.

The table below shows the calculation components of both basic and diluted earnings per share for each of the three fiscal years in the period ended April 25, 2004:

(AMOUNTS IN THOUSANDS)	2004		2003		2002	
	Income (Loss)	Weighted Average Shares	Income (Loss)	Weighted Average Shares	Income (Loss)	Weighted Average Shares
Loss before cumulative effect of accounting change	\$(22,261)	38,357	\$(70,739)	35,869	\$ (81,293)	33,942
After-tax difference on exchange of convertible trust preferred securities	—	—	—	—	29,403	—
Basic and diluted loss before cumulative effect of accounting change	(22,261)	38,357	(70,739)	35,869	(51,890)	33,942
Cumulative effect of accounting change	—	—	—	—	(80,635)	—
Basic and diluted loss	\$(22,261)	38,357	\$(70,739)	35,869	\$(132,525)	33,942



Anti-dilutive securities outstanding as of the fiscal years ended April 25, 2004, April 27, 2003, and April 28, 2002, are as follows:

(AMOUNTS IN THOUSANDS)	2004	2003	2002
Options and warrants	5,963	6,645	4,316
Convertible trust preferred securities	8,975	21,631	21,631
Convertible senior subordinated debentures	8,503	—	—

#### INVESTMENT INCOME:

Investment income for fiscal years 2004, 2003 and 2002 consisted of the following:

(AMOUNTS IN THOUSANDS)	2004	2003	2002
Interest income	\$2,669	\$3,561	\$3,843
Gross realized gains on investments	35	76	261
Gross realized losses on investments	(1)	(20)	(36)
Investment management fees	(40)	(37)	(37)
	\$2,663	\$3,580	\$4,031

#### INVENTORIES:

Inventories at April 25, 2004, and April 27, 2003, consisted of the following:

(AMOUNTS IN THOUSANDS)	2004	2003
Manufacturing inventory —		
Raw materials	\$121,285	\$105,971
Work in process	32,505	29,176
Finished goods	36,172	25,146
	189,962	160,293
Retail inventory —		
Finished goods	88,946	97,957
Less manufacturing profit	(16,098)	(17,729)
	72,848	80,228
	\$262,810	\$240,521

Most recreational vehicle and manufactured home components are readily available from a variety of sources. However, a few components are produced by only a small group of quality suppliers that have the capacity to supply large quantities on a national basis. Primarily, this occurs in the case of gasoline-powered motor home chassis, where Workhorse Custom Chassis is the dominant supplier of Class A gas chassis and Ford Motor Company is the dominant supplier of Class C chassis. Shortages, production delays or work stoppages by the employees of such suppliers could have a material adverse effect on our sales. If we cannot obtain an adequate chassis supply, this could result in a decrease in our sales and earnings.

#### WARRANTY RESERVES:

Changes in the Company's product warranty liability during the fiscal years ended April 25, 2004, and April 27, 2003, are as follows:

(AMOUNTS IN THOUSANDS)	2004	2003
Balance at beginning of year	\$62,137	\$68,046
Warranties issued and changes in the estimated liability during the period	67,644	72,169
Settlements made during the period	(75,860)	(78,078)
Balance at end of year	\$53,921	\$62,137

#### CONSOLIDATED INSURANCE SUBSIDIARY:

The insurance subsidiary was formed primarily for the purpose of insuring products liability risks of the parent company and its subsidiaries. Condensed financial information as of and for the fiscal years ended April 25, 2004, April 27, 2003, and April 28, 2002, for this subsidiary, excluding intercompany eliminations, was as follows:

(AMOUNTS IN THOUSANDS)	2004	2003	2002
Insurance subsidiary:			
Investments	\$16,982	\$14,535	\$16,516
Other assets	22,102	22,339	21,047
Reserves for losses	33,166	30,996	24,857
Other liabilities	3,084	1,944	7,261
Net premiums	5,401	5,218	3,417
Underwriting loss	(867)	(2,675)	(1,129)
Investment income	349	537	1,106

#### OTHER CURRENT LIABILITIES:

Other current liabilities as of April 25, 2004, and April 27, 2003, consisted of the following:

(AMOUNTS IN THOUSANDS)	2004	2003
Dealer rebates	\$14,202	\$14,491
Accrued selling program expenses	13,467	12,853
Accrued litigation settlements	3,190	7,362
Retail customer deposits	8,325	8,807
Other	38,770	36,053
	\$77,954	\$79,566

**ACCUMULATED OTHER COMPREHENSIVE LOSS:**

The following reflects the balances and activity, net of income taxes, for the components of accumulated other comprehensive loss for the periods:

(AMOUNTS IN THOUSANDS)	Foreign Currency Items	Unrealized Gains (Losses) on Securities	Accumulated Other Comprehensive Loss
<b>BALANCE APRIL 29, 2001</b>	\$(3,250)	\$108	\$(3,142)
Foreign currency translation adjustment	(983)	—	(983)
Unrealized holding gains	—	75	75
Reclassification adjustment for gains included in net income, net of income taxes of \$82	—	(143)	(143)
Net	(983)	(68)	(1,051)
<b>BALANCE APRIL 28, 2002</b>	(4,233)	40	(4,193)
Foreign currency translation adjustment	2,164	—	2,164
Unrealized holding losses	—	(1)	(1)
Reclassification adjustment for gains included in net income, net of income taxes of \$20	—	(36)	(36)
Net	2,164	(37)	2,127
<b>BALANCE APRIL 27, 2003</b>	(2,069)	3	(2,066)
Foreign currency translation adjustment	1,460	—	1,460
Unrealized holding gains	—	64	64
Reclassification adjustment for gains included in net income, net of income taxes of \$13	—	(21)	(21)
Net	1,460	43	1,503
<b>BALANCE APRIL 25, 2004</b>	\$ (609)	\$ 46	\$ (563)

**SUPPLEMENTARY CASH FLOW DISCLOSURES:**

Supplemental cash flow disclosures for each of the three fiscal years in the period ended April 25, 2004, are as follows:

(AMOUNTS IN THOUSANDS)	2004	2003	2002
Interest paid	\$27,827	\$21,560	\$23,969
Income taxes paid	\$ 5,738	\$ 3,439	\$ 2,577

**-- (3) INDUSTRY SEGMENT INFORMATION --**

The Company conducts operations principally in two industries, recreational vehicles and manufactured housing. The Company is organized into five segments: the RV Group, the Housing Group, the Supply Group, Financial Services and Corporate.

The RV Group, which consists of the motor home, travel trailer and folding trailer divisions, is a manufacturer and wholesaler of recreational vehicles, primarily selling products to a network of independent dealers. The Housing Group consists of the wholesale and retail divisions. The wholesale division is a manufacturer and wholesaler of manufactured homes, selling products to a combination of independent dealers and Company-owned stores of the retail division. Intercompany sales and profits have been eliminated from the reported segment information. The Financial Services segment complements the vertically integrated Housing Group model by offering finance and insurance products to our retail customers and certain exclusive independent dealers. Additionally, the

Supply Group operations provide fiberglass, parts, lumber and other wood components to our primary businesses while also generating outside sales. The operations of the Company's wholly owned insurance subsidiary have been included in the Corporate segment because the impact on consolidated operating income is not material.

Operating profit is total revenue less cost of sales, operating expenses, financial services expenses and other, net. Other, net includes gain (loss) on sale of fixed assets, asset impairment and restructuring charges. The adjustments and eliminations include intercompany revenues of the Supply Group and revenues of the wholly owned insurance subsidiary included in Corporate. None of the following items have been included in the computation of operating profit for the individual operating segments: certain corporate expenses, non-operating income and expenses, and income taxes. Goodwill for the acquisition of the folding trailer division was included in total assets of the RV Group. Identifiable assets are those assets used in the operation of each industry segment. Corporate assets primarily consist of cash, investments, deferred tax benefits, cash value of Company-owned life insurance, other assets and idle facilities. Information with respect to industry segments as of April 25, 2004; April 27, 2003; and April 28, 2002, and for each of the years then ended is set forth as follows:

(AMOUNTS IN THOUSANDS)	RV Group	Housing Group	Supply Group	Financial Services	Corporate and Other	Adjustments and Eliminations	Total
<b>2004</b>							
Operating revenues	\$1,779,233	\$ 782,758	\$209,908	\$ 4,877	\$ 5,402	\$(174,190)	\$2,607,988
Operating profit (loss) before other, net	\$ 57,482	\$ (29,107)	\$ 2,405	\$(1,627)	\$ 7,570	\$ —	\$ 36,723
Other, net	(664)	(266)	(3,660)	—	(17)	—	(4,607)
Operating profit (loss)	\$ 58,146	\$ (28,841)	\$ 6,065	\$(1,627)	\$ 7,587	\$ —	\$ 41,330
Identifiable assets	\$ 406,568	\$ 421,777	\$ 39,435	\$52,213	\$155,716	\$ —	\$1,075,709
Depreciation	6,521	12,133	1,595	44	3,481	—	23,774
Amortization	—	—	—	—	5,617	—	5,617
Capital expenditures	17,983	2,604	695	168	6,277	—	27,727
<b>2003</b>							
Operating revenues	\$1,482,595	\$ 796,260	\$173,915	\$ 2,260	\$ 5,218	\$(141,955)	\$2,318,293
Operating profit (loss) before other, net	\$ 32,542	\$ (53,131)	\$ 2,103	\$(2,089)	\$ (7,631)	\$ —	\$ (28,206)
Other, net	(2,813)	4,467	24	—	(3,453)	—	(1,775)
Operating profit (loss)	\$ 35,355	\$ (57,598)	\$ 2,079	\$(2,089)	\$ (4,178)	\$ —	\$ (26,431)
Identifiable assets	\$ 352,009	\$ 405,519	\$ 37,868	\$20,452	\$138,246	\$ —	\$ 954,094
Depreciation	7,510	14,108	1,652	12	3,223	—	26,505
Amortization	—	—	—	—	4,793	—	4,793
Capital expenditures	7,602	3,348	1,104	90	7,713	—	19,857
<b>2002</b>							
Operating revenues	\$1,212,904	\$1,033,109	\$168,722	\$ 402	\$ 3,417	\$(138,107)	\$2,280,447
Operating profit (loss) before other, net	\$ (34,819)	\$ (21,967)	\$ 8,895	\$ (1)	\$(22,746)	\$ —	\$ (70,638)
Other, net	2,018	16,380	27	—	1,340	—	19,765
Operating profit (loss)	\$ (36,837)	\$ (38,347)	\$ 8,868	\$ (1)	\$(24,086)	\$ —	\$ (90,403)
Identifiable assets	\$ 329,407	\$ 431,152	\$ 32,993	\$ 4,412	\$217,736	\$ —	\$1,015,700
Depreciation	7,402	17,111	1,793	—	3,455	—	29,761
Amortization	—	—	—	—	3,812	—	3,812
Capital expenditures	6,518	6,318	425	—	7,212	—	20,473

#### -- (4) OTHER, NET --

Other, net includes gains on sale of fixed assets, write-down of impaired assets, and restructuring and other for fiscal years 2004, 2003 and 2002 as follows:

(AMOUNTS IN THOUSANDS)	2004	2003	2002
Gains on sale of fixed assets, net	\$(4,607)	\$(5,777)	\$ (140)
Write-down of impaired assets	—	1,242	12,505
Restructuring and other	—	2,760	7,400
	\$(4,607)	\$(1,775)	\$19,765

#### GAINS ON SALE OF FIXED ASSETS, NET:

During fiscal 2004, three facilities, including two that were idle, with a carrying value of \$2.0 million were sold, generating most of the gain on sale for the year of \$4.6 million.

During fiscal 2003, three facilities, including two that were idle, with a carrying value of \$2.6 million were sold, resulting in a gain of \$2.6 million. Also sold during 2003 were three parcels of land with an aggregate carrying value of \$900,000, resulting in a gain of \$4.4 million. Other miscellaneous disposals accounted for the remaining net loss on sale of \$1.2 million.

#### WRITE-DOWN OF IMPAIRED ASSETS:

In prior years, the Company determined that the net book value of certain closed manufacturing facilities and retail locations exceeded net realizable value. The write-down of assets generally related to retail housing operations resulting from the decision to close certain retail sales centers and to transfer the management responsibility of others to an unrelated third party. Net realizable values were determined based on estimated recoverability upon sale, where appropriate, or other estimates of fair value such as discounting estimated future cash flows. The Company recorded a pre-tax charge for asset impairment of \$1.2 million and \$12.5 million during fiscal years 2003 and 2002, respectively.

#### RESTRUCTURING AND OTHER CHARGES:

During fiscal 2003, the Company recorded pre-tax restructuring charges of \$2.8 million, of which \$2.6 million related to a reduction of the workforce in the wholesale division, and \$170,000 related to future lease obligations of closed retail division locations. The Company eliminated 51 management and administrative positions and 611 production assembly workers in the Housing Group.

During fiscal 2002, the Company recorded pre-tax restructuring charges of \$7.4 million, of which \$1.0 million related to the reduction of the workforce in the RV Group. The balance of the restructuring charges included \$4.2 million for future lease obligations of closed retail division locations and \$2.2 million for other related shutdown costs related to the closed retail sales locations. The Company eliminated 10 management and administrative positions during fiscal 2002 in the RV Group as well as 80 product development and production assembly workers.

Following are tables summarizing the balance of the reserves related to these charges:

FISCAL YEAR ENDED 2004 (AMOUNTS IN THOUSANDS)	Balance at April 27, 2003	Additions charged to costs and expenses	Payment or utilization	Balance at April 25, 2004
Severance costs	\$ 604	\$ —	\$(604)	\$ —
Future lease obligations of closed stores	1,575	—	(361)	1,214
	\$2,179	\$ —	\$(965)	\$1,214

FISCAL YEAR ENDED 2003 (AMOUNTS IN THOUSANDS)	Balance at April 28, 2002	Additions charged to costs and expenses	Payment or utilization	Balance at April 27, 2003
Severance costs	\$ 604	\$2,590	\$(2,590)	\$ 604
Future lease obligations of closed stores	4,200	170	(2,795)	1,575
	\$4,804	\$2,760	\$(5,385)	\$2,179

FISCAL YEAR ENDED 2002 (AMOUNTS IN THOUSANDS)	Balance at April 29, 2001	Additions charged to costs and expenses	Payment or utilization	Balance at April 28, 2002
Severance costs	\$ 904	\$1,000	\$(1,300)	\$ 604
Future lease obligations of closed stores	—	4,200	—	4,200
Miscellaneous shutdown costs	1,276	2,200	(3,476)	—
	\$2,180	\$7,400	\$(4,776)	\$4,804

#### -- (5) MARKETABLE INVESTMENTS --

The Company has a cash management program that provides for the investment of excess cash balances primarily in short-term money market and debt instruments. Investments consist of non-equity type investments stated at market value.

The following is a summary of investment securities:

(AMOUNTS IN THOUSANDS)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>APRIL 25, 2004</b>				
<b>Available-for-Sale Securities:</b>				
U.S. corporate debt securities	\$ 3,731	\$44	\$ —	\$ 3,775
Foreign corporate debt securities	13,446	36	4	13,478
Institutional money market funds	81,475	—	—	81,475
Bankers' acceptances	11,004	—	—	11,004
	\$109,656	\$80	\$ 4	\$109,732

<b>APRIL 27, 2003</b>				
<b>Available-for-Sale Securities:</b>				
U.S. corporate debt securities	\$ 2,643	\$19	\$ —	\$ 2,662
Foreign corporate debt securities	11,883	12	28	11,867
Institutional money market funds	23,043	—	—	23,043
Bankers' acceptances	689	—	—	689
	\$ 38,258	\$31	\$28	\$ 38,261

By contractual maturity, all marketable investments at April 25, 2004, are due in one year or less.

### -- (6) INCOME TAXES --

Deferred tax assets and liabilities are determined based on temporary differences between income and expenses reported for financial reporting and tax reporting. We are required to record a valuation allowance to reduce our net deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we historically have considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies, projected future taxable income and recent financial performance. Since we have had cumulative losses in recent years, the accounting guidance suggests that we should not look to future earnings to support the realizability of the net deferred tax asset. As a result, we concluded that a partial valuation allowance against our deferred tax asset was appropriate. Accordingly, in fiscal year 2003, the deferred tax asset was reduced by \$28.4 million to \$89.8 million with a corresponding adjustment to the provision for income taxes. The book value of the net deferred tax asset was supported by the availability of various tax strategies which, if executed, were expected to generate sufficient taxable income to realize the remaining asset. In the fourth quarter of fiscal 2004, we determined that available tax strategies were sufficient to support a deferred tax asset of \$74.8 million, and we recorded an adjustment to the provision for income taxes of \$15 million with a corresponding reduction to the asset. We continue to believe that the combination of all positive and negative factors will enable us to realize the full value of the deferred tax assets; however, it is possible that the extent and availability of tax planning strategies will change over time and impact this evaluation. If, after future assessments of the realizability of our deferred tax assets, we determine an adjustment is required, we would record the provision or benefit in the period of such determination.

The benefit (provision) for income taxes for the last three fiscal years is summarized below:

(AMOUNTS IN THOUSANDS)	2004	2003	2002
Current:			
U.S. Federal	\$ —	\$ —	\$34,540
Foreign	(1,185)	(1,012)	108
State	(2,264)	(2,013)	821
	(3,449)	(3,025)	35,469
Deferred, principally Federal:			
Deferred tax valuation allowance	(23,141)	(28,400)	—
Tax loss carryforward	13,765	27,512	—
Insurance reserves	2,835	1,937	(2,565)
Deferred compensation and benefits	(316)	2,552	(2,565)
Product warranty reserves	(644)	(3,956)	277
Dealer volume rebates	(630)	1,804	(5,989)
Depreciation	1,737	3,387	1,072
Restructuring accruals	(567)	2,272	(8,786)
Other financial accruals	(8,039)	(8,585)	27,708
	(15,000)	(1,477)	9,152
	<b>\$(18,449)</b>	<b>\$(4,502)</b>	<b>\$44,621</b>

The benefit (provision) for income taxes computed by applying the Federal statutory rate to loss before taxes is reconciled to the actual benefit (provision) for the last three fiscal years as follows:

(AMOUNTS IN THOUSANDS)	2004		2003		2002	
	Amount	%	Amount	%	Amount	%
Loss before benefit for income taxes:						
U.S. Federal	\$ (6,915)	181.4%	\$(68,940)	104.1%	\$(206,439)	99.9%
Foreign	3,103	(81.4)	2,703	(4.1)	(110)	0.1
	<b>\$ (3,812)</b>	<b>100.0%</b>	<b>\$(66,237)</b>	<b>100.0%</b>	<b>\$(206,549)</b>	<b>100.0%</b>
Computed statutory tax	\$ 1,334	35.0%	\$ 23,183	35.0%	\$ 72,292	35.0%
Valuation allowance	(23,141)	(607.1)	(28,400)	(42.9)	—	—
State income taxes, net	(1,472)	(38.6)	(1,308)	(2.0)	1,234	0.6
Impairment of goodwill	—	—	—	—	(31,448)	(15.2)
Other items, net	4,830	126.7	2,023	3.1	2,543	1.2
	<b>\$(18,449)</b>	<b>(484.0)%</b>	<b>\$ (4,502)</b>	<b>(6.8)%</b>	<b>\$ 44,621</b>	<b>21.6%</b>

The components of the Company's deferred tax assets at April 25, 2004, and April 27, 2003, were as follows:

(AMOUNTS IN THOUSANDS)	2004	2003
Tax loss carryforward	\$41,277	\$27,512
Insurance reserves	16,448	13,613
Deferred compensation and benefits	26,436	26,752
Product warranty reserves	18,724	19,368
Dealer volume rebates	1,358	1,988
Depreciation	7,919	6,182
Restructuring accruals	6,445	7,012
Other financial accruals	7,697	15,736
	<b>126,304</b>	<b>118,163</b>
Valuation allowance	(51,541)	(28,400)
	<b>\$74,763</b>	<b>\$89,763</b>

At April 25, 2004, the Company had a Federal net operating loss carryforward of approximately \$105.5 million. The Federal net operating loss carryforward begins to expire in 2023. In addition, the Company has related state net operating loss carryforwards with varying expiration dates. Both the House and Senate have initially passed legislation that would allow a carryback of the Company's \$76 million net operating loss generated in fiscal 2003. If the legislation becomes law without any significant change to the relevant provisions, the net operating loss carryback would generate a current Federal refund of approximately \$25 million. This legislation, subject to other aspects of the new law, could result in income statement benefit through a reduction in the required valuation allowance on the deferred tax asset.



## -- (7) PROPERTY, PLANT AND EQUIPMENT, NET --

Property, plant and equipment is stated at cost, net of accumulated depreciation, and consists of the following:

(AMOUNTS IN THOUSANDS)	2004	2003
Land	\$ 24,279	\$ 25,402
Buildings and improvements	294,809	289,805
Machinery and equipment	171,644	160,164
Idle facilities, net of accumulated depreciation	36,270	39,089
	527,002	514,460
Less accumulated depreciation	(267,950)	(254,142)
	\$259,052	\$260,318

Idle facilities included closed plants and certain other properties that are not in current use by the Company. There were 20 idle plant facilities at the end of fiscal 2004 and 22 at the end of fiscal 2003. Of the current 20 idle facilities, six are being held for sale and have a net book value of \$7.2 million, with the remaining facilities being held for future use. During fiscal 2004, one idle facility was activated, another was deactivated, two idle facilities were sold and one idle facility was leased to an unaffiliated third party.

The carrying value of idle facilities was \$36.3 million at April 25, 2004, and \$39.1 million at April 27, 2003, net of accumulated depreciation of \$33.2 million and \$34.7 million, respectively. In the opinion of management, the carrying values of idle facilities are not in excess of net realizable value.

## -- (8) GOODWILL --

Fleetwood adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of the first quarter in fiscal year 2002. This accounting standard requires that goodwill not be amortized but instead be tested at least annually for impairment and expensed against earnings when the implied fair value of a reporting unit, including goodwill, is less than its carrying amount. Fleetwood engaged a prominent independent appraisal company to assist with the valuation.

In fiscal 2002, the Company had two reporting units with goodwill, the folding trailer and retail divisions. As determined by the first-phase assessment for each reporting unit, folding trailer's estimated fair value exceeded its carrying amount including goodwill, resulting in no impairment, and retail's estimated fair value was less than its carrying amount. The second phase of the assessment was conducted only for the retail division since the first-phase assessment indicated there was impairment. Based on the estimated fair value of retail housing, the remaining \$80.6 million of goodwill was determined to be fully impaired. Since the goodwill impairment was the result of an accounting change that was effective with the first quarter, the \$80.6 million was reflected on the income statement as "Cumulative effect of accounting change, net of income taxes."

Conditions in the manufactured housing market have been in a state of decline for the past four fiscal years. Excess retail locations and inventory, combined with tightened consumer credit standards, high interest rates on manufactured homes, major lenders exiting the business, and high consumer repossession levels, resulted in lower sales volume and retail store closings. The large non-cash impairment charges recorded in the retail division were primarily the result of the above-mentioned market and financing conditions.

Net goodwill from sources other than acquisitions of retail operations was \$6.3 million at April 25, 2004, and April 27, 2003, originating from the previous acquisition of the folding trailer operation. We will evaluate the estimated fair value of the folding trailer operation at the end of each year or whenever circumstances dictate that a review should be completed. As a result of the fiscal year 2004 review of folding trailer's remaining goodwill, it was determined that folding trailer's estimated fair value exceeded its carrying value, including goodwill, resulting in no impairment.

## -- (9) RETIREMENT AND DEFERRED COMPENSATION PLANS --

The Company has qualified defined contribution (DC) retirement plans covering most employees. There are no prior service costs associated with these plans. The Company follows the policy of funding qualified retirement plan contributions as earned. The Company also maintains non-qualified plans to accrue retirement benefits subject to Internal Revenue Code limitations. During fiscal 2003, the Company terminated three DC plans that covered the majority of its employees: a 401(k) plan that previously included the employees at Fleetwood Retail Corp, a money purchase plan for workers at the manufacturing subsidiaries and a profit sharing plan for employees at the Company's headquarters. All assets and participant accounts associated with the terminated plans were transferred to a new single 401(k) plan, with no loss of benefits. In addition, the Company established a new non-qualified Deferred Compensation Alternative (DCA) plan that serves as a retirement vehicle for after-tax contributions in excess of IRS limitations. The costs associated with these retirement plans are summarized as follows:

(AMOUNTS IN THOUSANDS)	Qualified DC Plans	Non-Qualified Plans	Total
2004	\$15,575	\$3,253	\$18,828
2003	18,775	4,506	23,281
2002	20,146	6,320	26,466

The Company also sponsors one defined benefit plan assumed in connection with the acquisition of Fleetwood Folding Trailers, Inc. in 1989. The plan covers over 500 participants and has approximately \$4 million in assets. Plan assets are held in trust and are invested in equity and fixed income securities. The funding policy is set to meet statutory minimum funding requirements plus such additional amounts as the Company may determine to be appropriate. Plan assets for determining minimum funding requirements are valued by recognizing 20 percent of the difference between actual and expected investment income each year. On this basis, the plan is 95 percent funded with respect to benefits earned under the plan. The plan is approximately 80 percent funded on a market value basis.

In addition to non-qualified retirement plans, the Company has a non-qualified deferred compensation plan that allows for the voluntary deferral of a portion of managers' compensation. With the exception of the new DCA plan, where returns are dictated by a portfolio of investments selected by the individual, participant balances in the various non-qualified plans are credited with interest at a rate set at the discretion of the Company which, for the three years ended April 2004, was the prime rate as published by a major U.S. bank. To enhance security for the benefits payable under these plans, excluding the DCA plan, the Company has established a "Rabbi Trust," funded with Company-owned life insurance (COLI) policies on the lives of participants. The assets of the trust are not generally available to the Company or its creditors except in the event

of the Company's insolvency. No premium payments were made in fiscal years 2004, 2003 or 2002. In fiscal 2004 and 2003, respectively, \$7.8 million and \$8.2 million was borrowed from the trust in the form of policy loans to pay participant benefits. The liability for benefits accrued under the non-qualified plans at the end of fiscal 2004 and fiscal 2003 totaled \$49.5 million and \$58.2 million, respectively. The cash values of the related trust assets reflected in the accompanying balance sheets were \$48.8 million and \$55.0 million, respectively, at those same dates.

### -- (10) POST-RETIREMENT HEALTH CARE BENEFITS --

The Company provides health care benefits to certain retired employees from retirement age to when they become eligible for Medicare coverage. Employees become eligible for benefits after meeting certain age and service requirements. The cost of providing retiree health care benefits is actuarially determined and accrued over the service period of the active employee group.

The components of the net periodic post-retirement benefit cost are as follows:

(AMOUNTS IN THOUSANDS)	2004	2003	2002
Service cost — benefits earned during the year	\$381	\$270	\$588
Interest cost on projected benefit obligation	658	596	463
Recognized net actuarial gain or loss	738	637	597
Amortization of unrecognized prior service cost	(917)	(917)	(753)
Net periodic post-retirement benefit cost	\$860	\$586	\$895

The changes in the benefit obligation and plan assets and the funded status of the post-retirement benefit plan are as follows:

(AMOUNTS IN THOUSANDS)	April 25, 2004	April 27, 2003
Change in projected post-retirement benefit obligation:		
Projected benefit obligation at beginning of year	\$11,231	\$ 7,832
Service cost	381	270
Interest cost	658	596
Actuarial loss	4,219	3,486
Net benefits paid	(1,064)	(502)
Plan amendments	(3,704)	(451)
Projected benefit obligation at end of year	\$11,721	\$11,231
Funded status	\$11,721	\$11,231
Unrecognized net actuarial loss	(11,763)	(8,283)
Unrecognized prior service cost	4,693	1,906
Accrued post-retirement benefits	\$ 4,651	\$ 4,854

The discount rate was 6.25 percent and 6.00 percent in fiscal years 2004 and 2003, respectively. The health care cost trend rate begins at 10.00 percent and grades down over seven years to an ultimate level of 5.00 percent per year. A 1.00 percent increase in the assumed health care cost trend rate would increase the total service cost and interest cost by \$102,000 and the accumulated post-retirement benefit obligation (APBO) by \$888,000. A 1.00 percent decrease in the assumed health care cost trend rate would decrease the total service cost and interest cost by \$93,000 and the APBO by \$808,000.

### -- (11) RETAIL FLOORING LIABILITY --

Retail flooring liability represents amounts borrowed by Company-owned retail sales centers to finance inventory purchases of manufactured homes. The entire amount outstanding at April 25, 2004, was financed under agreements with two national floorplan lenders that provide for a security interest in the units financed and repayment at the time the units are sold. Amounts outstanding bear interest at rates ranging from prime rate plus 0.75 percent to prime plus 3.00 percent, depending upon the age of the inventory being financed. For unsold units, mandatory curtailment payments that reduce the balance outstanding are due in various increments and at various intervals, beginning at one year and extending up to 21 or 24 months, at which time the obligation is due in full. One of the floorplan agreements includes cross-default provisions tied to the covenants in the senior secured credit facility.

### -- (12) OTHER SHORT-TERM BORROWINGS --

#### WAREHOUSE LINE OF CREDIT:

On December 30, 2003, our financial services subsidiary, HomeOne, entered into a Master Loan and Security Agreement with Greenwich Capital Financial Products, Inc. (Greenwich) that provides up to \$75 million in warehouse funding. The facility expires on December 22, 2004. Collateral for borrowings under the facility will be manufactured housing consumer loans originated by HomeOne. The availability of financing under the facility is dependent on a number of factors, including the borrowing base represented by the loans pledged to Greenwich. The advance rate for eligible loans varies between 72% and 80% of the principal amount of the loans, depending on the weighted average credit scores of the borrowers under loans and the interest rate selected by HomeOne. Available interest rates charged by Greenwich currently vary from 2.00% to 2.50% over LIBOR. As the selected interest rate decreases, so does the available advance rate. The Company and HomeOne agreed to guarantee the facility in an aggregate amount not to exceed 10 percent of the amount of principal and interest outstanding. The Company's guaranty includes financial and other covenants, including maintenance of specified levels of tangible net worth, total indebtedness to tangible net worth and liquidity. As of fiscal year end, HomeOne had borrowings of \$4.7 million under this facility and was in compliance with all covenants.

#### SECURED CREDIT FACILITY:

On July 27, 2001, we entered into an agreement for a senior secured credit facility to be funded by a syndicate of lenders led by Bank of America. As amended, the senior secured credit facility was structured as a three-year revolving credit line for up to \$190 million plus a \$30 million two-year term loan. Prior to fiscal 2004, various amendments to the credit agreement were executed mainly to redefine several financial performance covenants and to reset financial covenants to preempt possible covenant defaults. The structure of the resultant facility contained customary affirmative and negative covenants including an EBITDA (earnings before interest, taxes, depreciation and amortization) covenant and a covenant to maintain liquidity, as defined, of at least \$80 million on a consolidated basis and \$50 million within the subsidiaries designated as borrowers. The term loan was repaid in full and eliminated from the facility, along with a property, plant and equipment subfacility. As a result of subsequent amendments, the total lending commitments, as at fiscal year end, were established at \$130 million in combination with a \$75 million subfacility to support letters of credit and a

minimum unused borrowing capacity requirement of \$30 million. Also, financial covenants were again reset to preempt possible covenant defaults.

The balance outstanding on the revolver as reflected on the balance sheet at the end of fiscal 2004 and 2003 in other short-term borrowings was \$5.7 million and \$16.1 million, respectively. The revolving credit line bears interest, at our option, at variable rates based on either Bank of America's prime rate or one-, two- or three-month LIBOR. As amended, the facility is secured by virtually all of the Company's receivables and a significant portion of its inventories, plus, at fiscal 2004 year end, \$75 million in appraised value of real estate. Advances under the revolving credit line are limited by the available borrowing base of eligible accounts receivable and inventories. The borrowing base is revised weekly for changes in receivables and monthly for changes in inventory balances. At the end of the fiscal year, the borrowing base totaled \$170 million. After consideration of the \$30 million unused minimum requirement, collateral reserves of \$2.5 million, \$47.7 million in standby letters of credit and the outstanding borrowings, unused borrowing capacity was approximately \$40.8 million.

Subsequent to our fiscal year end, on May 17, 2004, we announced the early renewal and extension of the credit facility to July 31, 2007, under a fully underwritten arrangement with Bank of America. The terms of the amended and restated agreement provide for an increase of \$20 million in the amount of the facility, to a commitment level of \$150 million. Among other changes was the elimination of the previous requirement for the Company to maintain \$30 million in unused borrowing capacity, which directly enhances our potential borrowing availability. The requirement for excess "boot" collateral, held in the form of a security interest in real estate, was also reduced from \$75 million to \$50 million.

Under the new agreement, we are not subject to a financial performance covenant, except in the case that our average monthly liquidity, defined as cash, cash equivalents and unused borrowing capacity, falls below \$60 million within the borrowing subsidiaries or \$90 million including the parent company. Under these circumstances we are required to meet a designated cumulative EBITDA requirement. In addition, pricing under the new facility was reduced in all areas, including lower fees for letters of credit, unused facility fees and generally lower interest charges on borrowings. Simultaneous with the signing of the agreement, we paid closing and administrative fees to the bank equal to 0.55 percent of the new \$150 million credit commitment.

In conjunction with the restatement of the credit agreement, we executed covenant amendments to our flooring finance agreement with Textron Financial Corp. that mirror the new bank agreement.

The weighted average interest rate on these short-term borrowings was 5.00 percent and 5.25 percent at the end of fiscal 2004 and 2003, respectively.

## -- (13) LONG-TERM DEBT --

At April 25, 2004, and April 27, 2003, long-term debt consisted of the following:

(AMOUNTS IN THOUSANDS)	2004	2003
5% Convertible senior subordinated debentures	\$100,000	\$ --
Other	2,159	2,357
	<u>\$102,159</u>	<u>\$2,357</u>

On December 22, 2003, we completed the sale of \$100 million aggregate principal amount of 5% convertible senior subordinated debentures due in 2023. Interest on the debentures is payable semi-annually at the rate of 5.00%. The debentures are convertible, under certain circumstances, into the Company's common stock at an initial conversion rate of 85.0340 shares per \$1,000 principal amount of debentures, equivalent to an initial conversion price of \$11.76 per share of common stock.

Holders of the debentures have the ability to require the Company to repurchase the debentures, in whole or in part, on December 15, 2008; December 15, 2013; and December 15, 2018. The repurchase price is 100 percent of the principal amount of the debentures plus accrued and unpaid interest. The Company may, at its option, elect to pay the repurchase price in cash, its common stock or a combination of cash and its common stock. The Company has the option to redeem the debentures after December 15, 2008, in whole or in part, for cash, at a price equal to 100 percent of the principal amount plus accrued and unpaid interest. Subsequent to the end of the fiscal year, the debentures and the common stock potentially issuable upon conversion of the debentures were registered for resale under the Securities Act of 1933.

The Company used a portion of the net proceeds of the offering to repay amounts outstanding under its senior secured credit facility and for the redemption of a portion of the 9.5% convertible subordinated debentures subsequent to fiscal year end, and plans to use the remainder for working capital and other general corporate purposes.

## -- (14) CONVERTIBLE SUBORDINATED DEBENTURES --

The Company has owned three Delaware business trusts that each issued a separate series of optionally redeemable convertible trust preferred securities convertible into shares of the Company's common stock. The combined proceeds from the sale of the transactions and from the purchase by the Company of the common shares of the business trusts were tendered to the Company in exchange for separate series of convertible subordinated debentures. These debentures represent the sole assets of the business trusts. Under FIN 46R, "Consolidation of Variable Interest Entities," the business trusts are deemed to have no primary beneficiary and, although wholly owned by the Company, are not to be consolidated. As a result, the convertible subordinated debentures, issued by the Company, are presented as a long-term liability. The Company recently called the securities held by two of the trusts and entered into a series of transactions (described below) that spanned our fiscal year end. As of June 4, 2004, all of the outstanding securities held by two of the trusts were redeemed for cash or were converted into common stock.

These transactions are more fully described below and the securities and amounts outstanding as of April 25, 2004, are summarized in the following table:

(DOLLAR AMOUNTS IN THOUSANDS,  
EXCEPT PER-SHARE DATA)

Series	Convertible Subordinated Debentures Outstanding	Number of Trust Preferred Securities Outstanding	Par Value Per Share	Aggregate Amount of Trust Preferred Securities Outstanding	Maturity	Interest Rate	Conversion Price
Trust I	\$210,142	4,025,000	\$50	\$201,250	2028	6%	\$48.72 or 1.02627 shares of common stock per share of Trust I Securities
Trust II	39,124	1,725,000	\$22	37,950	2013	9.5%	\$12.56 or 1.752 shares of common stock per share of Trust II Securities
Trust III	23,525	377,726	\$50	18,886	2013	9.5%	\$10.36 or 4.826 shares of common stock per share of Trust III Securities
	\$272,791			\$258,086			

During fiscal 1998, Fleetwood Capital Trust (Trust I), a Delaware business trust wholly owned by the Company, completed a \$287.5 million private placement of 5,750,000 shares of 6% Convertible Trust Preferred Securities due February 15, 2028, (Trust I Securities) with a liquidation value of \$50 per security. The combined proceeds from the transaction and from the purchase by the Company of the common shares of Trust I were tendered to the Company in exchange for 6% Convertible Subordinated Debentures due February 15, 2028, (Trust I Debentures) in the aggregate principal amount of \$296.4 million. In a subsequent exchange offer, described below, the number of Trust I Securities outstanding was reduced to 4,025,000 and the aggregate principal amount outstanding was reduced to \$201,250,000.

Distributions on the Trust I Securities are cumulative and are paid quarterly in arrears at an annual rate of 6 percent. The Company has the option to defer payment of the distributions for an extended period of up to 20 consecutive quarters, so long as the Company is not in default in the payment of interest on the debentures and discontinues the payment of dividends on common stock while the deferral is in effect. Considered together, the undertakings under the trust, the related indentures and guarantees, and the convertible subordinated debentures constitute a full and unconditional guarantee by the Company of the trust's obligations under the securities. Beginning with the third quarter of fiscal 2002, the Company elected to defer the quarterly distributions on the Trust I Securities. The total amount deferred, including accrued interest, was \$35.3 million at the end of fiscal 2004. The Company intends to continue to defer the distribution on the Trust I Securities for the foreseeable future, subject to the terms in the governing documents.

The Trust I Securities are convertible, at the option of the holder, at any time at the rate of 1.02627 shares of Fleetwood common stock (i.e., a conversion price of \$48.72 per common share), subject to adjustment in certain circumstances. Since February 15, 2001, the Trust I Debentures have been redeemable in whole or in part, at the option of the Company, at a price equal to a premium currently 101.50 percent of the principal amount plus accrued and unpaid interest, declining annually to par if redeemed on or after February 15, 2006. The Trust I Securities are subject to mandatory redemption to the extent of any early redemption of the Trust I Debentures and upon maturity of the Trust I Debentures on February 15, 2028.

In December 2001, Fleetwood Capital Trust III (Trust III), also a Delaware business trust wholly owned by the Company, completed a \$150.0 million private placement of 3,000,000 shares of 9.5% Convertible Trust III Preferred Securities due February 15, 2013, (Trust III Securities) with a face value of \$50 per share. The combined proceeds from the transaction and from the purchase by the Company of the common shares of Trust III were tendered to the Company in exchange for 9.5% Convertible Trust III Subordinated Debentures due February 15, 2013, (Trust III Debentures) in the aggregate principal amount of \$154.6 million.

On March 9, 2004, the Company announced that it was calling \$50 million aggregate principal amount of the Trust III Securities for redemption. On March 30, 2004, the Company called the remaining \$100 million aggregate principal amount of Trust III Securities for redemption. Subsequently, virtually all of the holders of the Trust III Securities converted their securities into an aggregate of 14,478,578 shares of the Company's common stock, including some who had entered into privately negotiated transactions with the Company to convert their securities, prior to the respective redemption dates, in exchange for a cash incentive. As a result, as of April 25, 2004, there remained 377,726 shares of Trust III Securities outstanding, with an aggregate principal amount of \$18.9 million, and as of April 29, 2004, which was the final redemption date pursuant to the Company's calls for redemption, there were no Trust III Securities outstanding.

In January 2002, Fleetwood Capital Trust II (Trust II), another wholly owned Delaware business trust, issued 1,725,000 shares of 9.5% Convertible Trust II Preferred Securities due February 15, 2013, (Trust II Securities) with a face value of \$22 per share and an aggregate liquidation value of \$37.95 million to Trust I Securities holders in exchange for 1,725,000 shares of Trust I Securities with a \$50 face value and an aggregate liquidation value of \$86.25 million. The Trust I Securities and the proceeds from the purchase by the Company of the common shares of Trust II were tendered to the Company in exchange for new 9.5% Convertible Subordinated Debentures due February 15, 2013, (Trust II Debentures) in the amount of \$39.12 million. In turn, the Company tendered the \$86.25 million of Trust I securities to Trust I to be retired in exchange for the cancellation of a like amount of Trust I Debentures.

Subsequent to fiscal year end, on May 5, 2004, the Company called the Trust II Securities for redemption with a redemption date of June 4, 2004. Several of the holders of the Trust II Securities converted their holdings to shares of the Company's common stock, including some who entered into privately negotiated transactions with the Company to convert their securities, prior to the redemption date, in exchange for a cash incentive. Accordingly, as of the June 4, 2004, redemption date, pursuant to the Company's call for redemption, 781,065 shares of the Trust II Securities had been converted into an aggregate of 1,368,074 shares of the Company's common stock, and 943,935 shares of the Trust II Securities were redeemed for an aggregate of \$22.2 million in cash, representing \$20.8 million in aggregate principal amount, \$1.3 million in redemption premium and \$104,000 in accrued but unpaid interest to the redemption date.



## -- (15) FAIR VALUE OF FINANCIAL INSTRUMENTS --

The Company has estimated the fair value of its financial instruments as of April 25, 2004, and April 27, 2003, based on relevant market information or using management estimates of discounted cash flows. The book and estimated fair values of financial instruments include those set out below or discussed in Note 5:

(AMOUNTS IN THOUSANDS)	April 25, 2004		April 27, 2003	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Cash	\$14,090	\$14,090	\$31,515	\$31,515
Finance loans receivable, net	43,291	43,770	13,293	13,293
Cash value of Company-owned life insurance	48,809	48,809	55,004	55,004
Investments in unconsolidated subsidiaries	14,705	14,705	14,705	14,705
Retail flooring liability	21,868	21,868	15,357	15,357
Other short-term borrowings	10,451	10,451	16,054	16,054
Long-term debt	102,159	161,159	2,357	2,357
Convertible subordinated debentures	272,791	268,212	403,905	232,861

## -- (16) COMMITMENTS AND CONTINGENCIES --

### REPURCHASE COMMITMENTS:

Producers of recreational vehicles and manufactured housing customarily enter into repurchase agreements with lending institutions that provide wholesale floorplan financing to independent dealers. Our agreements generally provide that, in the event of a default by a dealer in its obligation to these credit sources, we will repurchase product. With most repurchase agreements our obligation ceases when the amount for which we are contingently liable to the lending institution has been outstanding for more than 12, 18 or 24 months, depending on the terms of the agreement. The contingent liability under these agreements approximates the outstanding principal balance owed by the dealer for units subject to the repurchase agreement, less any scheduled principal payments waived by the lender. Although the maximum potential contingent repurchase liability approximated \$148 million for inventory at manufactured housing dealers and \$644 million for inventory at RV dealers as of April 25, 2004, the risk of loss is reduced by the potential resale value of any products that are subject to repurchase, and is spread over numerous dealers and financial institutions. The gross repurchase obligation will vary depending on the season and the level of dealer inventories. Typically, the repurchase obligation for the third fiscal quarter will be greater than other periods due to high dealer inventories. The RV repurchase obligation is significantly more than the manufactured housing obligation due to a higher average cost per motor home and more units in dealer inventories. Past losses under these agreements have not been significant and lender repurchase demands have been funded out of working capital.

In the past three fiscal years we have had the following repurchase activity:

(DOLLAR AMOUNTS IN MILLIONS)	2004	2003	2002
Units	177	182	417
Repurchase amount	\$3.7	\$4.4	\$10.5
Loss recognized	\$0.6	\$ —	\$ 2.1

### LEGAL PROCEEDINGS:

As previously reported, we filed a complaint in state court in Kansas, in the 18th Judicial District, District Court, Sedgwick County, Civil Department (the Court), against The Coleman Company, Inc. (Coleman) in connection with a dispute over the use of the Coleman's trademarks. Our folding trailer division had licensed the name since 1989, when we bought Coleman Recreational Vehicles, Inc. After approximately 13 years, Coleman suddenly notified us that it had a different interpretation of the manner in which royalties were intended to be calculated under the license agreement. We had entered into discussions with Coleman to address these concerns in good faith, but on March 12, 2003, Coleman notified us that it had terminated the agreement and ordered us to cease using the Coleman trademarks. Our lawsuit sought declaratory and injunctive relief. On June 6, 2003, Coleman filed an answer and counterclaimed against us alleging various counts, including breach of contract and trademark infringement. A hearing on the matters was held on June 17, 18 and 19. On July 11, 2003, the Court issued an order stating that the rights and obligations of the parties should be resolved at a trial and not by injunctive relief. On July 16, 2003, Coleman filed a motion for reconsideration. The Court heard arguments on Coleman's motion on August 15, 2003, and on August 18, 2003, the Court issued an order granting a temporary injunction to Coleman enjoining Fleetwood from certain conduct, including using Coleman's name, trademark or logos. On November 12, 2003, the Court heard arguments on our motion to reconsider the August 18, 2003, order and Coleman's motion for partial summary judgment. On December 9, 2003, the Court heard another motion by Coleman for partial summary judgment. On February 6, 2004, the court ruled that Fleetwood Enterprises, Inc., (Fleetwood) was not the alter ego of its subsidiary, Fleetwood Folding Trailers, Inc., (folding trailers) and therefore not subject to the temporary injunction against folding trailers. This is important because arising from the original purchase of Coleman's folding trailer business in 1989, Fleetwood also purchased a covenant (the negative covenant) from Coleman that Coleman would not license to any company, other than Fleetwood, the Coleman brand for use on recreational vehicles. The Court also ruled that the existing temporary injunction was overly broad and ordered the parties to submit a more balanced temporary injunction. Notwithstanding this ruling, the Court held that folding trailers had violated the existing injunction and imposed sanctions against folding trailers. The sanctions will likely amount to several thousand dollars. Prior to the February 6, 2004, ruling, Coleman and Coachmen Industries, Inc. (Coachmen), a manufacturer of recreational vehicles, announced an agreement whereby Coachmen would produce a line of recreational vehicles under the Coleman brand. Since we believe any such agreement to be in violation of our negative covenant with Coleman, Fleetwood, on February 13, 2004, filed a lawsuit against Coachmen in the state court in Kansas alleging among other counts that Coachmen is interfering with our business opportunities. Coachmen has now answered and filed a counterclaim,

alleging various statutory restraint-of-trade allegations. We expect this lawsuit will be consolidated with the existing Coleman litigation. On March 1, 2004, Coleman filed another motion to show cause relating to further alleged violations by Fleetwood of the injunction. The Court has denied that motion. On April 27, 2004, the Court entered an order dissolving the temporary injunction against folding trailers, stating that the temporary injunction was contrary to public policy. On that date, the court also denied Coleman's request for permanent injunctive relief. On May 19, 2004, Fleetwood filed a motion for partial summary judgment requesting that the Court grant declaratory relief in regard to the negative covenant, establishing that Coleman is prohibited from licensing the Coleman trademark to Coachmen or any other company and that Coleman's use of the trademark in connection with recreational vehicles constitutes a breach of its contract with Fleetwood, as a matter of law. The hearing is set for July 8, 2004. Trial in this matter is likely to be scheduled for the third or fourth quarter of calendar year 2004. We intend to aggressively pursue this litigation and provide a vigorous defense to the counterclaims by Coleman and Coachmen. It is not possible at this time to properly assess the risk of an adverse verdict or the magnitude of the possible exposure.

The Company is also subject to other litigation from time to time in the ordinary course of business. Fleetwood's liability under some of this litigation is covered in whole or in part by insurance. Although the amount of any liability with respect to such claims and litigation over and above the Company's insurance coverage cannot currently be determined, in the opinion of management such liability is not expected to have a material adverse effect on our financial condition or results of operations.

#### -- (17) LEASES --

Most of the Company's retail sales locations and certain of its other facilities and equipment are leased under terms that range from monthly to 18 years. Management expects that in the normal course of business, leases will be renewed or replaced by other leases to support continuing operations.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of April 25, 2004:

(AMOUNTS IN THOUSANDS)	
Fiscal Year	Minimum Rental Payments
2005	\$10,536
2006	9,322
2007	7,577
2008	6,186
2009	4,825
Later years	25,683
Total minimum lease payments	\$64,129

Minimum payments have not been reduced by future minimum sublease rentals of \$2.9 million. In March 2000, Fleetwood entered into a sale and leaseback agreement involving 22 manufactured housing retail stores. The agreement includes a contingent rental reset provision which provides that, in the event that the Company's credit rating falls below a certain level anytime prior to March 2005, the Company could be required, at the option of the lessor, to make an accelerated rent payment equal to the unamortized principal of the lessor's underlying debt. Since entering into the agreement, the Company's credit rating has fallen below the specified level, raising the possibility that the provision could be exercised in March 2005. The accelerated payment would be approximately \$20 million.

A number of alternatives to the accelerated rent payment are currently available to the Company and are being considered. It is likely that sometime prior to March 2005, the Company will move to restructure the arrangement to mitigate the potential negative cash impact.

Rental expense for the last three fiscal years was as follows:

(AMOUNTS IN THOUSANDS)	2004	2003	2002
Rental expense	\$11,967	\$12,518	\$16,952
Less: Sublease rental income	(632)	(780)	(943)
	\$11,335	\$11,738	\$16,009

#### -- (18) STOCK-BASED INCENTIVE COMPENSATION PLANS --

Under the Company's Amended and Restated 1992 Stock-Based Incentive Compensation Plan, as amended, stock options may be granted to officers and other key employees of the Company for the purchase of up to 9,900,000 shares of the Company's common stock. Expiration dates for the options may not exceed 10 years from the date of grant. Under a separate plan for non-employee directors, up to 400,000 shares have been authorized for distribution of options. Automatic grants are made annually under this plan.

The following is a summary of the stock option activity for employees and non-employee directors for the last three fiscal years.

	2004		2003		2002	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding at beginning of year	6,494,952	\$13.06	4,166,408	\$18.82	3,566,633	\$21.55
Granted	667,400	11.68	2,610,598	4.21	1,047,300	10.76
Exercised	(811,062)	6.56	(20,200)	9.13	(30,000)	9.01
Forfeited	(538,345)	17.85	(261,854)	16.80	(417,525)	22.34
Outstanding at end of year	5,812,945	\$13.37	6,494,952	\$13.06	4,166,408	\$18.82
Exercisable at end of year	3,618,300	\$17.40	3,401,866	\$20.21	2,945,029	\$22.16
Weighted average fair value of options granted		\$ 6.00		\$ 2.82		\$ 6.24

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in fiscal years 2004, 2003 and 2002, respectively: risk-free interest rates of 4.0 percent, 4.0 percent and 5.0 percent; expected dividend yields of 0.0 percent for all periods presented; expected lives of four years, four years and six years; and an expected volatility range of 60 to 92 percent for fiscal 2004, 92 percent for fiscal 2003 and 60 percent for fiscal 2002.

The following table summarizes information about stock options outstanding and exercisable as of the current fiscal year end:

Range of Exercise Price	Number Outstanding as of 4/25/04	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Number Exercisable as of 4/25/04	Wtd. Avg. Exercise Price of Exercisable Options
\$ 2.57 - \$ 3.17	1,487,832	8.71	\$ 3.03	425,026	\$ 3.00
\$ 6.94 - \$ 9.01	1,101,750	7.16	\$ 7.93	696,004	\$ 8.48
\$ 9.06 - \$12.62	1,070,091	7.44	\$10.79	605,898	\$10.62
\$13.53 - \$20.13	845,750	5.31	\$15.85	583,850	\$16.89
\$20.63 - \$28.63	972,109	3.35	\$27.70	972,109	\$27.70
\$28.79 - \$39.63	335,413	4.12	\$37.46	335,413	\$37.46

#### -- (19) STOCKHOLDER RIGHTS PLAN --

On September 15, 1998, the Company's Board of Directors adopted a new stockholder rights agreement to replace the previous plan that expired on November 9, 1998, granting certain new rights to holders of the Company's common stock. Under the new plan, which was effective November 10, 1998, one right was granted for each share of common stock held as of November 9, 1998, and one right will be granted for each share subsequently issued. Each right entitles the holder, in an unfriendly takeover situation and after paying the exercise price (currently \$160), to purchase Fleetwood common stock having a market value equal to two times the exercise price. Also, if the Company is merged into another corporation, or if 50 percent or more of the Company's assets are sold, then rightholders are entitled, upon payment of the exercise price, to buy common shares of the acquiring corporation at a 50 percent discount from their then current market value. In either situation, these rights are not available to the acquiring party. However, these exercise features will not be activated if the acquiring party makes an offer to acquire all of the Company's outstanding shares at a price that is judged by the Board of Directors to be fair to all Fleetwood shareholders. The rights may be redeemed by the Company under certain circumstances at the rate of \$0.02 per right. The shareholder rights plan dated September 15, 1998, was amended effective April 30, 2001, and again effective December 31, 2002. The rights will expire on November 9, 2008.

#### -- (20) RESULTS BY QUARTER (UNAUDITED) --

The unaudited results by quarter for fiscal years 2004 and 2003 are shown below:

FISCAL YEAR ENDED APRIL 2004 (AMOUNTS IN THOUSANDS, EXCEPT WEEKS AND PER-SHARE DATA)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Number of weeks in the quarter	13	13	13	13
Revenues	\$646,131	\$674,743	\$597,750	\$689,364
Gross profit	117,076	125,435	106,527	121,173
Operating income	13,345	15,246	1,414	11,325
Income (loss) before income taxes	3,098	4,779	(9,787)	(1,902)
Net income (loss) used for basic and diluted earnings (loss) per common share <sup>(1)</sup>	\$ 1,916	\$ 3,758	\$(10,171)	\$(17,764)
Earnings (loss) per common share <sup>(2)</sup> :				
Basic	\$ .05	\$ .10	\$ (.26)	\$ (.42)
Diluted	\$ .05	\$ .10	\$ (.26)	\$ (.42)
Weighted average common shares:				
Basic	35,935	36,124	38,871	42,497
Diluted	36,669	37,116	38,871	42,497

FISCAL YEAR ENDED APRIL 2003 (AMOUNTS IN THOUSANDS, EXCEPT WEEKS AND PER-SHARE DATA)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Number of weeks in the quarter	13	13	13	13
Revenues	\$611,275	\$641,146	\$493,215	\$572,657
Gross profit	122,019	128,255	81,906	93,477
Operating income (loss) <sup>(3)</sup>	8,838	17,481	(19,654)	(33,096)
Income (loss) before income taxes	(1,021)	7,557	(29,818)	(42,955)
Net income (loss) used for basic and diluted earnings (loss) per common share <sup>(3)</sup>	\$ (1,520)	\$ 4,601	\$(18,405)	\$(55,415)
Earnings (loss) per common share <sup>(2)</sup> :				
Basic	\$ (.04)	\$ .13	\$ (.51)	\$ (1.54)
Diluted	\$ (.04)	\$ .13	\$ (.51)	\$ (1.54)
Weighted average common shares:				
Basic	35,694	35,911	35,935	35,935
Diluted	35,694	36,005	35,935	35,935

(1) The results in the fourth quarter of fiscal year 2004 were negatively impacted as a result of a charge of \$15.0 million for a valuation allowance against our net deferred tax assets.

(2) Net earnings (loss) per share is computed independently for each of the quarters presented and the summation of quarterly amounts does not equal the total net earnings (loss) per share reported for the year.

(3) The operating results in the fourth quarter of fiscal year 2003 were negatively impacted as a result of the \$9.8 million reversal of an incorrect adjusting entry at FRC and an accrual of \$6.8 million for the potential settlement of two lawsuits. In addition, the net loss for the quarter includes a charge of \$28.4 million for a valuation allowance against our net deferred tax assets.



**THOMAS B. PITCHER**

Chairman of the Board of Fleetwood Enterprises, Inc.; Advisory Counsel and retired Senior Partner of Gibson, Dunn & Crutcher, LLP.

Director since 1998



**EDWARD B. CAUDILL**

President and Chief Executive Officer of Fleetwood Enterprises, Inc.

Director since 2002



**PAUL D. BORGHE SANI**

Attorney at law; President of Transportation Advisory Group LLC and Motor Carrier Services LLC.

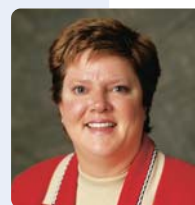
Director since 1999



**LOREN K. CARROLL**

President and Chief Executive Officer of MH SWACO, LLC; Director of Smith International and Veritas DGC Inc.

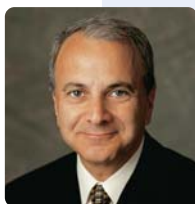
Director since 1999



**MARGARET S. DANO**

Vice President, Worldwide Operations, of Garrett Engine Boosting Systems, a division of Honeywell, Inc.

Director since 2000



**JAMES L. DOTI, Ph.D.**

President and Donald Bren Distinguished Chair of Business and Economics, Chapman University; Director of The First American Corporation, RemedyTemp, Inc., and Standard Pacific Corp.

Director since 1995



**DAVID S. ENGELMAN**

Private investor; former Chairman, President and Chief Executive Officer of Union Federal Bank; and Director of Fieldstone Investment Corp., MGIC Investment Corp., Mortgage Guaranty Insurance Corporation and Quaker City Bancorp, Inc.

Director since 1999



**J. MICHAEL HAGAN**

Director of Ameron International and RemedyTemp; former Chairman and CEO of Furon Company; and Chairman of Santa Clara University's Board of Regents.

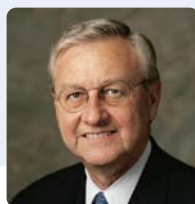
Director since 2002



**DOUGLAS M. LAWSON, Ph.D.**

Chairman and Chief Executive Officer of Douglas M. Lawson Associates, Inc.

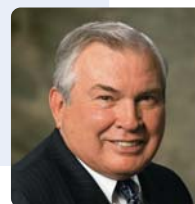
Director since 1981



**JOHN T. MONTFORD**

Senior Vice President, State Legislative and Regulatory Affairs, of SBC Telecommunications, Inc., and attorney at law.

Director since 1999



**DANIEL D. VILLANUEVA**

Chairman of The Bastion Capital Fund, L.P.; Director of California Commerce Bank and the Metropolitan West Funds.

Director since 2003



**EDWARD B. CAUDILL**

President and Chief Executive Officer

**BOYD R. PLOWMAN**

Executive Vice President and Chief Financial Officer

**SCOTT W. GRAFFT**Senior Vice President – Strategic Planning and  
Market Development**LARRY L. MACE**

Senior Vice President – Supply and Materials

**LEONARD J. MCGILL**Senior Vice President – Corporate Finance and  
Chief Governance Officer**FORREST D. THEOBALD**Senior Vice President, General Counsel  
and Secretary**ANDREW M. GRIFFITHS**Vice President, Controller and  
Chief Accounting Officer**TODD L. INLANDER**

Vice President and Chief Information Officer

**LYLE N. LARKIN**

Vice President, Treasurer and Assistant Secretary

**JOHN R. MOORE**

Vice President – Human Resources

**MICHAEL J. PUNTORIERO**

Vice President

**JAMES F. SMITH**

Vice President

**ROBERT N. THOMPSON**

Vice President – Purchasing and Supply Operations

**HOUSING GROUP MANAGEMENT****ROGER L. HOWSMON**

Senior Vice President – Housing Group

**RONALD L. BREWER**

Vice President – Operations

**J. WESLEY CHANCEY**

Vice President – Wholesale Housing

**JOSEPH N. CORONA, JR.**

Vice President – Housing Finance

**KEVIN L. HULL**

Vice President – Sales

**RV GROUP MANAGEMENT****CHRISTOPHER J. BRAUN**

Senior Vice President – RV Group

**JOHN C. DAVIS**

Vice President – After Sales Services

**WILLIAM A. DOIG**

Vice President – Operations

**LARRY G. MARSH**

Vice President – Folding Trailers

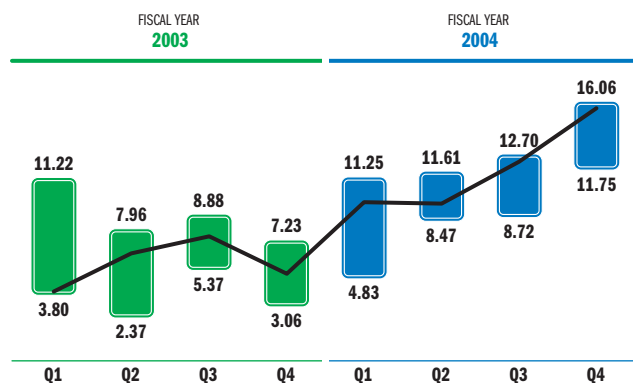
**DANIEL E. MARTIN**

Vice President – Sales and Service

**DAVID C. WARREN**

Vice President – Engineering

## PRICE RANGE AND QUARTERLY CLOSING PRICE OF COMMON STOCK\*



\*Fleetwood's common stock is listed on the New York and the Pacific stock exchanges and trades on various regional exchanges (Ticker Symbol: FLE). Call and put options are traded on the American Stock Exchange and the Chicago Board Options Exchange.

### DIVIDEND POLICY

On October 30, 2001, the Company announced that it would discontinue the payment of dividends after the previously declared dividend payment on November 14, 2001. Dividends until such time had been paid quarterly. Any future resumption of dividends would be at the discretion of our Board of Directors and is not currently contemplated.

### LEGAL COUNSEL

Gibson, Dunn & Crutcher LLP - Irvine, California

### INDEPENDENT AUDITORS

Ernst & Young LLP - Orange County, California

### SHAREHOLDER INQUIRIES

Inquiries from shareholders and securities analysts should be directed to Kathy Munson, Director of Investor Relations, (951) 351-3650, or Lyle Larkin, Vice President and Treasurer, (951) 351-3535.

### ANNUAL MEETING

The annual meeting of shareholders will be held on Fleetwood's corporate campus, 3050 Myers Street, Riverside, California, at 9 a.m. on Tuesday, September 14, 2004.

### TRANSFER AGENT AND REGISTRAR

EquiServe Trust Company, N.A.  
250 Royall Street  
Canton, MA 02021  
(877) 498-8861  
www.equiserve.com

### CORPORATE ADDRESS

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www.fleetwood.com

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements used in this report that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based on the beliefs of Fleetwood's management as well as assumptions made by, and information currently available to, the Company's management. The forward-looking statements are subject to certain risks and uncertainties, including risk factors identified in Fleetwood's 10-K, including the sections entitled "Business Outlook" and "Risk Factors." These risk factors include, without limitation, the cyclical nature of both the manufactured housing and recreational vehicle industries; ongoing weakness in the manufactured housing market; continued acceptance of the Company's products; the potential impact on demand for Fleetwood's products as a result of changes in consumer confidence levels; the effect of global tensions on consumer confidence; expenses and uncertainties associated with the introduction and manufacturing of new products; the future availability of manufactured housing retail financing, as well as housing and RV wholesale financing; exposure to interest rate and market changes affecting certain of the Company's assets and liabilities; availability and pricing of raw materials; changes in retail inventory levels in the manufactured housing and recreational vehicle industries; competitive pricing pressures; the ability to attract and retain quality dealers, executive officers and other personnel; and the Company's ability to obtain financing needed in order to execute its business strategies. Actual results, events and performance may differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Fleetwood undertakes no obligation to release publicly the result of any revisions to these forward-looking statements that may arise from changing circumstances or unanticipated events.

**Fleetwood Enterprises, Inc. is an equal opportunity employer.**





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