



## THE EVOLUTION OF A NATIONWIDE CUSTOM HOMEBUILDER



2 0 0 3      A n n u a l      R e p o r t

# PROFILE

Palm Harbor Homes, Inc., is a leading provider of factory-built housing and related financial services, including full-service chattel mortgages, conventional real estate loans and insurance products. Based in Addison, Texas, the Company employs 4,600 associates nationwide. The vertically integrated marketing and manufacturing organization includes:

**Palm Harbor Homes**, which markets its factory-built homes through 158 company-owned retail superstores and builder locations, and 300 independent dealers and builders in 32 states.

**Nationwide Custom Homes**, the Company's modular home subsidiary based in Martinsville, Virginia.

**CountryPlace Mortgage**, a full-service chattel lender with origination, servicing and securitization capabilities based in Addison, Texas.

**Standard Casualty Co.**, a property and casualty insurer based in New Braunfels, Texas.

**BSM Financial, L.P.**, a major mortgage bank that offers conventional real estate loans, of which Palm Harbor is the 50% sole limited partner, based in Addison, Texas.

The common stock of Palm Harbor Homes, Inc. is listed on the Nasdaq National Market under the symbol PHHM.

## RESULTS

## OPERATING HIGHLIGHTS

*Dollar amounts in thousands, except per share data*

	2003	2002
<b>INCOME</b>		
Net sales	\$ 573,130	\$ 627,380
Income from operations	6,931	32,853
Net income	3,221	19,448
Net income per common share	\$ 0.14	\$ 0.85
Weighted average number of shares	22,913	22,820
<b>OPERATIONS</b>		
Number of homes sold	8,677	9,938
Number of manufacturing facilities	19	15
Number of retail dealers and builders:		
– Company-owned	158	151
– Independent	300	100
<b>BALANCE SHEET</b>		
Total assets	\$ 482,567	\$ 473,271
Total liabilities	222,393	216,614
Shareholders' equity	260,174	256,657

*(Throughout this annual report, 1999, 2000, 2001, 2002 and 2003 are used to refer, respectively, to the Company's fiscal years that ended on the last Friday in March in those calendar periods.)*

# EVOLVE

IN 2003, OUR VISION OF A NATIONWIDE CUSTOM HOME BUILDER  
THAT WOULD SET WORLD-CLASS STANDARDS FOR  
CUSTOMER SATISFACTION EVOLVED INTO REALITY.

## TO OUR SHAREHOLDERS:

Without question, fiscal 2003 was a challenging year for Palm Harbor Homes and everyone in the manufactured housing industry. The cyclical downturn that began in early 1999 has continued to affect all market participants as evidenced by a precipitous decline in demand for new homes, further contraction in both wholesale and retail financing and higher repossession activity. While we acknowledge these challenges, we remain optimistic about our future and continue to see a dynamic industry with tremendous potential for renewed growth. More importantly, we believe that we have set the stage for Palm Harbor to profit from new market opportunities now and as the industry recovers.

The extraordinary events of the past year have clearly demonstrated that companies with sound business models remain viable even through difficult times. Against an industry landscape in complete disarray, Palm Harbor has continued to demonstrate consistent execution of a strategy that has produced a record of long-term growth. On a relative basis, we delivered a solid performance in this volatile environment, and our modest profitability for the year contrasts sharply with the losses incurred by a number of builders of manufactured homes. We are further encouraged that our operating margins have stabilized and continue to be healthy in an aggressively competitive market. Furthermore, a key differentiator for Palm Harbor in 2003 has been our ability to capitalize on the strength of our balance sheet in an industry environment that is contracting. Since inception, we have adhered to a fiscally conservative operating strategy and have not tried to grow too aggressively or place our capital at risk in order to pursue new unconfirmed opportunities. Today, more than ever, we see the inherent wisdom of that strategy. Having a strong financial position not only provides a secure foundation, but serves to reinforce our confidence in Palm Harbor's future.

In 2003 we identified a number of strategic opportunities that would further advance our evolution as a company and, more importantly, shape our performance for years to come. In June, we enhanced our competitive position with the acquisition of Nationwide Custom Homes, a highly regarded quality builder of modular homes based in Martinsville, Virginia. With a variety of market tested home plans and hundreds of features and options, including custom design, Nationwide targets consumers in the higher-end customized market. We believe that Nationwide is an excellent fit for Palm Harbor's business model and our culture. This acquisition is commensurate with our growth strategy of selectively using our capital to acquire companies that will both complement our existing operations and be accretive to earnings. More specifically, the Nationwide acquisition affords us exciting new growth opportunities on two fronts. First, the majority of the homes built by Nationwide are sold through builders to ultimate homeowners, providing an important additional distribution channel for Palm Harbor. Second, we see significant opportunities to expand the Nationwide product line into new markets such as Florida, Texas and the Midwest where demand for modular homes is among the highest in the nation.

The industry-wide restrictions that have been imposed on consumer financing over the past several years presented additional opportunities for Palm Harbor to reconfigure our corporate DNA in 2003. In May 2002, we became the 50% sole limited partner of BSM Financial, L.P., allowing us to expand our ability to help credit-worthy customers obtain conventional mortgage financing. A mortgage lender with operations in 30 states, BSM markets a diversified product line including conventional, conforming FHA, VA, and jumbo loans. This relationship broadens the scope of

our customers' financing options and generates another important revenue stream for Palm Harbor. Over the last 12 months, BSM originated over \$1.0 billion in residential mortgages, \$76 million of which were for Palm Harbor customers.

In November, we advanced our long-term plans to expand our CountryPlace Mortgage ("CPM") subsidiary into a full-service chattel lender, with origination, securitization and servicing capabilities. The timing was opportune for Palm Harbor. After a seven year search, we recruited two of the most respected leaders in the industry to develop CPM into the lender we have long envisioned. We took advantage of the opportunity to accelerate CPM's development plans as other chattel lenders exited the manufactured housing market. Our strategic initiatives to expand our financial service operations are already having a very positive impact on our business. We now provide either conventional or chattel mortgage financing to approximately 46% of Palm Harbor's homebuyers. More importantly, this reinforces our commitment to our customers and our desire to further enhance the "Palm Harbor experience."

In spite of the ongoing challenges in our industry, 2003 was a pivotal year for Palm Harbor as we completed our evolution from a manufactured housing company into a nationwide custom homebuilder. Through solid execution of our strategy, we are now uniquely positioned as a vertically integrated company with a greater capacity to fully leverage our assets and build for the future. Today, the key drivers of Palm Harbor's growth and profitability include the building and marketing of manufactured and modular homes, complemented by full-service finance and insurance operations. We continue to believe the market opportunities abound for a company that offers a compelling value proposition for consumers with considerable advantages over competing housing alternatives.

One investor said of Palm Harbor, "You are building a business, brick by brick." Yes, ours is a business built for the long haul, and we remain optimistic about our long-range prospects. Over time, we have evolved from a minor player into an established category leader and, now, a fully integrated company performing at the top of our industry. With the growing demand for attractive affordable housing and an aging population both driving this industry long term, we continue to believe there are significant opportunities ahead. Furthermore, we believe that Palm Harbor is uniquely positioned to extend our leadership position and benefit from market share opportunities when conditions improve. We have the enviable advantages of a broad product offering and extensive distribution capabilities complemented by the ability to provide attractive financing options to an increasing number of qualified customers. More importantly, an outrageously enthusiastic management team and the dedication and commitment of everyone involved with Palm Harbor provide us with a solid foundation even in times of challenge and allow us to look confidently to the future. Simply stated, we can take advantage of opportunities on our own terms, which is why we remain confident that Palm Harbor is in the right place at the right time.

In closing let it be said we are not content with delivering a "relatively favorable" performance. We know that shareholders measure performance in terms of increased earnings, cash flow and return on equity. As shareholders, those remain our committed objectives. Consider that a promise.

Sincerely,



Lee Posey  
Chairman of the Board



Larry Keener  
President and  
Chief Executive Officer



Kelly Tacke  
Vice-President Finance, Chief Financial Officer  
and Corporate Secretary

## EXECUTE

SINCE 1978, THE PALM HARBOR BRAND HAS STOOD FOR  
QUALITY, VALUE AND AN OBSESSIVE COMMITMENT TO  
CUSTOMER SATISFACTION.

Palm Harbor began building homes in 1978 with two objectives: to build a distinctly higher quality home that would generate high customer satisfaction and to develop a company that would offer our associates the best job they ever had. Our long-term record of success reflects solid execution in meeting these objectives. Today, Palm Harbor is the second largest retailer of factory-built housing, and our reputation for quality, value and service is second to none.



→ The Palm Harbor advantage began 26 years ago. Our record of market success and financial performance is built on a vertically integrated business model that includes marketing our homes as well as financing and insurance services. This model affords us greater control during the sales cycle and throughout the distribution channel. We encourage our customers to tailor their homes to suit their unique lifestyles and decorating tastes, a strategy that allows us to target the higher-margin, customized market niche. Ninety-one percent of the homes we build today are custom, multi-section homes.

Customer satisfaction is the cornerstone of our business - providing not only a benchmark for continual improvement - but also a strong foundation for future growth. Our favorable reputation is built on "promises made, promises kept." Throughout 2003, our customer satisfaction rating was at its highest level in the history of the Company. In third party customer surveys, more than 95 percent of homebuyers say they would recommend Palm Harbor to friends and family. Many do. Every day, referrals from satisfied Palm Harbor customers drive other potential new customers into our retail superstores.

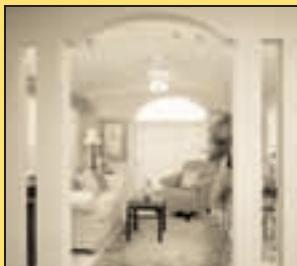
FACT:

TODAY, NEARLY TWO OUT OF EVERY THREE NEW PALM HARBOR  
HOMEBUYERS ARE REFERRED BY CURRENT PALM HARBOR HOMEOWNERS.

60  
PERCENT

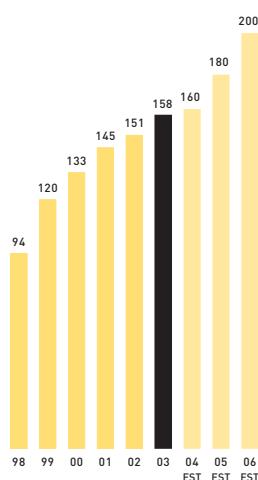


*Sales through our company-owned superstores and builder locations accounted for 76 percent of the homes we sold in 2003. Since 1998, we have opened 59 new retail superstores and now operate 158 superstores and builder locations in 32 states. ➔*



158  
SUPERSTORES AND  
BUILDER LOCATIONS

COMPANY-OWNED  
SUPERSTORES AND  
BUILDER LOCATIONS



## EXPAND

OUR ACQUISITION OF NATIONWIDE CUSTOM HOMES EXPANDS  
PALM HARBOR'S BUSINESS MODEL INTO THE GROWING MODULAR HOUSING  
MARKET AND FURTHER ENHANCES OUR VISION FOR THE FUTURE.

**Nationwide Custom Homes is recognized in the building systems industry for a strong commitment to technology, craftsmanship and service. Modular housing offers consumers a customized, high quality home with the added value of reliable construction schedules and a definite cost advantage over site-built homes. With the acquisition of Nationwide, Palm Harbor has significantly enlarged the customer base of its family of factory-built homes. This expansion squarely positions Palm Harbor as a leader in the factory-built housing industry with strong footholds in both manufactured and modular housing - and significant opportunities for future growth.**



→ The acquisition of Nationwide Custom Homes marked the successful conclusion of a lengthy search to identify and acquire a high-performing modular home builder. Founded over 44 years ago, Nationwide, like Palm Harbor, has developed a solid reputation by focusing on the fundamentals of providing high-quality, customized homes at affordable prices. Nationwide serves homebuyers in 11 states in the South and Mid-Atlantic regions. Nationwide offers many customized options, with 70 floor plans ranging from 1,500- to 3,600-square feet, hundreds of amenities and decorating selections, and even a total design-build option.

The Nationwide acquisition affords tremendous growth opportunities as well as significant operating synergies between two companies who bring together complementary products with the same business philosophy. Nationwide's established national relationships provide the Company with access to a broader distribution channel and, at the same time, Palm Harbors' financial resources and marketing experience will enable Nationwide to accelerate its expansion plans.



FACT:

NATIONWIDE CUSTOM HOMES IS A LEADING MANUFACTURER OF MODULAR HOMES, PRODUCING MORE THAN 27,000 HOMES SINCE 1959.

27,000  
HOMES



Our expansion into the modular housing market presents another significant opportunity for Palm Harbor to leverage our strengths and serve a new major market segment. In recent years, developers of urban in-fill sites have recognized the advantages of factory-built housing as an attractive solution to the growing demand for affordable housing. With the significant reduction in construction costs, both in terms of time and money, as well as the higher level of quality control and streamlined code approval process, modular housing presents a fast and secure in-fill option. There are literally thousands of urban lots in major metropolitan areas around the country that can benefit from this innovative approach to attractive affordable housing. For example, market experts indicate that the city of Austin, Texas, has in excess of 5,000 vacant in-fill lots in a city of over 650,000 residents. We are excited about the opportunity to work collaboratively with community leaders on this important initiative, reinforcing Palm Harbor's commitment to industry leadership through innovation.

*The acquisition of Nationwide Custom Homes was immediately accretive to our bottom line, accounting for approximately 10% percent of total sales dollars in the ten months since acquisition.*



## ENHANCE

IN 2003, PALM HARBOR ENHANCED ITS FINANCIAL SERVICES OPERATIONS BY BECOMING A FULL-SERVICE PROVIDER OF CHATTEL AND CONVENTIONAL MORTGAGE LOANS.

Palm Harbor's vertically integrated business model includes full-service chattel lending, conventional mortgage lending, and property and casualty insurance. These value-added, consumer-oriented services represent a formidable competitive advantage. Not only can we offer potential homebuyers a proven turnkey solution for building, financing and insuring the home of their dreams, but these services also generate a positive revenue stream for Palm Harbor.



→ It is no secret that the availability of financing drives the housing market. We have long recognized the merits of having an integrated financing/insurance arm in our business model. In fiscal 2003, we significantly strengthened our commitment to these services.

Our 50% sole limited partnership in BSM Financial, L.P., a major mortgage bank based in Addison, Texas, expands our "in-house" financing options to include the origination of conventional real estate mortgages. The partnership took on additional strategic importance as we entered the modular housing market through the acquisition of Nationwide Custom Homes. In the last year, BSM has originated more than \$1.0 billion in residential mortgages, \$76 million of which were for Palm Harbor customers. We expect that BSM will account for a steadily increasing share of mortgage loans for both our manufactured and modular homes.



FACT:

TWO OF FIVE HOMES PURCHASED BY PALM HARBOR CUSTOMERS ARE  
FINANCED THROUGH COUNTRYPLACE MORTGAGE OR BSM.

40  
PERCENT



In fiscal year 2003, we also began implementation of our long-anticipated plans to evolve our CountryPlace Mortgage (CPM) subsidiary into a full-service chattel lender with origination, servicing and securitization capabilities. Our timing was especially opportune as major chattel lenders continued to exit the market. As a new issuer, we fully expect to see investor satisfaction that is comparable to our customer satisfaction. More importantly, the CPM expansion will enable us to gain market share while enhancing customer satisfaction and driving incremental revenues, critical factors for building shareholder value.



*The convenient and affordable financing and insurance options that we offer through CountryPlace Mortgage, BSM, and Standard Casualty Co., simplify the home buying process and enhance customer satisfaction.*

\$110  
MILLION  
LOANS ORIGINATED

**DIRECTORS****LARRY H. KEENER**

*President and Chief Executive Officer  
Palm Harbor Homes, Inc.*

**JERRY D. MALLONEE <sup>(1)</sup>**

*Financial Advisor  
Carter Financial Management*

**FREDERICK R. MEYER <sup>(1)(2)</sup>**

*Chairman of the Board,  
Aladdin Industries, Inc.  
(a diversified manufacturer)*

**LEE POSEY**

*Chairman of the Board  
Palm Harbor Homes, Inc.*

**WALTER D. ROSENBERG**

*(Private investments)*

**A. GARY SHILLING**

*President,  
A. Gary Shilling & Co., Inc.  
(Economic consulting)*

**WILLIAM R. THOMAS <sup>(2)</sup>**

*Chairman and President,  
Capital Southwest  
(Venture capital)*

**JOHN H. WILSON <sup>(1)</sup>**

*President,  
U.S. Equity Corporation  
(Venture capital)*

*(1) Member of Audit Committee*

*(2) Member of Compensation Committee*

**EXECUTIVE OFFICERS****LEE POSEY**

*Chairman of the Board*

**LARRY H. KEENER**

*President and Chief Executive Officer*

**KELLY TACKE**

*Vice President-Finance, Chief Financial  
Officer and Corporate Secretary*

**THE PALM HARBOR TEAM**

Dan Abel	Shawn Chew	Terry Gelner	Nick Kirsch	Michael Oliver	Mark Slate
Keith Alexander	David Christian	Jeff Gelner	Casper Koble	Larry Parker	Gary Smiddy
Brent Alford	Terry Christian	Gregory Gelner	Marc Kopish	Richard Peck	Ron Smith
Jason Alford	Lester Chumley	Raymond George	Bill Kotylo	Greg Peet	Joe Stan
Oscar Amezcua	Eric Clendenin	Steve Gibbs	Gary Lambert	Tim Pequignot	Jerry Stanley
Doug Anderson	Howard Coffey	Daniel Gibbs	Kevin Law	Joe Pequignot	Ed Steele
Bill Anderson	Dave Conway	James Gildon	Bob Leffew	Felix Petteway	George Stevens
Greg Aplin	Donny Corum	Mike Glaser	Kirby Leggett	Stuart Pikoff	Mark Stocksdale
Jim Appelbaum	J.J. Costanzi	Brian Glass	John Lehman	Joe Poole	Kareen Strickler
Sandi Baker	Jay Craddock	Raymond Gordon	David Leise	Lee Posey	Rex Swartz
Jim Barlow	Kurt Cummins	Bryan Grace	Phillip Magee	Ron Powell	Kelly Tacke
Forrest Barnes	Rodney Dalton	Jason Grace	Kendall Magruder	Tom Pratt	Terry Taylor
Dennis Beck	Rich Daugherty	Gary Graham	Maury Marek	Brent Pridgen	David Thomasson
Henry Beeler	David Davidson	John Greenleaf	Russ Martin	Joe Pudwill	Mark Todd
Woody Bell	Nils Dekau	Richard Griffin	Guy Mauerhan	Trenton Quinney	J.R. Tredway
Robert Bell	Brad DePugh	Michael Gwaltney	Tom McBride	Chris Rains	Chris Turturro
Jeff Benoit	Kyesha Diver	David Harris	Heather McCain	Tommy Rakes	Phillip Turturro
Ted Bernados	Rick D'Olimpio	Bill Harris	Brent McCarver	Ken Rarick	Juan Villatoro
Sid Blevins	Wayne Donnelly	Bill Heck	Jeremy McClymonds	Tom Renner	Wesley Votaw
Dallas Boggs	Sean Downing	Michael Hendrix	Ken McGee	Chad Robinson	Kenny Wallace
Rick Boles	Tim Edmondson	Scott Hicks	Howard McGirt	Jimmy Rodgers	Danny Warrick
H.M. Boswell	Frank Emmerich	Rick Hilipre	Allen McKemie	Eddie Rogero	Cliff Weeks
Gary Boyd	Betty Emmons	Steve Hines	Kevin McPherson	Colleen Rogers	Paul Weist
Rich Bradford	Derrick Esquibel	Jane Holcomb	Chad Melin	Bryan Rogers	David Witherspoon
Steve Bray	Doug Eudy	Calvin James	Bill Melton	Jason Rounsville	Jean Witt
Ralph Brock	David Evans	Blake Johnson	Josh Miller	Ralph Russell	Bob Wright
Howard Broughton	Gene Fahey	Ken Johnson	Gary Milligan	Gavin Ryan	Jerry Young
Tommy Browning	Chris Finke	Michael Johnson	James Mills	Hazem Sadek	Joe Zaky
Mike Bueker	Mark Fitzgerald	Scott Jones	John Moczulski	Mike Sanders	Lyle Zeller
Kelli Burke	Barry Forrest	Charlie Jourdan	Trelis Moore	Michael Schmitzer	Mark Zeller
Shayla Burroughs	Tim Foster	Larry Keener	Darrell Mount	Jamin Scott	Daniel Zenner
Cory Burrows	Kerry Fraizer	Michael Keizman	Carolyn Murdock	James Seekford	Don Ziebarth
Duane Bush	Jeffrey Fuller	Bert Kessler	Brent Needleman	Shawn Sexton	
Jerry Cardwell	Michael Gallegos	Joe Kesterson	Matt Nino	Chris Shea	
Cruz Castillo	Gary Garrett	Tom Kesterson	Ted Norris	Andrew Shilling	
Tony Cerna	Pat Garrett	Stuart King	Steve O'Brien	Reggie Shropshire	



## CORPORATE INFORMATION

15303 Dallas Parkway • Suite 800 • Addison, Texas 75001-4600

### CORPORATE ADDRESS

15303 Dallas Parkway  
Suite 800  
Addison, Texas 75001-4600

Telephone: (972) 991-2422  
Fax: (972) 991-5949

[www.palmharbor.com](http://www.palmharbor.com)

### REGISTRAR AND TRANSFER AGENT

American Stock Transfer  
59 Maiden Lane  
New York, NY 10038

Inquiries regarding stock transfers, lost certificates or address changes should be directed to the transfer agent at the above address.

### AUDITORS

Ernst & Young LLP  
Dallas, Texas

### LEGAL COUNSEL

Locke Liddell & Sapp LLP  
Dallas, Texas

### FORM 10-K AND QUARTERLY

#### REPORTS / INVESTOR CONTACT

The Form 10-K Annual Report of Palm Harbor Homes, Inc., as filed with the Securities and Exchange Commission may be accessed electronically on the Internet at [www.palmharbor.com](http://www.palmharbor.com). This information is also available without charge to shareholders upon written request. Shareholders may also obtain copies of the corporate news releases issued in conjunction with the Company's quarterly results. These requests and other investor contacts should be directed to Colleen Rogers, Investor Relations Manager, at the corporate address.

### ANNUAL MEETING

The annual meeting of shareholders of Palm Harbor Homes will be held at 10:00 a.m. (CDT) on July 23, 2003, at the Company's headquarters in Addison, Texas. Shareholders of record as of June 2, 2003, will be entitled to vote at this meeting.

### MARKET PRICES AND DIVIDEND INFORMATION

The prices in the table below represent the high and low sales prices for Palm Harbor Homes, Inc. common stock for the past two years. No cash dividends have been declared, and plans for the foreseeable future are to retain future earnings to support operations and finance the Company's expansion. As of June 2, 2003, Palm Harbor Homes had approximately 3,000 shareholders based on the number of holders of record and an estimate of the number of individual participants represented by security position listings.

2003	High	Low
First Quarter	\$ 25.09	\$ 19.85
Second Quarter	\$ 19.50	\$ 11.17
Third Quarter	\$ 19.12	\$ 10.12
Fourth Quarter	\$ 18.84	\$ 14.35

### 2002

First Quarter	\$ 24.12	\$ 15.00
Second Quarter	\$ 26.99	\$ 16.90
Third Quarter	\$ 25.00	\$ 18.20
Fourth Quarter	\$ 24.55	\$ 20.44



CORPORATE HEADQUARTERS

*15303 Dallas Parkway • Suite 800 • Addison, Texas 75001-4600*