SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 28, 2003

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission File Number 0-24268

PALM HARBOR HOMES, INC.
(Exact name of registrant as specified in our charter)

Florida	**59-1036634**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification no.)
15303 Dallas Parkway, Suite 800, Addison, Texas	**75001**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (972) 991-2422

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, par value $0.01 per share
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [✓]

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of September 27, 2002, was $110,955,877 based on the closing price on that date of the Common Stock as quoted on the Nasdaq Stock Market. As of June 2, 2003, 22,863,396 shares of the registrant's Common Stock were issued and outstanding.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ✓ No ___

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to our Annual Meeting of Shareholders to be held July 23, 2003 are incorporated by reference in Part III.

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PART I.

Item 1. Business

General

Palm Harbor Homes, Inc. is one of the leading manufacturers and marketers of factory-built homes in the United States. Palm Harbor markets nationwide through vertically integrated operations, encompassing manufactured housing, modular housing, chattel and mortgage bank financing as well as insurance. At March 28, 2003, Palm Harbor operated 19 manufacturing facilities that sell homes in 32 states through 153 Company-owned retail superstores and approximately 300 independent retail dealers and builders.

At March 28, 2003, the Company-owned retail superstores operated in Alabama, Arizona, Arkansas, Colorado, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington and West Virginia. With a net increase of two superstores in fiscal 2003, Palm Harbor continued its long-term plan of increasing sales through Company-owned superstores. Through our subsidiary, CountryPlace Mortgage, Ltd. ("CountryPlace"), Palm Harbor offers chattel and non-conforming land/home mortgages to purchasers of manufactured homes sold by Company-owned retail superstores and through our investment in a limited partnership, BSM Financial L.P. ("BSM"), Palm Harbor offers conforming mortgages. Palm Harbor provides property and casualty insurance for owners of manufactured homes through our subsidiary, Standard Casualty Company. Management of Palm Harbor believes that having the internal capability to provide financing and insurance complements our manufacturing and marketing operations and has been additive to earnings.

Factory-built Operations

Palm Harbor currently owns or leases 19 facilities located in Alabama, Arizona, Florida, Georgia, North Carolina, Ohio, Oregon, Texas and Virginia. A typical Palm Harbor manufacturing facility has approximately 100,000 square feet of floor space and employs approximately 180 associates.

The following table sets forth the total sections produced and factory-built homes sold, as well as the number of manufacturing facilities operated by Palm Harbor, for the fiscal years indicated:

	1999	2000	2001	2002	2003
Factory-built homes sold:					
Single-section	3,474	2,862	2,166	1,473	727
Multi-section	12,154	11,439	8,663	8,465	7,280
Modular	-	-	-	-	670
Total factory-built homes sold	15,628	14,301	10,829	9,938	8,677
Operating manufacturing facilities (at end of fiscal year)	16	15	15	15	19

The principal materials used in the production of Palm Harbor's factory-built homes include wood, wood products, gypsum wallboard, steel, fiberglass insulation, carpet, vinyl, fasteners, appliances, electrical items, windows and doors. Palm Harbor believes that the materials used in the production of our factory-built homes are readily available at competitive prices from a wide variety of suppliers. The two suppliers which accounted for more than 5% of Palm Harbor's total purchases during the fiscal year ended March 28, 2003, represented only 7.5% and 5.6%, respectively, of our total purchases during fiscal year 2003. Accordingly, Palm Harbor does not believe that the loss of any single supplier would have a material adverse effect on our business.

Manufactured Housing Operations

Palm Harbor manufactures single and multi-section manufactured homes under various brand names including Palm Harbor, Masterpiece, Keystone, CountryPlace, River Bend and Windsor Homes™. Palm Harbor offers over 150 floor plans and approximately 90% of the manufactured homes produced by Palm Harbor are structurally or decoratively customized to the home buyer's specifications. Although Palm Harbor produces a wide retail price range of manufactured homes, the average retail sales price (excluding land) of Palm Harbor's manufactured homes is approximately $63,000 and approximately 91% of Palm Harbor's manufactured homes are multi-section.

A typical manufactured home built by Palm Harbor contains two to five bedrooms, a living room, family room, dining room, kitchen, two or three bathrooms and features central air conditioning and heating, a range, refrigerator, carpeting and drapes. In addition, Palm Harbor offers optional amenities, including dishwashers, washers, dryers, furniture packages and specialty cabinets, as well as a wide range of colors, moldings and finishes. Optional features usually associated with site-built homes such as stone fireplaces, computer rooms, skylights, vaulted ceilings and whirlpool baths are also offered. Palm Harbor has a unique package of energy saving construction features referred to as "EnerGmiser™" which includes, among other things, additional insulation to reduce heating and cooling costs, and which exceeds statutorily-mandated energy efficiency levels.

Palm Harbor's manufactured homes are designed and copyrighted after extensive field research and consumer feedback. Palm Harbor has developed engineering systems which, through the use of computer-aided technology, permit customization of homes and assist with product development and enhancement.

Palm Harbor's facilities generally operate on a one shift per day, five days per week basis, and Palm Harbor currently manufactures a typical manufactured home in approximately five days. Palm Harbor's facilities have the capacity to produce an aggregate of approximately 142 sections per day. The current rate of production is 64 sections per day.

The finished manufactured homes are transported by independent trucking companies to either the retail sales center or the customer's site. The transportation cost is borne by the independent retailer. Retailers or other independent installers are responsible for placing the manufactured home on site, making utility hook-ups and, in certain instances, providing installation and finish-out services. The industry practice is to have third parties hired by the retailer provide the installation and finish-out services. Palm Harbor's associates, rather than independent third parties, perform the finish out services on manufactured homes sold through Company-owned retail superstores. Palm Harbor believes our finish-out services ensure that Palm Harbor's quality procedures are applied during the entire process and increases customer satisfaction, thereby providing Palm Harbor an advantage over many of our competitors.

Palm Harbor's backlog of manufactured housing orders as of June 2, 2003 was approximately $6.0 million, as compared to approximately $3.0 million as of May 13, 2002. Since retailers may cancel orders prior to production without penalty, Palm Harbor does not consider our order backlog to be firm orders; however, such cancellations rarely occur. Because of the seasonality of the manufactured housing market, the level of backlog generally declines during the winter months.

Modular Housing Operations

Palm Harbor also manufactures modular homes principally through its wholly-owned subsidiary, Nationwide Custom Homes, Inc. ("Nationwide"). Modular homes are built in accordance with state or local building codes and therefore have the same specifications as traditional site-built homes. Nationwide's modular homes include single story ranch homes, split-levels and two and three story homes with a variety of floor plans and exteriors.

Nationwide operates three manufacturing facilities in Martinsville, Virginia and one in Arabi, Georgia where we produce the majority of our modular homes. Each home begins on a production line where a team of assemblers creates the floor and walls of the house. It is then wheeled down a tracked path where various stages of finish are performed and components are added – from wiring and insulation early in the process to adding fixtures and floor coverings just prior to shipping. Homes are shipped directly off the line. Once on site, the homes are placed on the foundation, the roof is raised and the final seam of roof shingles along the apes of the roofline is applied.

Nationwide markets its modular homes in an 11 state region consisting of North Carolina, Virginia, West Virginia, Georgia, Tennessee, South Carolina, Maryland, Pennsylvania, Florida, Alabama and Kentucky. Our modular products are sold to two end markets – independent builders and consumers. Nationwide's independent builder network consists of approximately 200 local builders that receive the home and subsequently perform the finish-out services. Nationwide also sells directly to consumers through our five retail locations.

Nationwide's backlog of modular homes as of June 2, 2003 was approximately $28.4 million.

Retail Operations

Palm Harbor's homes are sold through a distribution network consisting of retail superstores owned by Palm Harbor and independent dealers and builders. The following table sets forth the number of homes sold by Palm Harbor through each of these distribution channels, as well as the number of Company-owned retail superstores and independent dealers and builders, during the past three fiscal years:

	March 30, 2001	March 29, 2002	March 28, 2003
Homes sold by:			
Company-owned superstores	9,012	8,298	6,541
Independent dealers and builders	1,817	1,640	2,136
Total	10,829	9,938	8,677
Number of:			
Company-owned superstores	145	151	153
Independent dealers and builders	150	100	300
Total	295	251	453

Palm Harbor first established wholly-owned superstores in 1992, and currently has 153 superstores in Alabama, Arizona, Arkansas, Colorado, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington and West Virginia. Palm Harbor plans to add additional retail superstores in fiscal 2004.

Palm Harbor's independent retailer network principally consists of local retailers, developers that market land/home packages and developers of retirement lifestyle communities. No single independent retailer accounted for 5% or more of Palm Harbor's net sales during fiscal 2003. Palm Harbor provides comprehensive sales training to our retail sales associates and brings them to the manufacturing facilities for product training and to view new product designs as they are developed. These training seminars, known as "Palm Harbor University", facilitate the sale of Palm Harbor's homes by increasing the skill and knowledge of the retail sales consultants. In addition, Palm Harbor displays our products in trade shows and supports our retailers through the distribution of floor plan literature, brochures, decor boards, banners and videos.

Markets Served

Management believes that Palm Harbor's broad geographic presence lessens the impact of adverse economic trends specific to any one region, while at the same time enabling Palm Harbor to capitalize on favorable regional economic trends. The acquisition of Nationwide Custom Homes, Inc. ("Nationwide") in June 2002 resulted in a shift in revenue, primarily between the Southeast and Central regions. During the fiscal year ended March 28, 2003, the percentage of Palm Harbor's revenues by region was as follows:

Region	Primary States	Percentage of Revenue by Region
Southeast	Florida, North Carolina, Alabama, Georgia, South Carolina, Mississippi, Tennessee, Virginia, West Virginia, Maryland	45 %
Central	Texas, Oklahoma, Arkansas, Louisiana, Kansas	26
West	New Mexico, Arizona, California, Colorado, Oregon, Washington, Montana, Nevada, Utah, Wyoming, Idaho	23
Midwest	Ohio, Michigan, Indiana, Kentucky, Illinois, Pennsylvania	6
		100 %

Manufactured housing is a regional business and the primary geographic market for a typical manufacturing facility is within a 250-mile radius. Each of Palm Harbor's manufacturing facilities typically serves 20 to 65 retailers, and the facility sales staff maintains personal contact with each retailer, whether Company-owned or independent. Palm Harbor's decentralized operations allow us to be more responsive in addressing regional customer preferences of product innovation and home design.

Consumer Financing

Historically, Palm Harbor has facilitated retail sales of our homes by maintaining relationships with conventional lenders. Conventional lenders provide two basic types of consumer financing in the manufactured housing industry: chattel or personal property loans for purchasers of a home with no real estate involved and land/home or mortgage loans which finance the land, home and all improvements on the property. There are two types of mortgage loans – conforming and non-conforming. Conforming loans conform to FHA, VA, Freddie Mac and Fannie Mae. Generally, the type of required foundations installed conform to Federal requirements and the borrower must meet certain criteria. Non-conforming loans are financed by a major bank or lending institution which does not require a specific foundation type and have more flexible criteria. Effective January 1, 2002, Texas House Bill 1869 was implemented. This bill requires all manufactured houses in Texas, which are not placed on leased land, to be financed with mortgage loans versus chattel loans. The introduction of Texas House Bill 1869 has resulted in a growing shift in financing toward conforming loans. Two houses of the Texas legislature have approved Texas Senate Bill 521 which, if not vetoed by the governor, will reverse Texas House Bill 1869.

We believe that our ability to provide financing to our customers on competitive terms improves our responsiveness to the financing needs of prospective purchasers and provides an additional source of earnings for Palm Harbor. Through CountryPlace, Palm Harbor offers customary chattel loans and non-conforming land/home mortgage loans. Through BSM, Palm Harbor offers conventional mortgage financing. Financing services by CountryPlace are currently being offered only through Company-owned retail superstores.

During fiscal 2003, CountryPlace began holding all of its loan originations for investment on its balance sheet and ceased selling loans to other lenders. CountryPlace originated approximately $ 32.7 million of loans for its own investment portfolio in fiscal 2003. CountryPlace intends to service and collect its portfolio of loans using its own employees and systems implemented during the year.

Floor Plan Financing

In accordance with manufactured housing industry practice, substantially all retailers finance a portion of their purchases of manufactured homes through wholesale "floor plan" financing arrangements. Under a typical floor plan financing arrangement, a financial institution provides the retailer with a loan for the purchase price of the home and maintains a security interest in the home as collateral. The financial institution which provides financing to the retailer customarily requires Palm Harbor to enter into a separate repurchase agreement with the financial institution under which Palm Harbor is obligated, upon default by the retailer and under certain other circumstances, to repurchase the financed home at declining prices over the term of the repurchase agreement (which generally ranges from 12 to 18 months). The price at which Palm Harbor may be obligated to repurchase a home under these agreements is based upon Palm Harbor's original invoice price plus certain administrative and shipping expenses. Palm Harbor's obligation under these repurchase agreements ceases upon the purchase of the home by the retail customer.

The risk of loss under such repurchase agreements is mitigated by the fact that (i) only 18% of Palm Harbor's homes are sold to independent retailers; (ii) a majority of the homes sold by Palm Harbor to independent retailers are pre-sold to specific retail customers; (iii) Palm Harbor monitors each retailer's inventory position on a regular basis; (iv) sales of Palm Harbor's manufactured homes are spread over a large number of retailers; (v) none of Palm Harbor's independent retailers accounted for more than 5% of Palm Harbor's net sales in fiscal 2003; (vi) the price Palm Harbor is obligated to pay declines over time and (vii) Palm Harbor is, in most cases, able to resell homes repurchased from credit sources in the ordinary course of business without incurring significant losses. Palm Harbor estimates that our potential obligations under such repurchase agreements were approximately $10.4 million as of March 28, 2003. During the fiscal years ended March 30, 2001, March 29, 2002 and March 28, 2003, net expenses incurred by Palm Harbor under these repurchase agreements totaled $132,000, $212,000 and $69,000, respectively.

Beginning in fiscal 2000, lenient credit standards, which had facilitated increased industry-wide wholesale shipments in previous years, tightened, resulting in declining wholesale shipments, declining margins and lower retail sales levels for most industry participants. In March 2002, Conseco Finance Servicing Corp. ("Conseco"), announced that they were exiting the wholesale financing, or floor plan lending, business. In September 2002, Deutsche Financial Services Corporation ("Deutsche") announced that they were exiting the floor plan financing business as well. The exit of these and other floor plan lenders affected the $140 million floor plan facilities used by Palm Harbor in fiscal 2002 to finance the new inventory of manufactured homes at our retail superstores. In response, Palm Harbor gradually reduced its new home retail inventory and obtained a $100 million syndicated floor plan facility with a financial institution during fiscal 2003.

Competition

The manufactured housing industry is highly competitive at both the manufacturing and retail levels, with competition based upon several factors, including price, product features, reputation for service and quality, depth of field inventory, promotion, merchandising and the terms of retail customer financing. In addition, manufactured homes compete with new and existing site-built homes, as well as apartments, townhouses and condominiums. Palm Harbor does not view any of our competitors as being dominant in the industry, although some of Palm Harbor's competitors possess substantially greater manufacturing, distribution and marketing resources than Palm Harbor.

Although many lenders to the manufactured housing industry have reduced their volume or gone out of business, there are still competitors to CountryPlace and BSM in the markets where Palm Harbor does business. These competitors include national, regional and local banks, independent finance companies, mortgage brokers and mortgage banks. None of these competitors is considered to be dominant or to have a material impact on the financing opportunities at CountryPlace or BSM.

Government Regulation

Palm Harbor's manufactured homes are subject to a number of federal, state and local laws, codes and regulations. Construction of manufactured housing is governed by the National Manufactured Housing Construction and Safety Standards Act of 1974, as amended (the "Home Construction Act"). In 1976, the Department of Housing and Urban Development ("HUD") issued regulations under the Home Construction Act establishing comprehensive national construction standards. The HUD regulations, known collectively as the Federal Manufactured Home Construction and Safety Standards, cover all aspects of manufactured home construction, including structural integrity, fire safety, wind loads, thermal protection and ventilation. Such regulations preempt conflicting state and local regulations on such matters, and are subject to continual change. Palm Harbor's manufacturing facilities and the plans and specifications of our manufactured homes have been approved by a HUD-certified inspection agency. Further, an independent HUD-certified third-party inspector regularly reviews Palm Harbor's manufactured homes for compliance with the HUD regulations during construction. Failure to comply with applicable HUD regulations could expose Palm Harbor to a wide variety of sanctions, including mandated closings of Palm Harbor manufacturing facilities. Palm Harbor believes our manufactured homes meet or surpass all present HUD requirements.

Manufactured and site-built homes are all typically built with paneling and other products that contain formaldehyde resins. Since February 1985, HUD has regulated the allowable concentrations of formaldehyde in certain products used in manufactured homes and requires manufacturers to warn purchasers as to formaldehyde-associated risks. The Environmental Protection Agency (the "EPA") and other governmental agencies have in the past evaluated the effects of formaldehyde. Palm Harbor uses materials in our manufactured homes that meet HUD standards for formaldehyde emissions and believes we comply with HUD and other applicable government regulations in this regard.

The transportation of manufactured homes on highways is subject to regulation by various federal, state and local authorities. Such regulations may prescribe size and road use limitations and impose lower than normal speed limits and various other requirements.

Palm Harbor's manufactured homes are subject to local zoning and housing regulations. In certain cities and counties in areas where Palm Harbor's homes are sold, local governmental ordinances and regulations have been enacted which restrict the placement of manufactured homes on privately-owned land or which require the placement of manufactured homes in manufactured home communities. Such ordinances and regulations may adversely affect Palm Harbor's ability to sell homes for installation in communities where they are in effect. A number of states have adopted procedures governing the installation of manufactured homes. Utility connections are subject to state and local regulation and must be complied with by the retailer or other person installing the home. Modular homes are subject to local codes with state certification and regulation.

Certain Palm Harbor warranties may be subject to the Magnuson-Moss Warranty Federal Trade Commission Improvement Act, which regulates the descriptions of warranties on products. The description and substance of Palm Harbor's warranties are also subject to a variety of state laws and regulations. A number of states require manufactured home producers to post bonds to ensure the satisfaction of consumer warranty claims.

A variety of laws affect the financing of the homes manufactured by Palm Harbor. The Federal Consumer Credit Protection Act (Truth-in-Lending) and Regulation Z promulgated thereunder require written disclosure of information relating to such financing, including the amount of the annual percentage rate and the finance charge. The Federal Fair Credit Reporting Act also requires certain disclosures to potential customers concerning credit information used as a basis to deny credit. The Federal Equal Credit Opportunity Act and Regulation B promulgated thereunder prohibit discrimination against any credit applicant based on certain specified grounds. The Real Estate Settlement Procedures Act and Regulation X promulgated thereunder require certain disclosures regarding the nature and costs of real estate settlements. The Federal Trade Commission has adopted or proposed various Trade Regulation Rules dealing with unfair credit and collection practices and the preservation of consumers' claims and defenses. Installment sales contracts eligible for inclusion in a Government National Mortgage Association program are subject to the credit underwriting requirements of the Federal Housing Association. Manufactured homes in Texas that are not placed on leased land are subject to Texas House Bill 1869, which requires them to be financed with a conforming mortgage. Two houses of the Texas legislature have approved Texas Senate Bill 521 which, if not vetoed by the governor, will reverse Texas House Bill 1869. A variety of state laws also regulate the form of the installment sale contracts or financing documents and the allowable deposits, finance charge and fees chargeable pursuant to installment sale contracts or financing documents. The sale of insurance products by Palm Harbor is subject to various state insurance laws and regulations which govern allowable charges and other insurance practices.

Palm Harbor's operations are also subject to federal, state and local laws and regulations relating to the generation, storage, handling, emission, transportation and discharge of materials into the environment. Governmental authorities have the power to enforce compliance with their regulations, and violations may result in the payment of fines, the entry of injunctions or both. The requirements of such laws and enforcement policies have generally become more strict in recent years. Accordingly, Palm Harbor is unable to predict the ultimate cost of compliance with environmental laws and enforcement policies. See "Item 3. Legal Proceedings."

Associates

As of March 28, 2003, Palm Harbor had approximately 4,600 associates. All of Palm Harbor's associates are non-union. Palm Harbor has not experienced any labor-related work stoppages and believes that our relationship with our associates is good.

Item 2. Properties

Palm Harbor currently owns or leases properties at 19 manufacturing facilities in nine states. Palm Harbor owns substantially all of our machinery and equipment. Palm Harbor believes our facilities are adequately maintained and suitable for the purposes for which they are used. The following table sets forth certain information with respect to properties at Palm Harbor's manufacturing facilities:

State	City	Commencement of Production	Owned/Leased	Approximate Square Feet
Alabama	Boaz	1986	Leased	97,683
		1993	Leased	75,164
Arizona	Tempe	1978	Owned	103,500
	Casa Grande	1997	Owned	90,000
Florida	Plant City	1981	Owned	93,600
		1985	Owned	87,200
Georgia	Arabi	1999	Owned	97,970
	LaGrange	1996	Owned	200,000
North Carolina	Albemarle	1994	Owned	112,700
	Siler City	1988	Owned	91,200
		1996	Leased	40,000
Ohio	Sabina	1988	Owned	85,000
Oregon	Millersburg	1995	Owned	168,650
Texas	Austin	1981	Owned	103,800
		1992	Owned	77,000
	Burleson	1993	Owned	94,300
	Fort Worth	1993	Owned	121,300
	Buda	1994	Owned	88,275
Virginia	Martinsville	1969	Owned	43,505
		1972	Owned	148,346
		1974	Owned	56,593
		1996	Owned	75,262

In addition to our production facilities, Palm Harbor owns certain properties upon which 40 of our Company-owned retail superstores are located. Palm Harbor also leases approximately 48,000 square feet of office space in Addison, Texas for our corporate headquarters. Palm Harbor's corporate headquarters lease expires in 2013.

Item 3. Legal Proceedings

Palm Harbor is not currently subject to any pending or threatened litigation, other than routine litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on the business, financial condition or results of operations of Palm Harbor.

In late 1992, Palm Harbor removed an underground storage tank formerly used to store gasoline from the site of our Tempe, Arizona manufacturing facility. Palm Harbor is currently working in cooperation with the Arizona Department of Environmental Quality to assess and respond to gasoline related hydrocarbons detected in soil and groundwater at this site. Under certain circumstances, a state fund may be available to compensate responsible parties for petroleum releases from underground storage tanks. Palm Harbor is evaluating the extent of the corrective action that may be necessary. Site characterization is complicated by the presence of contaminants associated with the Indian Bend Wash Area Superfund Site described below. At this time, Palm Harbor does not expect that the costs of any corrective action or assessments related to the tank will have a material adverse effect on our financial condition, results of operations or cash flows.

Palm Harbor's Tempe facility is partially located within a large area that has been identified by the Environmental Protection Agency as the Indian Bend Wash Area Superfund Site. Under federal law, certain persons known as potentially responsible parties ("PRPs") may be held strictly liable on a joint and several basis for all cleanup costs and natural resource damages associated with the release of hazardous substances from a facility. The average cost to clean up a site listed on the National Priorities List is over $30 million. The Indian Bend Superfund Site is listed on the National Priorities List. Groups of PRPs may include current owners and operators of a facility, owners and operators of a facility at the time of disposal of hazardous substances, transporters of hazardous substance and those who arrange for the treatment or disposal of hazardous substances at a site. No government agency, including the EPA, has indicated that Palm Harbor has been or will be named as a PRP or that we are otherwise responsible for the contamination present at the Indian Bend Superfund Site. In general, although no assurance can be given as to the future actions of either the EPA or PRPs who may incur cleanup costs related to this site, Palm Harbor does not believe that our ownership of property partially located within the Indian Bend Superfund Site will have a material adverse effect on our financial condition, results of operations or cash flows.

In 1994, Palm Harbor removed two underground storage tanks used to store petroleum substances from property we own in Georgia. In November 2001, Palm Harbor received a letter from the Georgia Department of Natural Resources indicating no further action was necessary with respect to these storage tanks. The letter, however, did not preclude additional action by the State if contaminants were found in adjoining properties. At this time, Palm Harbor does not expect that the costs of future assessment and corrective action related to the tanks will have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this Report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II.

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Palm Harbor's Common Stock has been traded on the Nasdaq National Stock Market under the symbol "PHHM" since July 31, 1995, the date on which Palm Harbor completed our initial public offering. The following table sets forth, for the period indicated, the high and low sales information per share of the Common Stock as reported on the Nasdaq National Stock Market.

Fiscal 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

Fiscal 2002	High	Low
First Quarter	$ 24.12	$ 15.00
Second Quarter	26.99	16.90
Third Quarter	25.00	18.20
Fourth Quarter	24.55	20.44

On June 2, 2003, the last reported sale price of Palm Harbor's Common Stock on the Nasdaq National Stock Market was $18.42. As of June 2, 2003, there were approximately 810 record holders of the Common Stock, and approximately 3,000 holders of the Common Stock overall based on an estimate of the number of individual participants represented by security position listings.

Palm Harbor has never paid cash dividends on our Common Stock. The Board of Directors intends to retain any future earnings generated by Palm Harbor to support operations and to finance expansion and does not intend to pay cash dividends on our Common Stock for the foreseeable future. The payment of cash dividends in the future will be at the discretion of the Board of Directors and will depend upon a number of factors such as Palm Harbor's earnings levels, capital requirements, financial condition and other factors deemed relevant by the Board of Directors. Future loan agreements may or may not restrict or prohibit the payment of dividends.

Item 6. Selected Financial Data

The following table sets forth selected financial information regarding Palm Harbor's financial position and operating results which has been extracted from Palm Harbor's financial statements for the five fiscal years ended March 28, 2003. The information should be read in conjunction with Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and accompanying Notes included elsewhere in this report.

	Fiscal Year Ended				
	March 26, 1999	**March 31, 2000**	**March 30, 2001**	**March 29, 2002**	**March 28, 2003**(2)
	(In thousands, except per share data)				
Statement of Income:					
Net sales	$ 761,374	$ 777,471	$ 650,451	$ 627,380	$ 573,130
Cost of sales	530,698	530,415	443,131	426,356	408,725
Gross profit	230,676	247,056	207,320	201,024	164,405
Selling, general and administrative expenses	158,916	180,224	165,896	168,171	157,474
Income from operations	71,760	66,832	41,424	32,853	6,931
Interest expense	(9,728)	(10,245)	(12,792)	(8,377)	(6,676)
Other income	4,933	7,034	7,279	6,450	4,874
Income before income taxes and cumulative effect of change in accounting principle	66,965	63,621	35,911	30,926	5,129
Income tax expense	26,788	25,025	14,034	11,478	1,908
Income before cumulative effect of change in accounting principle	40,177	38,596	21,877	19,448	3,221
Cumulative effect of change in accounting principle	-	-	(2,048)	-	-
Net income	$ 40,177	$ 38,596	$ 19,829	$ 19,448	$ 3,221
Net income per common share - basic and diluted	$ 1.69	$ 1.66	$ 0.87	$ 0.85	$ 0.14
Weighted average common shares outstanding - basic	23,783	23,225	22,760	22,820	22,913
Weighted average common shares outstanding - diluted	23,838	23,255	22,772	22,820	22,913
Operating Data:					
Number of new factory-built homes sold	15,628	14,301	10,829	9,938	8,677
Multi-section manufactured homes sold as a percentage of total manufactured homes sold	78%	80%	80%	85%	91%
Number of manufacturing facilities (1)	16	15	15	15	19
Number of company-owned superstores (1)	120	133	145	151	153
Number of company-owned builder locations (1)	-	-	-	-	5
Balance Sheet Data:					
Total assets	$ 427,410	$ 457,174	$ 468,368	$ 473,271	$ 482,567
Other debt obligations	3,382	3,149	2,908	2,742	2,567
Shareholders' equity	195,325	217,176	235,652	256,657	260,174

(1) As of the end of the applicable period.

(2) On June 7, 2002, Palm Harbor acquired Nationwide Custom Homes, Inc. ("Nationwide"), a manufacturer and marketer of modular homes. Nationwide contributed $51.2 million in revenues and $4.3 million in income from operations in fiscal 2003.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The manufactured housing industry continues to be affected by several challenges including limited retail and wholesale financing availability, increased levels of repossessions, excessive retail inventory levels and manufacturing capacity. The tightening of credit standards, which began in mid-1999, has resulted in reduced retail sales levels, declining wholesale shipments and declining margins for most industry participants. Industry-wide shipments for calendar 2002 were down 13% from a year ago and down 55% since the 1998 peak in shipments.

In March 2002, Conseco Finance Servicing Corp. ("Conseco"), formerly the manufactured housing industry's largest floor plan and consumer lender, announced that they were exiting both the floor plan financing and chattel lending businesses. Also, Deutsche Financial Services ("Deutsche") exited the manufactured housing floor plan lending business. In September 2002, when Deutsche announced their intentions to exit the business, Palm Harbor had a $105 million floor plan facility with Deutsche, of which $85.3 million was outstanding. The Deutsche floor plan facility has been replaced in part by a syndicated floor plan facility led by another financial institution.

With the recent exit of most of the major industry chattel and non-conforming mortgage lenders, Palm Harbor expanded its finance subsidiary, CountryPlace Mortgage, Ltd. ("CountryPlace"), from being only an originator of loans into a servicer as well. During fiscal 2003, CountryPlace originated $32.7 million of loans to be held for investment on its balance sheet. These loans were funded through borrowings from its warehouse facility, as well as capital contributions and borrowings from Palm Harbor. CountryPlace is servicing all of the loans held for investment in its portfolio and will originate loans only through Company-owned retail superstores.

During the first quarter of fiscal 2003, Palm Harbor entered into an agreement to become the sole limited partner and 50% owner of BSM Financial L.P. ("BSM"), a major Dallas mortgage banking firm that has experience and capability in generating conforming and government insured loans in the site built, modular and manufactured housing markets.

In addition, Palm Harbor purchased Nationwide Custom Homes ("Nationwide"), a leading manufacturer and marketer of modular homes. This acquisition should enable Palm Harbor to appeal to homebuyers not reached by our manufactured housing distribution or manufactured housing retail financing.

Despite these difficult conditions, Palm Harbor's consolidated operating results were profitable this fiscal year. Additionally, Palm Harbor profitably increased market share and reduced inventories, while continuing our growth strategy of opening new retail superstores and expanding CountryPlace. During fiscal 2003, the number of Company-owned retail superstores increased by two to 153. CountryPlace Mortgage, Palm Harbor's finance subsidiary, and Standard Casualty Company, Palm Harbor's insurance subsidiary, continued to be additive to consolidated sales and net income.

Palm Harbor had cash and cash equivalents of $45.6 million at March 28, 2003. In addition, Palm Harbor's practice of manufacturing only to retail customer order coupled with closely monitored retail receivables and stocking levels has enabled us to tightly manage retail receivables and new home inventory levels. Retail receivables and new home inventory per retail superstore have declined 14% since the beginning of the fiscal year.

The manufactured housing industry is affected by cyclical downturns and seasonal fluctuations that often make difficult period-to-period comparisons of our revenues and operating results.

The following table sets forth certain items of Palm Harbor's Statement of Income as a percentage of net sales for the periods indicated.

	Fiscal Year Ended		
	March 30, 2001	March 29, 2002	March 28, 2003
Net sales	100.0%	100.0%	100.0%
Cost of sales	68.1	68.0	71.3
Gross profit	31.9	32.0	28.7
Selling, general and administrative expenses	25.5	26.8	27.5
Income from operations	6.4	5.2	1.2
Interest expense	(2.0)	(1.3)	(1.2)
Interest income and other	1.1	1.0	0.9
Income before income taxes and cumulative effect of change in accounting principle	5.5	4.9	0.9
Income tax expense	2.2	1.8	0.3
Income before cumulative effect of change in accounting principle	3.3	3.1	0.6
Cumulative effect of change in accounting principle	(0.3)	-	-
Net income	3.0%	3.1%	0.6%

The following table summarizes certain key sales statistics as of and for the period indicated.

	Fiscal Year Ended		
	March 30, 2001	March 29, 2002	March 28, 2003
Company homes sold through Company-owned retail superstores	8,964	8,268	6,526
Total new factory-built homes sold	10,829	9,938	8,677
Average new home price - retail	$ 59,000	$60,000	$63,000
Number of retail superstores at end of period	145	151	153
Homes sold to independent dealers and builders	1,817	1,640	2,136

2003 Compared to 2002

Net Sales. Net sales decreased 8.6% to $573.1 million in 2003 from $627.4 million in 2002. The decrease in net sales was primarily due to the reduction of retail financing available in the manufactured housing industry partially offset by the addition of modular sales which totaled $51.2 million in fiscal 2003. The volume of manufactured homes sold through Company-owned retail superstores declined 21.1% while overall manufactured housing unit volume, which includes sales to independent retailers, declined 19.4% in fiscal 2003. This decline in volume is partially offset by an increase in the average selling price of a new manufactured home to $63,000 in 2003 from $60,000 in 2002. This increase in average selling price resulted from a slight shift in product mix towards multi-section manufactured homes. Multi-section manufactured homes represented 91% of Palm Harbor's manufactured homes sold in 2003. The number of Company-owned retail superstores increased from 151 at the end of fiscal 2002 to 153 at the end of fiscal 2003.

Gross Profit. In fiscal 2003, gross profit as a percentage of net sales declined to 28.7% from 32.0% in fiscal 2002. Gross profit decreased 18.2% to $164.4 million in 2003 compared to $201.0 million in 2002. This decrease, both as a percentage of sales and in absolute dollars, is principally the result of the contraction of retail financing and the intensely competitive industry environment. The percentage of manufactured homes sold through Company-owned retail superstores decreased from 83% in fiscal 2002 to 82% in fiscal 2003.

Selling, General and Administrative Expenses. As a percentage of net sales, selling, general and administrative expenses increased to 27.5% in 2003 from 26.8% in 2002. Selling, general and administrative expenses decreased $10.7 million, or 6.4%, to $157.5 million in 2003 from $168.2 million in 2002. This reduction reflects Palm Harbor's focus on reducing fixed costs somewhat offset by its continued commitment to building brand awareness via advertising and expenses associated with the expansion of CountryPlace and the rollout of Palm Harbor's new mortgage lending operations. Additionally, selling, general and administrative expenses for fiscal 2003 include ten months of Nationwide's fixed expenses.

Interest Expense. Interest expense decreased 20.3% to $6.7 million in 2003 from $8.4 million in 2002. This decrease was primarily due to a decrease in the prime interest rate from 4.75% at the end of fiscal 2002 to 4.25% at the end of fiscal 2003 coupled with a decrease in the floor plan liability.

Interest Income and Other. Interest income and other decreased 24.4% to $4.9 million in fiscal 2003 from $6.5 million in fiscal 2002. This decrease was primarily the result of decreased interest income in fiscal 2003, decreased income earned on a real estate investment in fiscal 2003 and a loss on short-term investments in fiscal 2003, partially offset by Palm Harbor's equity interest in the earnings of its limited partnership, BSM, which was $3.4 million in fiscal 2003 and zero in fiscal 2002.

2002 Compared to 2001

Net Sales. Net sales decreased 3.5% to $627.4 million in 2002 from $650.5 million in 2001. The decrease in net sales was primarily due to competitive conditions in the manufactured housing industry as indicated by a decrease of 7.9% in the volume of homes sold through Company-owned retail superstores while overall unit volume, which includes sales to independent retailers, declined 8.2% in fiscal 2002. This decline in volume is partially offset by an increase in the average selling price of a new home, which resulted from a continued shift in product mix towards multi-section homes. Of the homes sold by the Company, 85% were multi-section in fiscal 2002 versus 80% in fiscal 2001. The number of Company-owned superstores increased from 145 at the end of fiscal 2001 to 151 at the end of fiscal 2002.

Gross Profit. In fiscal 2002, gross profit as a percentage of net sales increased slightly to 32.0% from 31.9% in fiscal 2001. Gross profit decreased 3.0% to $201.0 million in 2002 compared to $207.3 million in 2001. Palm Harbor sold 83% of its homes through Company-owned retail superstores in both fiscal 2002 and fiscal 2001.

Selling, General and Administrative Expenses. As a percentage of net sales, selling, general and administrative expenses increased, as planned, to 26.8% in 2002 from 25.5% in 2001. Selling, general and administrative expenses increased $2.3 million, or 1.4%, to $168.2 million in 2002 from $165.9 million in 2001, primarily due to Palm Harbor's continued commitment to building brand awareness via advertising, startup expenses associated with the net increase of six retail superstores opened during fiscal 2002 as well as those expected to be opened in fiscal 2003 and training costs associated with people development.

Interest Expense. Interest expense decreased 34.5% to $8.4 million in 2002 from $12.8 million in 2001. This decrease was primarily due to a decrease in the prime interest rate from 8.0% at the end of fiscal 2001 to 4.75% at the end of fiscal 2002 coupled with a decrease in the floor plan liability.

Liquidity and Capital Resources

Cash provided by operating activities totaled $23.9 million in 2001, compared to $34.5 million in 2002 and $48.0 million in 2003. Cash provided by operating activities increased in fiscal 2003 primarily due to decreases in trade receivables, inventories, and overhead expenditures. Cash provided by operations was adequate to support Palm Harbor's working capital needs, capital expenditures, floor plan payments, investment purchases, expansion of CountryPlace and the rollout of new mortgage lending operations during fiscal 2003.

Capital expenditures were $14.1 million, $14.8 million and $6.5 million in fiscal 2001, 2002 and 2003, respectively. In 2001, capital expenditures included $8.2 million for additional retail superstores and approximately $5.9 million primarily for improvements in mature manufacturing facilities. In 2002, capital expenditures included $7.2 million for additional retail superstores and approximately $7.6 million primarily for improvements in mature manufacturing facilities. In 2003, capital expenditures included $1.5 million for additional retail superstores and approximately $5.0 million primarily for improvements in mature manufacturing facilities. Palm Harbor expects capital expenditures to approximate $9 million during 2004 primarily for the purpose of improving mature manufacturing facilities and adding retail superstores.

During the fourth quarter of fiscal 2003, Palm Harbor executed a $100.0 million syndicated floor plan facility with a financial institution. The advance rate for this facility is 90% of manufacturer's invoice. On March 19, 2006, $65 million of this facility will expire and the remaining $35 million will expire via orderly liquidations by the end of September 2003. Palm Harbor is exploring several options to replace this portion of the facility. Palm Harbor has a second facility with another financial institution for $10.0 million, which automatically renews each year unless notification of cancellation is received by the financial institution. These facilities are used to finance a major portion of the home inventory at our retail superstores and are secured by a portion of our home inventory and receivables from financial institutions. The interest rates on the facilities are prime (4.25% at March 28, 2003) or prime plus 1.0% to 3.0% for aged units, of which we have none. These two floor plan facilities contain certain provisions regarding minimum financial requirements which we must maintain in order to borrow against the facilities. As of March 28, 2003, Palm Harbor was in compliance with our $100.0 million floor plan facility and had obtained a limited forbearance with respect to a violation of our minimum covenant requirements on our $10.0 million facility. Palm Harbor had $134,977,000 and $114,437,000 outstanding on these floor plan credit facilities at March 29, 2002 and March 28, 2003, respectively.

With the recent exit of most of the major industry chattel and non-conforming mortgage lenders over recent months, Palm Harbor is expanding CountryPlace from being an originator of loans into a securitizer and servicer of loans as well. CountryPlace has entered into an agreement with a financial institution for a $125 million warehouse facility to fund chattel loans originated by company-owned retail superstores. This facility is collateralized by specific receivables pledged to the facility and bears interest at the rate of LIBOR plus 1.25% (2.5625% at March 28, 2003). The facility terminates on March 19, 2004. The facility provides for an advance of 65% against the outstanding principal balance of eligible receivables as further defined in the warehouse agreement. CountryPlace had outstanding borrowings under this facility of $15,135,000 as of March 28, 2003. The facility contains certain requirements relating to the performance and composition of the receivables pledged to the facility and certain financial covenants, which are customary in the industry. The facility also requires Palm Harbor and CountryPlace to maintain a minimum balance of shareholders equity. As of March 28, 2003, both Palm Harbor and CountryPlace were in compliance with these requirements. In connection with the warehouse borrowing facility, Palm Harbor agreed to fund in cash to CountryPlace, up to 25% of each loan loss incurred. As of March 28, 2003 there had been no losses related to any loans in the portfolio and no such loss funding was required. Additionally, Palm Harbor has entered into an intercompany financing arrangement with CountryPlace that provides for up to $25 million of funding to be used for the growth of CountryPlace's portfolio and operations. As of March 28, 2003, approximately $4.1 million was advanced to CountryPlace under this intercompany financing arrangement.

CountryPlace currently intends to originate and hold loans for investment on a long-term basis. CountryPlace intends to securitize its loan portfolio on a routine basis. While the Company believes it will be able to obtain additional liquidity through the securitization of such loans, no assurances can be made that the Company will successfully complete securitization transactions on acceptable terms and conditions, if at all.

In July 1999, Palm Harbor's Board of Directors authorized, subject to certain business and market conditions, the use of up to $20.0 million to repurchase Palm Harbor's common stock. In July 2000, the Board of Directors authorized another $20.0 million for common stock repurchases. As of May 26, 2003, Palm Harbor had invested $20.0 million in the common stock buyback program.

Palm Harbor believes that cash flows from operations, together with floor plan financing and other available borrowing alternatives in addition to the warehouse facility, will be adequate to support our working capital, currently planned capital expenditure needs and expansion of CountryPlace over the next twelve months. However, because future cash flows and the availability of financing will depend on a number of factors, including prevailing economic and financial conditions, business, the market for asset backed securitizations, and other factors beyond Palm Harbor's control, no assurances can be given in this regard.

Contractual Obligations and Commitments (dollars in thousands)

The following tables summarize Palm Harbor's contractual obligations and contingent commitments at March 28, 2003. For additional information related to these obligations, see the Notes to Consolidated Financial Statements.

	Payments Due by Period				
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Floor plan payable	$ 114,437	$ 114,437	$ -	$ -	$ -
Warehouse revolving debt	15,135	15,135	-	-	-
Other debt obligations	2,567	190	2,377	-	-
Operating leases	21,763	5,449	5,437	3,232	7,645
Total contractual cash obligations	$ 153,902	$ 135,211	$ 7,814	$ 3,232	$ 7,645

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	**Less than 1 year**	**1-3 years**	**4-5 years**	**Over 5 years**
Repurchase obligations (1)	$ 10,409	$ 10,205	$ 204	$ -	$ -
Letters of credit (2)	4,482	4,282	200	-	-
Total commercial commitments (3)	$ 14,891	$ 14,487	$ 404	$ -	$ -

(1) Palm Harbor has contingent repurchase obligations outstanding at March 28, 2003 which have a finite life but are replaced as Palm Harbor continues to sell our manufactured homes to dealers under repurchase agreements with financial institutions. The cost of these contingent repurchase obligations to Palm Harbor was $132,000, $212,000 and $69,000 during fiscal 2001, 2002, and 2003, respectively. For additional information on Palm Harbor's repurchase obligations, see critical accounting policies – reserve for repurchase obligations.

(2) Palm Harbor has provided letters of credit to providers of certain of our insurance policies. While the current letters of credit have a finite life, they are subject to renewal at different amounts based on the requirements of the insurance carriers. Palm Harbor has recorded insurance expense based on anticipated losses related to these policies as is customary in the manufactured housing industry.

(3) Palm Harbor has contingent obligations related to installment loan contracts sold with recourse. See Note 13 to the financial statements for a discussion of such recourse contingent obligations.

Critical Accounting Policies

Palm Harbor's discussion and analysis of its financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Palm Harbor to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Impairment of Intangible Assets. In assessing the recoverability of Palm Harbor's intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, Palm Harbor may be required to record impairment charges for these assets.

Revenue recognition. Retail sales, including shipping charges, are recognized when a down payment is received, the customer enters into a legally binding sales contract, title has transferred and the home is accepted by the customer, delivered and permanently located at the customer's site. Homes sold to independent retailers are recognized when the home is shipped which is when the title passes to the independent retailer. The transportation cost is borne by the independent retailer.

Warranties. Palm Harbor provides the retail home buyer a one-year limited warranty covering defects in material or workmanship in home structure, plumbing and electrical systems. We record a liability for estimated future warranty costs relating to homes sold, based upon our assessment of historical experience factors. Factors we use in the estimation of the warranty liability include historical warranty experience related to the actual number of calls and the average cost per call. Although we maintain reserves for such claims based on our assessments as described above, which to date have been adequate, there can be no assurance that warranty expense levels will remain at current levels or that such reserves will continue to be adequate. A large number of warranty claims exceeding our current warranty expense levels could have a material effect on Palm Harbor's results of operations.

Reserve for Repurchase Obligations. Manufactured housing companies enter into repurchase agreements with financial institutions which have provided wholesale floor plan financing to independent retailers. These agreements generally provide that in the event of a retailer's default Palm Harbor will repurchase the financed home from the lending institution at declining prices over the term of the repurchase agreement (generally 12 –18 months). The risk of loss under such repurchase agreements is mitigated by the fact that (i) only 18% of Palm Harbor Harbor's homes are sold to independent retailers; (ii) a majority of the homes sold by Palm Harbor to independent retailers are pre-sold to specific retail customers; (iii) Palm Harbor monitors each retailer's inventory position on a regular basis; (iv) sales of Palm Harbor's manufactured homes are spread over a large number of retailers; (v) none of Palm Harbor's independent retailers accounted for more than 5% of Palm Harbor's net sales in fiscal 2003; (vi) the price Palm Harbor is obligated to pay declines over time and (vii) Palm Harbor is, in most cases, able to resell homes repurchased from credit sources in the ordinary course of business without incurring significant losses. Since mid-1999, the manufactured housing industry has been affected by three major challenges – retail financing availability, repossessions and retail inventory levels. The rapid growth in the number of retailers prior to the deterioration of retail financing has resulted in an imbalance between retail inventory levels and consumer demand. If retail financing was to significantly weaken further, the inventory imbalance could result in even greater price competition, gross margin deterioration and have an overall material adverse effect on Palm Harbor's operating results. While Palm Harbor's practice of manufacturing only to order coupled with closely monitored retail stocking levels has enabled us to continue to tightly manage inventories, we are unable to predict the impact on Palm Harbor's results if industry conditions were to further deteriorate.

Allowance for Loan Losses. CountryPlace originates and holds for investment purposes loans related to the retail sale of manufactured Palm Harbor homes, with such loans being collateralized primarily by the manufactured home. Palm Harbor provides, at the time of sale, allowances for estimated future loan losses. The allowance for loan gives consideration to the composition of the loan portfolio, including number of delinquencies and historical loss experience, and expectations as to future loan losses based upon industry knowledge. Although Palm Harbor maintains an allowance for loan losses based upon these expectations and other criteria, future differences between Palm Harbor's expectations with respect to loan losses and actual losses incurred in the portfolio could differ, and require Palm Harbor to provide additional allowances.

New Accounting Pronouncements

On July 30, 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Effective March 30, 2002, Palm Harbor adopted SFAS No. 146 which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on Palm Harbor's financial position, results of operations and cash flows.

In December 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Effective March 30, 2002, Palm Harbor adopted Interpretation No. 45 which clarifies the requirement for recognition of a liability by a guarantor at the inception of the guarantee, based on the fair value of the non-contingent obligation to perform. Interpretation No. 45 must be applied prospectively to guarantees entered into or modified after December 31, 2002. The adoption of Interpretation No. 45 did not have a material effect on Palm Harbor's financial position, results of operations and cash flows.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Under previous practices, certain entities were included in consolidated financial statements based upon controlling voting interests or in other special situations. Under Interpretation No. 46, certain previously unconsolidated entities will be required to be included in consolidated financial statements of the primary beneficiary, as defined. For variable interest entities, often referred to as special purpose entities, created after January 31, 2003, Interpretation No. 46 is effective immediately. Palm Harbor is currently evaluating the impact of Interpretation No. 46 on our financial position, results of operations and cash flows.

Forward-Looking Information/Risk Factors

Certain statements contained in this annual report are forward-looking statements within the safe harbor provisions of the Securities Litigation Reform Act. Forward-looking statements give our current expectations or forecasts of future events and can be identified by the fact that they do not relate strictly to historical or current facts. Investors should be aware that all forward-looking statements are subject to risks and uncertainties and, as a result of certain factors, actual results could differ materially from these expressed in or implied by such statements. These risks include such assumptions, risks, uncertainties and factors associated with the following:

- ***Availability of retail financing.*** Since mid-1999, loans to purchase manufactured houses have been subjected to elevated credit standards, resulting in reduced lending volumes and consequently reduced sales in the manufactured housing industry. A further tightening of chattel or mortgage credit standards may cause Palm Harbor to experience significant sales declines.

- ***Availability of wholesale financing.*** Several floor plan lenders have chosen to exit the manufactured housing business, thereby reducing the amount of credit available to industry retailers. Further reductions in the availability of floor plan lending may adversely affect Palm Harbor's inventory levels of new homes.

- ***Ability to securitize or fund loans.*** CountryPlace originates chattel and non-conforming land home mortgage loans that are funded with proceeds from its warehouse borrowing facility borrowings from Palm Harbor. CountryPlace intends to enter into asset-backed securitization transactions to obtain longer term funding for these loan purchases. The proceeds from these securitizations will be used to repay borrowings from the warehouse facility and Palm Harbor, as well as to purchase new loans. The asset-backed securitization market for manufactured housing lenders has continued to deteriorate in the past year in terms of access to the markets as well as pricing and credit enhancement levels. If CountryPlace is unable to securitize its loans on terms that are economical, it will be required to seek other sources of long term funding.

- ***Ability to service new loans.*** Although CountryPlace has originated loans since 1995, it has limited loan servicing and collections experience. CountryPlace has implemented new systems to service and collect the portfolio of loans it originates. The management of CountryPlace has industry experience in managing, servicing and collecting a loan portfolio. However, if CountryPlace is not successful in its servicing and collection efforts, the profitability and cash flow from the loan portfolio on its balance sheet could be adversely affected.

- ***Ability of customers to repay loans.*** CountryPlace makes loans to borrowers that it believes are creditworthy based on its credit guidelines. These customers may experience adverse employment, financial, or life circumstances that affect their ability to repay their loans. If customers do not repay their loans, the profitability and cash flow from the loan portfolio on its balance sheet could be adversely affected.

- ***Management's ability to attract and retain executive officers and other key personnel.*** Palm Harbor is dependent on the services and performance of our executive officers, including our Chairman of the Board, Lee Posey and our President and Chief Executive Officer, Larry Keener. The loss of the services of two or more of our executive officers could have a material adverse effect upon the Company's business, financial condition and results of operations.

- ***Control by existing shareholders.*** Approximately 55% of the outstanding Common Stock of Palm Harbor is beneficially owned or controlled by Mr. Posey, Capital Southwest Corporation and its wholly owned subsidiary, Capital Southwest Venture Corporation and William R. Thomas, President of Capital Southwest Corporation. As a result, these shareholders, acting together, will be able to determine the outcome of elections of Palm Harbor's directors and thereby control the management of Palm Harbor's business.

- ***Impact of Inflation.*** The past several years have shown a relatively moderate rate of inflation which Palm Harbor has been able to offset through increased selling prices. A material increase in inflation in the future could adversely affect Palm Harbor's operating results.

- ***Competitive product advertising, promotional and pricing activity.*** There are numerous manufactured housing companies in the industry and many have their own retail distribution systems and consumer finance operations. In addition to competition within the manufactured housing industry, our products also compete with other forms of lower to moderate-cost housing, including site-built homes, apartments, townhouses and condominiums. If we are unable to address this competition, growth in each segment of our business could be limited.

- ***Cyclicality of the manufactured housing industry.*** The cyclical and seasonal nature of the industry causes our revenues and operating results to fluctuate and makes it hard for management to forecast sales and profits in uncertain times. As a result of seasonal and cyclical downturns, we may experience fluctuations in our operating results that make difficult period-to-period comparisons.

- ***Volatility in our stock price.*** Our stock is traded on the Nasdaq National Stock Market and is therefore subject to market fluctuations. During fiscal 2003, our stock price ranged from a low of $10.12 per share to a high of $25.09 per share.

- ***Terrorist attacks/war.*** Market disruptions and other effects resulting from the terrorist attacks on September 11, 2001 and actions, including armed conflict by the United States and other governments in reaction thereto may materially adversely affect us.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Palm Harbor is exposed to market risks related to fluctuations in interest rates on our variable rate debt, which consists primarily of our liabilities under retail floor plan financing arrangements and warehouse revolving debt, and our fixed rate loans receivable balances. Palm Harbor is not involved in any other market risk sensitive contracts or investments such as interest rate swaps, futures contracts, or other types of derivative financial instruments.

For variable interest rate obligations, changes in interest rates generally do not impact fair market value, but do affect future earnings and cash flows. Assuming Palm Harbor and CountryPlace's level of variable rate debt as of March 28, 2003 is held constant, each one percentage point increase in interest rates occurring on the first day of the year would result in an increase in interest expense for the coming year of approximately $1.25 million.

For fixed rate loans receivable, changes in interest rates generally do not change future earnings and cash flows, but do affect the fair market value of the loan portfolio. Assuming CountryPlace's level of loans held for investment as of March 28, 2003 is held constant, a 10% increase in average interest rates would decrease the fair value of the Company's portfolio by approximately $2.4 million.

CountryPlace is exposed to market risk related to the accessibility and terms of financing in the asset-backed securities market. CountryPlace intends to securitize its loan portfolio as a means to obtain long term fixed interest rate funding. The asset-backed securities market for manufactured housing has been volatile during the past year. The inability to securitize its loans would require CountryPlace to seek other sources of funding or to reduce or eliminate its loan originations if other sources of funding are not available.

Item 8. Financial Statements and Supplementary Data

Report of Independent Auditors

Board of Directors
Palm Harbor Homes, Inc.

We have audited the accompanying consolidated balance sheets of Palm Harbor Homes, Inc. and Subsidiaries (the "Company") as of March 29, 2002 and March 28, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three fiscal years in the period ended March 28, 2003. 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 auditing standards generally accepted in the 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 Palm Harbor Homes, Inc. and Subsidiaries at March 29, 2002 and March 28, 2003, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended March 28, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, in fiscal 2001 the Company changed its method of accounting for revenue recognition and in fiscal 2002 the Company changed its method of accounting for goodwill.

Dallas, Texas
May 9, 2003

Ernst & Young LLP

Palm Harbor Homes, Inc. and Subsidiaries

Consolidated Balance Sheets
(In thousands)

	March 29, 2002	March 28, 2003
Assets		
Cash and cash equivalents	$ 69,197	$ 45,592
Restricted cash	--	4,484
Investments	30,051	23,987
Trade receivables	80,111	66,151
Loans held for investment, net	2,334	32,135
Inventories	122,048	115,753
Prepaid expenses and other assets	14,369	14,952
Deferred tax asset, net	9,552	8,547
Property, plant and equipment, at cost:		
Land and improvements	32,018	36,347
Buildings and improvements	56,990	64,808
Machinery and equipment	55,552	62,322
Construction in progress	8,174	1,985
	152,734	165,462
Accumulated depreciation	60,234	72,575
	92,500	92,887
Goodwill, net	53,109	78,079
Total assets	$ 473,271	$ 482,567

Palm Harbor Homes, Inc. and Subsidiaries

Consolidated Balance Sheets
(In thousands, except share and per share data)

	March 29, 2002	**March 28, 2003**
Liabilities and Shareholders' Equity		
Accounts payable	$ 28,649	$ 32,059
Accrued liabilities	50,246	58,195
Floor plan payable	134,977	114,437
Warehouse revolving debt	-	15,135
Other debt obligations	2,742	2,567
Total liabilities	216,614	222,393
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $.01 par value		
Authorized shares – 2,000,000		
Issued and outstanding shares – none	-	-
Common stock, $.01 par value		
Authorized shares – 50,000,000		
Issued shares – 23,807,879 at March 29, 2002 and March 28, 2003	239	239
Additional paid-in capital	54,149	54,149
Retained earnings	220,359	223,580
Accumulated other comprehensive income	1,939	-
	276,686	277,968
Less treasury shares – 858,507 at March 29, 2002, and 948,557 at March 28, 2003	(14,169)	(15,657)
Unearned compensation	(5,860)	(2,137)
Total shareholders' equity	256,657	260,174
Total liabilities and shareholders' equity	$ 473,271	$ 482,567

See accompanying notes.

Palm Harbor Homes, Inc. and Subsidiaries

Consolidated Statements of Income
(In thousands, except per share data)

	Year Ended		
	March 30, 2001	**March 29, 2002**	**March 28, 2003**
Net sales	$ 650,451	$ 627,380	$ 573,130
Cost of sales	443,131	426,356	408,725
Selling, general and administrative expenses	165,896	168,171	157,474
Income from operations	41,424	32,853	6,931
Interest expense	(12,792)	(8,377)	(6,676)
Other income	7,279	6,450	4,874
Income before income taxes and cumulative effect of change in accounting principle	35,911	30,926	5,129
Income tax expense	14,034	11,478	1,908
Income before cumulative effect of change in accounting principle	21,877	19,448	3,221
Cumulative effect of change in accounting principle	(2,048)	-	-
Net income	$ 19,829	$ 19,448	$ 3,221
Net income per common share - basic and diluted	$ 0.87	$ 0.85	$ 0.14
Weighted average common shares outstanding - basic	22,760	22,820	22,913
Weighted average common shares outstanding - diluted	22,772	22,820	22,913

See accompanying notes.

Palm Harbor Homes, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity
(In thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Shares Shares	Treasury Shares Amount	Unearned Compensation	Total
Balance at March 31, 2000	23,807,879	$ 239	$ 54,149	$181,082	$ 803	(787,039)	$ (13,848)	$ (5,249)	$ 217,176
Comprehensive income									
Net income	–	–	–	19,829	–	–	–	–	19,829
Unrealized gain	–	–	–	–	2,066	–	–	–	2,066
Total comprehensive income	–	–	–	–	–	–	–	–	21,895
Treasury shares purchased, net	–	–	–	–	–	(121,259)	(1,661)	–	(1,661)
Long-Term Incentive Plan									
Shares purchased	–	–	–	–	–	–	–	(3,250)	(3,250)
Terminations	–	–	–	–	–	(56,292)	(1,003)	1,003	–
Provision	–	–	–	–	–	–	–	1,492	1,492
Balance at March 30, 2001	23,807,879	239	54,149	200,911	2,869	(964,590)	(16,512)	(6,004)	235,652
Comprehensive income									
Net income	–	–	–	19,448	–	–	–	–	19,448
Unrealized gain	–	–	–	–	845	–	–	–	845
Realization of gains	–	–	–	–	(1,775)	–	–	–	(1,775)
Total comprehensive income	–	–	–	–	–	–	–	–	18,518
Treasury shares purchased, net	–	–	–	–	–	144,356	2,981	–	2,981
Long-Term Incentive Plan									
Shares purchased	–	–	–	–	–	–	–	(2,987)	(2,987)
Terminations	–	–	–	–	–	(38,273)	(638)	638	–
Provision	–	–	–	–	–	–	–	2,493	2,493
Balance at March 29, 2002	23,807,879	239	54,149	220,359	1,939	(858,507)	(14,169)	(5,860)	256,657
Comprehensive income									
Net income	–	–	–	3,221	–	–	–	–	3,221
Realization of gains	–	–	–	–	(1,939)	–	–	–	(1,939)
Total comprehensive income	–	–	–	–	–	–	–	–	1,282
Treasury shares purchased, net	–	–	–	–	–	(12,518)	(228)	–	(228)
Long-Term Incentive Plan									
Terminations	–	–	–	–	–	(77,532)	(1,260)	1,260	–
Provision	–	–	–	–	–	–	–	2,463	2,463
Balance at March 28, 2003	23,807,879	$ 239	$ 54,149	$223,580	$ –	(948,557)	$(15,657)	$(2,137)	$260,174

See accompanying notes.

Palm Harbor Homes, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended		
	March 30, 2001	**March 29, 2002**	**March 28, 2003**
Operating Activities			
Income before cumulative effect of change in accounting principle	$ 21,877	$ 19,448	$ 3,221
Adjustments to reconcile income before cumulative effect of change in accounting principle to net cash provided by operating activities			
Cumulative effect of change in accounting principle	(2,048)	-	-
Depreciation and amortization	14,831	12,087	13,798
Provision for credit losses	-	-	1,409
Deferred income taxes	(1,792)	(1,138)	740
(Gain) loss on disposition of assets	(16)	329	515
Loss on investments	-	-	1,002
Purchases of stock for Long-Term Incentive Plan	(3,250)	(2,987)	-
Provision for Long-Term Incentive Plan	1,492	2,493	2,463
Equity earnings in limited partnership	-	-	(3,416)
Changes in operating assets and liabilities:			
Restricted cash	-	-	(4,484)
Trade receivables	5,228	3,497	11,357
Inventories	(3,272)	3,869	12,214
Prepaid expenses and other current assets	1,611	(1,657)	4,694
Accounts payable and accrued expenses	(12,129)	(3,283)	3,181
Cash provided by operations	22,532	32,658	46,694
Loans originated	(142,635)	(137,880)	(63,670)
Sale of loans	143,956	139,711	64,998
Net cash provided by operating activities	23,853	34,489	48,022
Investing Activities			
Business acquired, net of cash acquired	-	-	(31,789)
Investment in limited partnership	-	-	(3,000)
Distributions from investment in limited partnership	-	-	1,525
Loans originated	-	-	(32,859)
Principal payments on loans originated	-	-	1,649
Purchases of property, plant and equipment	(14,147)	(14,773)	(6,483)
Purchases of investments	(11,769)	(13,318)	(5,470)
Sales of investments	9,702	8,399	10,532
Proceeds from disposition of assets	276	65	76
Net cash used in investing activities	(15,938)	(19,627)	(65,819)
Financing Activities			
Net proceeds from (payments on) floor plan payable	6,139	(9,770)	(20,540)
Net proceeds from warehouse revolving debt	-	-	15,135
Principal payments on debt obligations	(241)	(166)	(175)
Net purchases of treasury stock	(1,661)	2,981	(228)
Net cash provided by (used in) financing activities	4,237	(6,955)	(5,808)
Net increase (decrease) in cash and cash equivalents	12,152	7,907	(23,605)
Cash and cash equivalents at beginning of year	49,138	61,290	69,197
Cash and cash equivalents at end of year	$ 61,290	$ 69,197	$ 45,592
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 12,670	$ 8,896	$ 6,257
Income taxes	$ 17,874	$ 15,409	$ 361

See accompanying notes.

Palm Harbor Homes, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of Palm Harbor Homes, Inc. (the "Company") and our majority-owned and wholly-owned subsidiaries. Investments in 50% or less-owned entities are accounted for under the equity method. All significant intercompany transactions and balances have been eliminated in consolidation. The Company's fiscal year ends on the last Friday in March. Headquartered in Addison, Texas, the Company markets factory-built homes nationwide through vertically integrated operations, encompassing manufactured housing, modular housing, chattel and mortgage bank financing, as well as insurance.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from the estimates and assumptions used by management in preparation of the financial statements.

Revenue recognition

Effective April 1, 2000, in accordance with Staff Accounting Bulletin No. 101, the Company changed its method of accounting for revenue recognition for retail sales. Historically, the Company recognized revenues for its retail home sales when the home was delivered. Under the Company's revenue recognition policy, adopted in the fourth quarter of 2001 retroactive to April 1, 2000, the Company now recognizes revenue for retail sales when the home is delivered and permanently located at the customer's site. The cumulative effect of the change on prior years resulted in a charge to net income of $2,048,000 (after income taxes of $1,366,000 which is included in results for fiscal 2001). The effect of the change on fiscal 2001 was to increase income before the cumulative effect of the accounting change by $101,000 and decrease net income by approximately $2.0 million ($0.09 per share). For the first quarter of 2001, the Company recognized $11,535,000 in revenues that are included in the cumulative effect adjustment as of April 1, 2000.

Retail sales, including shipping charges, are recognized when a down payment is received, the customer enters into a legally binding sales contract, title has transferred and the home is accepted by the customer, delivered and permanently located at the customer's site. Homes sold to independent retailers are recognized when the home is shipped which is when the title passes to the independent retailer. The transportation cost is borne by the independent retailer.

Interest income on loans held for investment is recognized as net sales on an accrual basis. Loan origination fees and certain direct loan origination costs are deferred and amortized into net sales over the contractual life of the loan using the interest method.

Most of the homes sold to independent retailers are financed through standard industry arrangements which include repurchase agreements (see Note 13). The Company extends credit in the normal course of business under normal trade terms and our receivables are subject to normal industry risk.

Residual interests and recourse obligations

Through November 2002, CountryPlace Mortgage, Ltd. ("CountryPlace"), the Company's finance subsidiary, originated and sold loan contracts to national consumer finance companies and received cash and/or retained a residual interest in the interest generated by the sold contracts. Since April 1, 1999, substantially all interest income on sold contracts was received in cash upon the sale of the contracts. Prior to April 1, 1999, a residual interest in the interest generated by the sold contracts was retained and recorded. The fair value of the residual interests was previously recorded on the balance sheet at fair value. Additionally, in some cases, in connection with the sale of loan contracts, CountryPlace was required to share in the losses resulting from defaults or prepayments of loan contracts previously sold and therefore established estimated losses at the time the loan contracts were sold.

At March 29, 2002, the Company's net receivable for interest-only strips was approximately $8.9 million and the Company's net reserve for recourse obligations was $2.9 million. During the fourth quarter of fiscal 2003, the Company sold all of its interest-only strip receivables related to loan contracts previously sold for approximately $7.0 million and was released from all of its related recourse obligations. No significant gain or loss was recorded in connection with this transaction. During the fiscal year ended March 30, 2001, March 29, 2002 and March 28, 2003, the Company recognized approximately $5.0 million, $3.9 million and $1.0 million in gains, respectively, related to loan contracts sold. The Company had $1.1 million, $0.8 million and zero in unrealized gains for the fiscal years ended March 30, 2001, March 29, 2002 and March 28, 2003, respectively.

Cash and cash equivalents

Cash and cash equivalents are all liquid investments with maturities of three months or less when purchased.

Restricted cash

At March 28, 2003, $4.5 million of cash was pledged as collateral for outstanding letters of credit which collaterized insurance programs and surety bonds.

Loans held for investment

Loans held for investment are stated at the aggregate remaining unpaid principal balances less allowances for loan losses and unamortized deferred finance fees.

Allowance for loan losses

CountryPlace originates and holds for investment purposes loans related to the retail sale of manufactured Palm Harbor homes, with such loans being collateralized primarily by the manufactured home. The Company provides, at the time of sale, allowances for estimated future loan losses. The allowance for loan gives consideration to the composition of the loan portfolio, including number of delinquencies and historical loss experience, and expectations as to future loan losses based upon industry knowledge. Although the Company maintains an allowance for loan losses based upon these expectations and other criteria, future differences between the Company's expectations with respect to loan losses and actual losses incurred in the portfolio could differ, and require the Company to provide additional allowances.

Investments

The Company holds investments as trading and available-for-sale. The trading account assets consist of marketable debt and equity securities and are stated at fair value. Marketable debt and equity securities not classified as trading are classified as available-for-sale. Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of tax, reported in shareholders' equity.

Inventories

Raw materials inventories are valued at the lower of cost (first-in, first-out method which approximates actual cost) or market. Finished goods are valued at the lower of cost or market, using the specific identification method.

Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation is calculated using the straight-line method over the assets' estimated useful lives. Leasehold improvements are amortized using the straight-line method over the shorter of the lease period or the improvements' useful lives. Estimated useful lives for significant classes of assets are as follows: Land and Improvements 10-15 years, Buildings and Improvements 3-15 years, and Machinery and Equipment 2-10 years. The Company had depreciation expense of $10,765,000, $11,993,000 and $13,704,000 in fiscal 2001, 2002 and 2003, respectively. Repairs and maintenance are expensed as incurred. The recoverability of property, plant and equipment is evaluated whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, primarily based on estimated selling price, appraised value or projected undiscounted cash flows. The company has not recorded any impairment charges in fiscal 2001, 2002 or 2003.

Goodwill

Goodwill is the excess of cost over fair value of net assets of businesses acquired. Through fiscal 2001, goodwill was amortized on the straight-line method over the expected periods to be benefited – between 10 and 20 years. Commencing in fiscal 2002, goodwill is no longer amortized. The Company tests goodwill annually for impairment by reporting unit and records an impairment charge when the implied fair value of goodwill is less than its carrying value. Comparative pro forma results for the fiscal year ended March 30, 2001 would have increased income before cumulative effect of change in accounting principle and net income by $2.5 million, or $0.11 per share, to $0.98 per share. The Company performed its annual goodwill impairment test for fiscal year 2003 and noted no implied impairment of goodwill.

Warranties

Products are warranted against manufacturing defects for a period of one year commencing at the time of sale to the retail customer. Estimated costs relating to product warranties are provided at the date of sale.

Start-up costs

Costs incurred in connection with the start-up of manufacturing facilities and retail superstores are expensed as incurred.

Income taxes

Deferred income taxes are determined by the liability method and reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Earnings per share

In computing both basic and diluted earnings per share, the number of weighted average shares outstanding during the periods presented were used.

Financial statement classifications

During the fiscal year ended March 28, 2003, the Company announced plans to significantly increase its finance operations through CountryPlace. As of March 28, 2003, CountryPlace had obtained a warehouse revolving debt facility of $125.0 million whereby CountryPlace will initially borrow against the facility on a short-term basis to fund the origination of manufactured housing loans until sufficient sums of loans are accumulated and then securitized with debt with longer-term maturities. As of March 28, 2003, the Company had approximately $32.1 million of loans held for investment.

As a result of the Company's plans to continue to significantly expand its finance and insurance operations, an accounting policy to no longer present a classified balance sheet has been adopted.

Additionally, certain prior period amounts have been reclassified to conform to the current period presentation.

New Accounting Pronouncements

On July 30, 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” Effective March 30, 2002, the Company adopted SFAS No. 146 which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Company’s financial position, results of operations and cash flows.

In December 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Effective March 30, 2002, the Company adopted Interpretation No. 45 clarifies the requirement for recognition of a liability by a guarantor at the inception of the guarantee, based on the fair value of the non-contingent obligation to perform. Interpretation No. 45 must be applied prospectively to guarantees entered into or modified after December 31, 2002. The adoption of Interpretation No 45 did not have a material effect on the Company’s financial position, results of operations and cash flows.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Under previous practices, certain entities were included in consolidated financial statements based upon controlling voting interests or in other special situations. Under Interpretation No. 46, certain previously unconsolidated entities will be required to be included in consolidated financial statements of the primary beneficiary, as defined. For variable interest entities, often referred to as special purpose entities, created after January 31, 2003, Interpretation No. 46 is effective immediately. The Company is currently evaluating the impact of Interpretation No. 46 on its financial position, results of operations and cash flows.

2. Acquisitions/Investments

On June 7, 2002, the Company acquired Nationwide Custom Homes ("Nationwide"), a manufacturer and marketer of modular homes, for $32.5 million in cash. The acquisition was accounted for using the purchase method of accounting. The purchase price allocation as of March 28, 2003 resulted in approximately $25 million of goodwill related to the acquisition. The pro forma results of operations assuming the acquisition of Nationwide as of March 30, 2002 would not be materially different than the historical results and, therefore, are not presented.

In June 2002, the Company invested $3.0 million to become the sole limited partner and 50% owner of an existing mortgage banking firm, BSM Financial L. P. ("BSM") which is being accounted for using the equity method of accounting. Since the acquisition, the Company's equity in the net income of BSM was $3.4 million. The following table represents the condensed balance sheet as of March 28, 2003 and the condensed income statement for the ten month (from date of acquisition) period ending March 28, 2003:

	March 28, 2003
	(in thousands)
Cash	$ 390
Receivable for mortgage notes assigned to investors	130,319
Other current assets	2,341
Property, plant and equipment, net	879
Other assets	52
Total assets	$ 133,981
Warehouse revolving debt	$ 120,360
Other current liabilities	5,921
Debt obligations	163
Partnership capital	7,537
Total liabilities and partnership capital	$ 133,981

	Ten Months Ended March 28, 2003
	(in thousands)
Revenues	$ 27,991
Operating income	6,831
Net income	6,831

3. Inventories

Inventories consist of the following:

	March 29, 2002	March 28, 2003
	(in thousands)	
Raw materials	$ 7,631	$ 7,779
Work in process	3,339	4,493
Finished goods – factory-built	659	2,337
Finished goods – retail	110,419	101,144
	$ 122,048	$ 115,753

4. Investments

The Company's investments totaled $30,051,000 and $23,987,000 at March 29, 2002 and March 28, 2003, respectively. The fair value of the available-for-sale securities was $20,393,000 and $14,619,000, and had no net unrealized gains or losses recorded at March 29, 2002 and March 28, 2003, respectively. The majority of the available-for-sale securities consist of U.S. government related obligations and other debt obligations with contractual maturities of generally 2 to 11 years. The remaining of the Company's investments are classified as trading securities.

5. Floor plan payable

During the fourth quarter of fiscal 2003, the Company executed a $100.0 million syndicated floor plan facility with a financial institution. The advance rate for this facility is 90% of manufacturer's invoice. On March 19, 2006, $65 million of this facility will expire and the remaining $35 million will expire via orderly liquidations by the end of September 2003. The Company is exploring several options to replace this portion of the facility. The Company has a second facility with another financial institution for $10.0 million, which automatically renews each year unless notification of cancellation is received by the financial institution. These facilities are used to finance a major portion of the home inventory at the Company's retail superstores and are secured by a portion of its home inventory and receivables from financial institutions. The interest rates on the facilities are prime (4.25% at March 28, 2003) or prime plus 1.0% to 3.0% for aged units, of which the Company has none. These two floor plan facilities contain certain provisions regarding minimum financial requirements which the Company must maintain in order to borrow against the facilities. As of March 28, 2003, the Company was in compliance with its $100.0 million syndicated floor plan facility and had obtained a limited forbearance with respect to a violation of its minimum covenant requirements on its $10.0 million facility. The Company had $134,977,000 and $114,437,000 outstanding on these floor plan credit facilities at March 29, 2002 and March 28, 2003, respectively.

6. Warehouse revolving debt

The Company, through its subsidiary CountryPlace, has a loan warehouse borrowing facility with a financial institution. This facility is collateralized by specific receivables pledged to the facility and bears interest at the rate of LIBOR plus 1.25% (2.5625% at March 28, 2003). The facility terminates on March 19, 2004. The facility provides for an advance of 65% against the outstanding principal balance of eligible receivables, as further defined in the warehouse agreement. CountryPlace had outstanding borrowings under this facility of $15,135,000 as of March 28, 2003. The facility contains certain requirements relating to the performance and composition of the receivables pledged to the facility and certain financial covenants, which are customary in the industry. The facility also requires Palm Harbor and CountryPlace to maintain a minimum balance of shareholders' equity. As of March 28, 2003, both Palm Harbor and CountryPlace were in compliance with these requirements. In connection with the warehouse borrowing facility, Palm Harbor agreed to fund in cash to CountryPlace, up to 25% of each loan loss incurred. As of March 28, 2003 there had been no losses related to any loans in the portfolio and no such loss funding was required. Additionally, Palm Harbor has entered into an intercompany financing arrangement with CountryPlace that provides for up to $25 million of funding to be used for the growth of CountryPlace's portfolio and operations. As of March 28, 2003, approximately $4.1 million was advanced to CountryPlace under this intercompany financing arrangement.

7. Accrued liabilities

Accrued liabilities consist of the following:

	March 29, 2002	March 28, 2003
	(in thousands)	
Salaries, wages and benefits	$ 13,617	$ 15,981
Accrued expenses on homes sold, including warranty	15,388	14,715
Customer deposits	7,263	11,954
Sales incentives	3,851	4,285
Other	10,127	11,260
	$ 50,246	$ 58,195

8. Other debt obligations

Other debt obligations consist of the following:

	March 29, 2002	March 28, 2003
	(in thousands)	
Economic development revenue bonds; interest payable monthly at 7.54%; monthly interest and principal payments of $31,393 through January 2006 with final payment of $2,002,040 in February 2006	$ 2,742	$ 2,567

The revenue bonds require the maintenance of certain financial statement ratios, prohibit the payment of dividends and are collateralized by certain fixed assets having a carrying value as of March 28, 2003 of $4,842,000.

Scheduled maturities of other debt obligations are as follows (in thousands):

Fiscal Year	Amount
2004	$ 190
2005	204
2006	2,173
	$ 2,567

The carrying value of the Company's other debt obligations approximates their fair value.

9. Income taxes

Income tax expense for fiscal years 2001, 2002 and 2003 is as follows:

	March 30, 2001	March 29, 2002	March 28, 2003
		(in thousands)	
Current			
Federal	$14,687	$ 11,566	$ 433
State	1,440	911	420
Deferred	(2,093)	(999)	1,055
Total income tax expense	$14,034	$ 11,478	$ 1,908

Significant components of deferred tax assets and liabilities are as follows:

	March 29, 2002	March 28, 2003
	(in thousands)	
Deferred tax assets		
Warranty reserves	$ 985	$ 196
Accrued liabilities	4,901	5,155
Inventory	1,813	2,310
Unrecognized income	2,564	532
Property and equipment	2,489	2,875
Other	1,186	2,617
Total deferred tax assets	13,938	13,685
Deferred tax liabilities		
Tax benefits purchased	1,834	1,313
Other	2,552	3,825
Total deferred tax liabilities	4,386	5,138
Net deferred income tax assets	$ 9,552	$ 8,547

Tax benefits purchased are investments in Safe Harbor lease agreements that are carried net of tax benefits realized. The balance will be amortized over the remaining term of the related lease.

The effective income tax rate on pretax earnings differed from the U.S. federal statutory rate for the following reasons:

	March 30, 2001	March 29, 2002	March 28, 2003
		(in thousands)	
Tax at statutory rate	$ 12,567	$ 10,824	$1,795
Increases (decreases)			
State taxes - net of federal tax benefit	939	592	273
Goodwill amortization	1,016	-	-
Tax exempt interest	(162)	(110)	(84)
Other	(326)	172	(76)
Income tax expense	$ 14,034	$ 11,478	$ 1,908
Effective tax rate	39.1%	37.1%	37.2%

10. Shareholders' equity

The Board of Directors may, without further action by the Company's shareholders, from time to time, authorize the issuance of shares of preferred stock in series and may, at the time of issuance, determine the powers, rights, preferences and limitations, including the dividend rate, conversion rights, voting rights, redemption price and liquidation preference, and the number of shares to be included in any such series. Any preferred stock so issued may rank senior to the common stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding up, or both. In addition, any such shares of preferred stock may have class or series voting rights.

11. Long-Term Incentive Plan

Effective March 29, 1999, the Board of Directors approved the Fiscal Year 2000 Long-Term Incentive Plan (the "Plan") whereby certain key associates received awards of restricted common stock. The Company's Chairman and President/CEO do not participate in the Plan. Shares awarded under the Plan are either purchased by the Company in the open market or transferred from the Company's treasury stock account. These restricted stock awards give the associate the right to receive a specific number of shares of common stock contingent upon remaining an associate of the Company for a specified period. Effective April 3, 2000, April 2, 2001 and April 1, 2002, the Board of Directors approved the Fiscal Year 2001 Long-Term Incentive Plan (the "2001 Plan"), the Fiscal Year 2002 Long-Term Incentive Plan (the "2002 Plan") and the Fiscal Year 2003 Long-Term Incentive Plan (the "2003 Plan"), respectively. The 2001 Plan, 2002 Plan and the 2003 Plan have substantially the same terms as the Plan.

The unamortized cost of the common stock acquired by the Company for the participants in the plans is reflected as "Unearned Compensation" in the accompanying Consolidated Balance Sheets. The plans are administered by a committee authorized by the Board of Directors.

12. Employee plan

The Company sponsors an employee savings plan (the "401k Plan") that is intended to provide participating employees with additional income upon retirement. Employees may contribute between 1% and 15% of eligible compensation to the 401k Plan. The Company matches 50% of the first 6% deferred by employees. Employees are immediately eligible to participate and employer contributions, which begin one year after employment, are vested at the rate of 20% per year and are fully vested after five years of employment. Contribution expense was $1,387,000, $1,627,000 and $1,631,000 in fiscal years 2001, 2002 and 2003, respectively.

13. Commitments and contingencies

Future minimum lease payments for all noncancelable operating leases having a remaining term in excess of one year at March 28, 2003, are as follows (in thousands):

Fiscal Year	Amount
2004	$ 5,449
2005	3,078
2006	2,359
2007	1,761
2008 and thereafter	9,116
	$ 21,763

Rent expense (net of sublease income) was $8,991,000, $8,617,000 and $8,124,000 for fiscal years 2001, 2002 and 2003, respectively.

The Company is contingently liable under the terms of repurchase agreements covering independent retailers' floor plan financing. Under such agreements, the Company agrees to repurchase homes at declining prices over the term of the agreement, generally 12 to 18 months. At March 28, 2003, the Company estimates that its potential obligations under all repurchase agreements were approximately $10.4 million. However, it is management's opinion that no material loss will occur from the repurchase agreements. During fiscal years 2001, 2002 and 2003, net expenses incurred by the Company under these repurchase agreements totaled $132,000, $212,000 and $69,000, respectively.

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Company.

14. Other income

During fiscal years 2001, 2002 and 2003, the Company recorded interest income of $5,247,000, $3,823,000 and $1,700,000 respectively and other income, primarily income earned on a real estate investment in fiscal 2002 and 2003 and earnings in the Company's limited partnership, BSM, partially offset by a loss on short-term investments in fiscal 2003, of $2,032,000, $2,627,000 and $3,174,000, respectively.

15. Business segment information

In the previous fiscal years, the Company reported two business segments – a "housing segment" which combined the retail and manufacturing operations and a "financial services" segment which combined the insurance and finance operations. The Company operates nationwide through vertically integrated operations, encompassing manufactured housing, modular housing, chattel and mortgage bank financing, as well as insurance. During the current fiscal year, the Company further increased both its finance and home product offerings through both business acquisition and internal development and expansion. As a result, the Company's various operating units have continued to become more interrelated, interdependent and synergistic. In fiscal 2003, 82% of homes manufactured by the Company were sold through Company-owned retail superstores and 100% of loans originated and held for investment by the Company's CountryPlace Mortgage, Ltd. subsidiary related to the retail sale of the Company's manufactured homes. Accordingly, the Company's chief operating decision makers primarily review business and operating data for purposes of assessing performance, making operating decisions and allocating resources on an enterprise-wide basis. Therefore, the Company is presenting its financial statements on an enterprise-wide basis and prior year segment data has been reclassified to conform to the current year presentation.

16. Accrued product warranty obligations

The following table summarizes the changes in accrued product warranty obligations during the last three years. A portion of warranty reserves is classified as other long-term liabilities in the consolidated balance sheet.

	Accrued warranty obligation *(in thousands)*
Reserves at March 29, 2000	$ 8,736
Net warranty expense provided	21,058
Cash warranty payments	(21,611)
Reserves at March 30, 2001	8,183
Net warranty expense provided	16,182
Cash warranty payments	(17,782)
Reserves at March 29, 2002	6,583
Net warranty expense provided	11,445
Cash warranty payments	(13,895)
Reserves at March 28, 2003	$ 4,133

Palm Harbor Homes, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Quarterly financial data (unaudited)

The following table sets forth certain unaudited quarterly financial information for the fiscal years 2002 and 2003.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(in thousands, except per share data)				
Fiscal Year Ended March 29, 2002					
Net sales	$ 172,560	$ 173,378	$ 158,787	$ 122,685	$ 627,380
Gross profit	51,939	55,560	49,803	43,722	201,024
Income from operations	11,010	11,617	8,195	2,031	32,853
Net income (loss)	5,777	6,676	5,173	1,822	19,448
Earnings per share – basic and diluted	$ 0.25	$ 0.29	$ 0.23	$ 0.08	$ 0.85
Fiscal Year Ended March 28, 2003					
Net sales	$ 138,459	$ 149,612	$ 148,974	$ 136,085	$ 573,130
Gross profit	39,539	44,327	42,920	37,619	164,405
Income (loss) from operations	(935)	3,269	4,758	(161)	6,931
Net income (loss)	(1,307)	1,612	2,733	183	3,221
Earnings (loss) per share – basic and diluted	$ (0.06)	$ 0.07	$ 0.12	$ 0.01	$ 0.14

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III.

Item 10. Directors and Executive Officers of the Registrant

(a) Information with respect to the Company's Board of Directors and executive officers is incorporated by reference from pages 7 through 9 of the Company's definitive Proxy Statement filed with the SEC on June 9, 2003 in connection with the Annual Meeting of Shareholders to be held July 23, 2003.

(b) Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company pursuant to Rule 16a-3(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), during the Company's most recent fiscal year and Form 5 and amendments thereto furnished to the Company with respect to our most recent fiscal year, no person who, at any time during the most recent fiscal year was a director, officer, beneficial owner of more than 10% of any class of equity securities of the Company registered pursuant to Section 12 of the Exchange Act, or any other person subject to Section 16 of the Exchange Act failed to file on a timely basis, reports required by Section 16(a) of the Exchange Act during the most recent fiscal year.

Item 11. Executive Compensation

Information with respect to executive compensation is incorporated by reference from pages 9 through 11 of The Company's definitive Proxy Statement filed with the SEC on June 9, 2003 in connection with the Annual Meeting of Shareholders to be held July 23, 2003.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information with respect to security ownership of certain beneficial owners and management is incorporated by reference from pages 6 and 7 of the Company's definitive Proxy Statement filed with the SEC on June 9, 2003 in connection with the Annual Meeting of Shareholders to be held July 23, 2003.

Item 13. Certain Relationships and Related Transactions

None.

PART IV.

Item 14. Controls and Procedures

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to cause material information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

Item 15. Exhibits, Financial Statement, Schedules and Reports on Form 8-K

(a) (1) Financial Statements

The Company's Consolidated Financial Statements for the year ended March 28, 2003 are included on pages 21 through 37 of this report.

(2) Financial Statement Schedules
None

(3) Index to Exhibits

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, Registration No. 33-79164).
3.2	Articles of Amendment (Incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1, Registration No. 33-79164).
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24.1	Power of Attorney (included on the signature page of the Report).
*99.1	Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002 by Larry H. Keener
*99.2	Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002 by Kelly Tacke.
*99.3	Financial Statements of BSM Financial, L. P.

* Filed herewith

(b) None.
(c) See Item 14(a)(3) above.
(d) None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on our behalf by the undersigned, thereunto duly authorized on June 6, 2003.

PALM HARBOR HOMES, INC.

/s/ Lee Posey
Lee Posey, Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

KNOW ALL MEN BY THESE PRESENTS, that the undersigned do hereby constitute and appoint Lee Posey and Kelly Tacke, and each of them, each with full power to act without the other, his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to the annual report on Form 10-K for the year ended March 28, 2003 of Palm Harbor Homes, Inc., and to file the same, with any and all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all of each of said attorneys-in-fact and agents or any of them may lawfully do or cause to be done by virtue thereof.

Signatures	Title	Date
/s/ Lee Posey Lee Posey	Chairman of the Board and Director (Principal Executive Officer)	June 6, 2003
/s/ Larry Keener Larry Keener	Chief Executive Officer, President and Director	June 6, 2003
/s/ Kelly Tacke Kelly Tacke	Vice President-Finance, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	June 6, 2003
/s/ William R. Thomas William R. Thomas	Director	June 6, 2003
/s/ Walter D. Rosenberg, Jr. Walter D. Rosenberg, Jr.	Director	June 6, 2003
/s/ Frederick R. Meyer Frederick R. Meyer	Director	June 6, 2003
/s/ John H. Wilson John H. Wilson	Director	June 6, 2003
/s/ A. Gary Shilling A. Gary Shilling	Director	June 6, 2003
/s/ Jerry D. Mallonee Jerry D. Mallonee	Director	June 6, 2003

CERTIFICATIONS

I, Larry H. Keener, certify that:

1. I have reviewed this annual report on Form 10-K of Palm Harbor Homes, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d –14) for the registrant and have:

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual report (the "Evaluation Date"); and

    c. presented in the annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 6, 2003

By: /s/ Larry H. Keener
Larry H. Keener
Chief Executive Officer

CERTIFICATIONS

I, Kelly Tacke, certify that:

1. I have reviewed this annual report on Form 10-K of Palm Harbor Homes, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d –14) for the registrant and have:

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual report (the "Evaluation Date"); and

    c. presented in the annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 6, 2003

By: /s/ Kelly Tacke
Kelly Tacke, Chief Financial Officer
(Chief Financial and Accounting Officer)

INDEX TO EXHIBITS

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*99.3	Financial Statements of BSM Financial, L.P.

* Filed herewith

Exhibit 21.1

Subsidiaries

Name	Jurisdiction of Organization
Palm Harbor Finance Corporation	Texas
Palm Harbor G.P., Inc.	Nevada
Standard Casualty Company	Texas
Better Homes Systems, Inc.	Washington
Palm Harbor Investments, Inc.	Nevada
Palm Harbor Holding, Inc.	Nevada
Standard Insurance Agency, Inc.	Texas
CountryPlace Mortgage, Ltd.	Texas
Palm Harbor Homes I, L.P.	Texas
First Home Mortgage Corporation	Georgia
Magic Living, Inc.	Nevada
Palm Harbor Marketing, Inc.	Nevada
Palm Harbor Manufacturing, L.P.	Texas
Palm Harbor GenPar, L.L.C.	Nevada
Palm Haven Insurance Agency of Florida, Inc.	Florida
Palm Harbor Insurance Agency of Tennessee, Inc.	Tennessee
Palm Harbor Insurance Agency of Texas, Inc.	Texas
CountryPlace Mortgage II, Ltd.	Texas
Nationwide Homes, Incorporated	Delaware
CountryPlace Acceptance Corporation	Nevada
CountryPlace Acceptance GP, LLC	Texas
CountryPlace Acceptance LP, LLC	Delaware
CountryPlace Funding, Inc.	Delaware

Exhibit 23.1

Consent of Ernst & Young LLP

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-24135) pertaining to the Palm Harbor Homes, Inc. Employee Savings Plan, and in the Registration Statement (Form S-3 No. 333-52535) and in the related Prospectus of Palm Harbor Homes, Inc. and subsidiaries, of our report dated May 9, 2003, with respect to the consolidated financial statements of Palm Harbor Homes, Inc. and subsidiaries included in this Annual Report (Form 10-K) for the year ended March 28, 2003.

June 4, 2003
Dallas, Texas

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 S.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Palm Harbor Homes, Inc. (“the Company”) on Form 10-K for the year ended March 28, 2003, as filed with the Securities and Exchange Commission on the date hereof (“the Report”), I, Larry H. Keener, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C.78m or 78o(d); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Larry H. Keener
Larry H. Keener
Chief Executive Officer
June 6, 2003

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 S.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Palm Harbor Homes, Inc. (“the Company”) on Form 10-K for the year ended March 28, 2003, as filed with the Securities and Exchange Commission on the date hereof (“the Report”), I, Kelly Tacke, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C.78m or 78o(d); and

(2) The information contained in the Report fairly presents, in all material respects the financial condition and results of operations of the Company.

By: /s/ Kelly Tacke
Kelly Tacke, Chief Financial Officer
(Chief Financial and Accounting
Officer)
June 6, 2003

Exhibit 99.3

FINANCIAL STATEMENTS

BSM Financial, L.P.

Year ended March 31, 2003

BSM Financial, L.P.

Financial Statements

Year ended March 31, 2003

Contents

Report of Independent Auditors

The Partners
BSM Financial, L.P.

We have audited the accompanying balance sheet of BSM Financial, L.P. as of March 31, 2003, and the related statements of income, changes in partnership capital, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BSM Financial, L.P. at March 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

EΨ

May 20, 2003 Ernst & Young LLP

BSM Financial, L.P.

Balance Sheet

March 31, 2003

Assets	
Current assets:	
Cash in bank and cash equivalents	$ 390,001
Receivable for mortgage notes assigned to investors	130,318,782
Fair value of interest rate lock commitments	1,466,459
First payments from borrowers	610,961
Other current assets	263,960
Total current assets	133,050,163
Furniture, fixtures and equipment, net	878,576
Other assets	52,188
Total assets	$ 133,980,927
Liabilities and Partnership Capital	
Current liabilities:	
Warehouse notes payable	$ 120,360,039
Unearned revenue on interest rate lock commitments	1,466,459
Escrow and early payment default provision	1,145,361
Notes payable	132,515
Accrued lending fees	1,050,012
Accrued liabilities	2,259,287
Total current liabilities	126,413,673
Notes payable, long term	30,020
Total liabilities	126,443,693
Commitments and contingencies	
Partnership capital:	
Total partnership capital	7,537,234
Total liabilities and partnership capital	$ 133,980,927

See accompanying notes.

0305-0433808

BSM Financial, L.P.

Statement of Income

Year ended March 31, 2003

Revenue	
Gain on sale of loans	$ 21,920,791
Loan closing fees	7,228,611
Loan origination fees	3,947,426
Total revenue	33,096,828
Costs and Expenses	
Salaries, commissions and employee benefits	19,147,233
Loan processing expenses	2,055,709
Interest expense	1,686,337
Marketing and development expenses	600,686
Rent expense	1,347,871
Depreciation expense	219,701
Other general and administrative expenses	605,351
Total costs and expenses	25,662,888
Net Income	$ 7,433,940

See accompanying notes.

BSM Financial, L.P.

Statement of Changes in Partnership Capital

Year ended March 31, 2003

	KJ Financial, LLC	James Mammoser	L & Q Cummins	Palm Harbor Homes, Inc.	Total
Balance at April 1, 2002	$ 929,830	$ 707,059	$ 629,656	$ –	$ 2,266,545
Net income	3,958,099	30,141	30,141	3,415,559	7,433,940
Contributions	1,427,959	–	–	3,000,000	4,427,959
Distributions	(3,669,213)	(737,200)	(659,797)	(1,525,000)	(6,591,210)
Balance at March 31, 2003	$ 2,646,675	$ –	$ –	$ 4,890,559	$ 7,537,234

See accompanying notes.

BSM Financial, L.P.

Statement of Cash Flows

Year ended March 31, 2003

Operating Activities	
Net income	$ 7,433,940
Adjustments to reconcile net earning to net cash used in operating activities:	
Depreciation expense	219,701
Changes in operating assets and liabilities:	
Mortgage loans originated	(1,047,381,125)
Mortgage loans sold	949,978,982
Increase in first payments from borrowers	(513,270)
Increase in other assets	(239,457)
Increase in escrow and early payments	878,151
Increase in accrued lending fees	761,459
Increase in accrued liabilities	1,672,168
Total adjustments	(94,623,391)
Net cash used in operating activities	(87,189,451)
Investing Activity	
Purchases of fixed assets, net of retirements	(556,626)
Cash used in investing activity	(556,626)
Financing Activities	
Increase in warehouse notes payable	88,809,852
Partnership contribution	3,000,000
Partnership withdrawals	(4,007,084)
Decrease in notes payable	(104,205)
Net cash provided by financing activities	87,698,563
Net decrease in cash	(47,514)
Cash at beginning of year	437,515
Cash at end of year	$ 390,001
Supplemental Disclosures	
Cash paid during the year for interest	$ 1,557,327
Noncash distributions to partners	$ 2,584,126
Noncash contributions from partners	$ 1,427,959

See accompanying notes.

BSM Financial, L.P.

Notes to Financial Statements

March 31, 2003

1. Description of the Company and Significant Accounting Policies

General

BSM Financial, L.P. (the Company) is a Texas limited partnership, operating as one business segment, whose primarily purpose is to originate residential government and conventional first mortgage loans throughout the United States to individuals who are either purchasing homes or refinancing existing mortgages. The Company sells all of its mortgage loans and the related servicing rights associated with these mortgages to unrelated entities.

Use of Estimates in Preparation of Financial Statements

The accompanying financial statements were prepared in conformity with accounting principles generally accepted in the United States (GAAP). The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the assets, liabilities, contingent assets/liabilities, revenues and expenses and accompanying notes. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash on deposit. For purposes of the statement of cash flows, the Company considers financial instruments with original maturities of three months or less to be cash equivalents. Cash on deposit with the GMAC warehouse lending institution has been applied against the warehouse notes payable and amounted to $1,854,745 at March 31, 2003.

Receivable for Mortgage Notes Assigned to Investors

In the normal course of business, the Company enters into trade assignment agreements with its investors whereby the Company agrees to deliver to the investor certain securities at a specified price. In order to satisfy its contractual obligations, the Company assigns substantially all of its funded loans to the trade assignment agreements immediately upon the funding of the loan with the borrower. The trade assignment agreements provide, among other things, that the Company and investor have contractually agreed to execute, acknowledge, deliver and perform all such further acts, assurances, assignments, transfers, conveyances, powers of attorney and other instruments or papers as may be

1. Description of the Company and Significant Accounting Policies (continued)

required or appropriate to carry out the transactions contemplated. The Company believes that, in accordance with the guidance set forth in Statement of Financial Accounting Standards No. 140 (SFAS), *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, once it has assigned a loan to a trade assignment agreement, the loan has been sold to the investor and the investor has legal right to such loans. Specifically, the Company acknowledges that the investor has the right to pledge, assign or transfer the security and loans underlying the security therein subject to the underlying warehouse payable lien. Accordingly, the Company recognizes the proceeds to be received from the investor in excess of the carrying value of the loans assigned to the investor as gain on sale of loans at the time the mortgage loan is funded to the borrower and the Company has assigned the mortgage loan to a trade assignment agreement. The warehouse note payable related to the loan assigned is repaid when the receivable from the investor is collected.

In addition, until such time as the Company has delivered all of the paperwork surrounding the specific loan transactions and a smooth and timely communication to the borrower can be effectuated, the Company may receive a payment from the borrower. The Company recognizes any income received from the collection of such payments as the cash is received.

Furniture, Fixtures and Equipment, Net

The composition of fixed assets as of March 31, 2003 is summarized as follows:

Furniture, fixtures and equipment	$ 853,042
Software	252,712
Leasehold improvements	68,748
	1,174,502
Less accumulated depreciation	295,926
	$ 878,576

These assets are stated at cost and depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets, generally three to seven years. Repairs and maintenance are expensed as incurred. Cost and accumulated depreciation applicable to assets sold are eliminated from the accounts, and any resulting gains or losses are recognized at such time.

1. Description of the Company and Significant Accounting Policies (continued)

Other Current Assets

Other current assets as of March 31, 2003, consist of the following:

Prepaid facility rent	$ 105,488
Closing fees receivable	104,002
Prepaid expenses and other	54,470
Total	$ 263,960

Accounting for Derivative Instruments and Hedging Activities

In the normal course of business and pursuant to its risk-management policy, the Company enters into derivative instruments, including forward-delivery contracts for loans and mortgage-backed securities, to minimize the impact of movements in market interest rates on interest rate lock commitments (IRLCs). The Company's pipeline includes IRLCs, which represent commitments that have been extended by the Company to those borrowers who have applied for loan funding and have met certain defined credit and underwriting criteria. The Company determined that its IRLCs meet the definition of derivatives under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

The initial fair market value of the IRLCs is recorded on the balance sheet as unearned revenue until such loans are funded and sold or assigned to a trade assignment agreement. The trade assignment agreements assign both a forward delivery agreement and loans funded by the Company.

Income Taxes

The Company has been established as a limited partnership in the state of Texas. As such, the liability for income taxes is the responsibility of the respective partners. Accordingly, no provision for income taxes is recorded in the financial statements.

2. Warehouse Notes Payable

The Company has entered into a warehouse credit agreement (the Agreement) with GMAC Mortgage Corporation, which is used to finance its mortgage loans to borrowers. From time to time, the Company and GMAC have amended the Agreement to ensure that the Company has sufficient funds available to meet its borrowing requirements. Under

2. Warehouse Notes Payable (continued)

the terms of the Fourteenth Amendment to the Agreement, dated March 28, 2003, the maximum amount of outstanding borrowings was set at $140,000,000. At March 31, 2003, borrowings outstanding under this facility totaled $120,360,039. In addition, under the terms of the Agreement, the Company is permitted to borrow an additional $1,854,745, which it has elected to deposit as collateral with its warehouse bank. This amount has been shown as a reduction to the warehouse notes payable on the balance sheet. The agreement extends through July 31, 2003, and bears interest at LIBOR plus 1.75%. The weighted average interest rate at March 31, 2003, was 3.06%. The agreement also contains certain normal and customary financial covenants. The Company was in compliance with these covenants at March 31, 2003.

In addition, BSM also has $100,000,000 availability from UBS Warburg under the terms and conditions of a loan purchase agreement. As of March 31, 2003, the Company had sold $64,302,122 to UBS Warburg pursuant to this agreement.

3. Commitments and Contingencies

Minimum annual commitments and contingencies, including obligations for office space and other operating leases with initial or remaining terms of one year or more as of March 31, 2003, are presented below:

2004	$ 1,196,236
2005	1,092,355
2006	856,763
2007	282,637
2008 and thereafter	121,389
Total	$ 3,549,380

4. Related Party Transactions

During the year, the Company paid $362,000 to KJ Financial, L.P., a general partner, for marketing research associated with securing FHA streamlined loans. At March 31, 2003, the balance payable to KJ Financial, L.P. was $89,200.

5. Partnership Capital

On June 1, 2002, the partnership agreement was amended and restated whereby Palm Harbor Homes, Inc. (PHH) became a 50% limited partner. As a condition of PHH entering into the Amended and Restated Partnership Agreement, PHH contributed $3,000,000 and final termination distributions of their partnership capital balances were made to both James Mammoser and L & Q Cummins.

6. Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, and estimates of future cash flows, future expected loss experience, and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, the Company's fair values should not be compared to those of other companies.

Under SFAS No. 107, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying market value of the Company.

The following describes the methods and assumptions used by the Company in estimating fair values:

> *Cash, Notes Payable, and Payables and Accruals* – The carrying amounts reported in the balance sheet approximate fair value.

6. Fair Value of Financial Instruments (continued)

Receivable for Mortgage Notes Assigned to Investors – Fair value is estimated using the quoted market prices for securities backed by similar types of loans and recent quotes received for similar loans. Book value approximates fair value.

Fair Value of Interest Rate Lock Commitments – Fair value is estimated using expected net profit per loan multiplied by the number of loans expected to be funded in the near term "pipeline pull through" as determined by an independent third party.

Fair Value of Forward Delivery Contracts – Fair value is estimated based on quotes of the same or similar securities as determined by an independent third party. The change in fair value of forward delivery contracts generally approximates the change in fair value of the interest rate lock commitments.