



04

Customer Satisfaction  
Market Share  
Operating Effectiveness  
Balance Sheet Protection

Palm Harbor Homes  
**Keys to the future.**

## About Palm Harbor Homes

Palm Harbor Homes, Inc., is a leading provider of factory-built housing and related financial services, including full-service chattel mortgages, conventional real estate loans and insurance products. Based in Addison, Texas, the Company employs 4,500 associates nationwide. The vertically integrated marketing and manufacturing organization includes:

**Palm Harbor Homes**, which markets its factory-built homes through 149 company-owned retail superstores and builder locations, and 275 independent dealers and builders in 29 states.

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

**CountryPlace Mortgage**, 80 percent owned by the Company, is a full-service chattel lender with origination, servicing and securitization capabilities based in Addison, Texas.

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

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

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

## Operating Highlights

*Dollar amounts in thousands, except per share data*

	2004	2003
<b>Income</b>		
Net sales	\$ 578,465	\$ 573,130
(Loss) income from operations	(6,775)	6,931
Net (loss) income	(6,017)	3,221
Net (loss) income per share	\$ (0.26)	\$ 0.14
Weighted average number of shares	22,857	22,913
<b>Operations</b>		
Number of homes sold	8,216	8,677
Number of manufacturing facilities	19	19
Number of retail dealers and builders:		
Company-owned	149	158
Independent	275	300
<b>Balance Sheet</b>		
Total assets	\$ 521,822	\$ 482,762
Total liabilities	265,769	222,393
Shareholders' equity	256,053	260,369

*(Throughout this annual report, 2000, 2001, 2002, 2003 and 2004 are used to refer, respectively, to the Company's fiscal years that ended on the last Friday in March in those calendar periods.)*

A solid blue square graphic located on the left side of the page, containing the text "Letter to Shareholders" in white.

## Letter to Shareholders

There is no easy way to describe the past year. Simply put, fiscal 2004 was an agonizing year for the entire manufactured housing industry and for Palm Harbor Homes. The prevailing market conditions have been the most severe experienced in 43 years. If you are a long-time shareholder, or followed the industry for the past five years, you are probably wondering if a turnaround is a reality. Last fall we predicted that the last quarter of our fiscal year would mark the last quarter of the industry slump, not the first quarter of the rebound. The bad news is we were right. The good news is business is slowly improving and fiscal 2005 is already off to a promising start for Palm Harbor. We believe the worst is behind us. Today, we can confidently point to encouraging vital signs that indicate a more favorable environment is imminent. Overall, the industry has stabilized, both dealer inventories and the supply of repossessed homes have dramatically declined and lenders are gradually

starting to re-enter the market. These factors are already creating more promising conditions and stimulating modest growth in industry sales.

At Palm Harbor, our own vital signs are strong. The good news, which is not necessarily apparent, is that we have made significant fundamental progress. Even through this downturn, our market share has continued to climb. This trend was further evidenced in fiscal 2004 by our 23 percent gain in market share over the prior year for multi-section homes. While industry-wide shipments were down 22 percent for calendar 2003, Palm Harbor's shipments declined by 10 percent. We now have the second largest company-owned distribution network in the industry with 149 retail locations at the end of fiscal 2004. Five years ago when the industry decline began we had the fifth largest distribution system. On a relative basis, these results would be considered pretty good. However, no one at Palm Harbor is content with a "relatively favorable performance" and we are in no way satisfied with our financial results for the year. At the same time, we remain confident that Palm Harbor is positioned strategically for the future.

As we acknowledge the challenges of an uncertain marketplace, we have remained unwavering in managing the fundamental aspects of our business that we can control. Throughout the year, our management team has left no stone unturned in preparing Palm Harbor for an industry recovery. We have continued to balance our manufacturing and distribution capacity with the needs of the market. Our primary focus has been to improve both customer satisfaction levels and our operating efficiencies, while reducing our overhead and building market share. We have efficiently operated our business without closing any manufacturing facilities and we remain diligent in our pursuit to tightly manage our receivables and inventories and control our fixed expenses.



At Palm Harbor, we recognize that customers today define value as being much more than price. They are looking for a homebuilder that will deliver as promised. Our favorable reputation is built on "promises made, promises kept" and, as a result, our customer satisfaction rating consistently ranks at the top of the industry. Our reputation is further validated by our customer referral rate of over 60 percent. Satisfied customers are the foundation of Palm Harbor's long term record of growth and provide proof positive that we are doing the right things.



# Customer Satisfaction



Our obsession with customer satisfaction is a key differentiator for Palm Harbor and is reflected throughout our organization. We are a unique company. Our general managers are paid on the level of customer satisfaction they are able to create-not solely on their productivity. In fact, independent surveys show that over 95 percent of homebuyers say they would recommend Palm Harbor to their friends and family.



Our strategic focus has always been to manage Palm Harbor for the long term. While extraordinary market conditions may have been challenging, we remain focused on building value for our customers and shareholders. And we firmly believe that we can continue to build market share the right way – through exceptional customer service and superior products. We selected “Keys to the Future” for the cover of this year’s annual report because we understand what it takes to be successful in this business – customer satisfaction, market share, operating effectiveness and balance sheet protection. Above all, we have a battle-tested, experienced team that remains outrageously enthusiastic about extending the long-term progress that has always characterized Palm Harbor. We will leverage our core strengths and focus our attention on the areas of our business that can grow significantly over the next several years, and where we have the operating expertise to enhance our competitive position in the marketplace.

Palm Harbor has a distinct advantage in meeting the growing need for affordable housing with a broad product offering that represents a compelling value proposition for today’s homebuyer. We view today’s

factory-built housing industry as having two components – manufactured and modular. The superior quality of our homes and highly rated customer satisfaction, which results in consistent customer referral business, are the hallmarks of Palm Harbor’s success and remain our competitive strengths. With the addition of modular homes to our product offering in 2003, we can now leverage these strengths to reach a much broader range of customers in multiple markets. As such, over the past year we aggressively expanded our modular business, Nationwide Custom Homes, and total sales from this division were up 15 percent over the prior year. The most exciting aspect of this expansion was the introduction of Discovery Custom Homes, a completely new series of modular homes priced from \$80,000 to \$200,000. With the addition of this innovative product line, we can offer high-end, customized factory-built housing for a fraction of the time and cost of traditional builders with unparalleled levels of customer satisfaction. Our expertise in engineering and efficiency enables us to build a home uniquely tailored to the personal tastes and lifestyle needs of each customer. The Discovery series received an enthusiastic builder response with its initial



# Market Share

A photograph of a two-story house with a grey shingled roof and three dormer windows with white trim. The house is set against a clear blue sky.

Our obsession with exceeding our customer's expectations is what drives our growth and builds market share. As a result, Palm Harbor has continued to make significant market share gains even during the industry downturn. As we continue to build our brand with both manufactured and modular homes, we are well positioned to extend our leadership position and benefit from further market share opportunities as the industry gains momentum.

We offer a compelling value proposition to the credit-worthy buyer with a broad product offering and extensive distribution capabilities complemented by our full-service finance and insurance operations. Today, Palm Harbor is the recognized leader in our industry and continues to rank as the number one selling brand name of multi-section manufactured homes nationwide.

introduction in Texas, and throughout the year as we continued to roll out this exciting new line of homes in Ohio, North Carolina, South Carolina, Georgia, Alabama, Florida, Arizona, Washington and Oregon. These new models are generating the excitement, the increased customer traffic, and, more importantly, the deposits for future sales. Discovery homes offer a unique and compelling value proposition for consumers with considerable advantages over competing housing alternatives. We are confident about establishing our leadership position in this market, and believe that modular housing will be a key driver of Palm Harbor's future growth and profitability.

Financing is obviously a critical factor for success in the housing market. By providing viable financing alternatives for our credit worthy customers, we believe we have further distinguished ourselves in the marketplace and enhanced Palm Harbor's ability to gain market share. We are particularly pleased with our significant progress in the development of CountryPlace Mortgage. We made the choice to expand CountryPlace into a full-service chattel lender nearly two years ago for many reasons. One of the primary reasons was to be independent of outside lenders and their decisions whether or not to participate in this market. We believe that the recent exit of a major chattel lender confirms the wisdom of our decision to expand CountryPlace and validates our strategy to build for the long term. Notably, during fiscal 2004, Country Place originated over \$77 million of loans, compared with \$32 million the prior year. We are optimistic that this growth will continue in fiscal 2005 as the positive trends we are seeing in the loan application rates are encouraging. We believe this is a very good time to build a portfolio of high-quality loans. To further

support CountryPlace's continued growth, during the fourth quarter we entered into a new \$200 million warehouse facility on very favorable terms to increase our borrowing capacity. We believe the terms for this warehouse facility reflect the confidence of the financial community in our growth strategy and in our balance sheet.

BSM Financial, of which Palm Harbor is a 50 percent limited partner, affords us the opportunity to provide much needed conventional mortgage financing to our qualified customers. For the year, BSM originated a total of 13,215 loans for \$1.8 billion compared with 7,733 loans worth \$944 million in the prior year, an increase of 92 percent in dollar volume. Of this amount, BSM originated 1,126 Palm Harbor loans worth \$121 million in fiscal 2004. Our partnership with BSM remains strong as we continue to build a vital mortgage-banking source for all of our factory-built homes. Together, BSM and CountryPlace financed 33 percent of the homes sold by our Palm Harbor locations for the year, up from 26 percent last year. Our ability to provide either conventional or chattel mortgage financing to creditworthy buyers further extends our value proposition and reinforces Palm Harbor's commitment to our customers.

Throughout the industry downturn, we have worked hard to protect and maintain a financial position that reflects the cyclical nature of our business. Our ability to capitalize on the strength of our balance sheet in an industry environment that has experienced a precipitous decline over the past five years has been a key differentiator for Palm Harbor. We have not placed our capital at risk or pursued any trendy financing activities that would hinder our long-term goals of enhancing shareholder value or limit our flexibility to act when the





Today, Palm Harbor is uniquely positioned as a vertically integrated company with a greater capacity to leverage our assets and build for the future. By controlling each step in the marketing process – from manufacturing to sales to financing and insurance – we can more effectively serve our customers and deliver on our promises. More importantly, our commitment to quality and value is integrated into every aspect of our operations. Notably, Palm Harbor's warranty costs for fiscal 2004 were the lowest in ten years both in terms of absolute dollars and as a percentage of sales. This is proof positive that we are providing our customers with unrivaled value.



# Operating Effectiveness



At Palm Harbor, we embrace the details of our business with real enthusiasm and have built our reputation on careful process proving. We are relentless in our pursuit to continually explore these processes because we believe the last ten percent of effort makes the real difference. That is the Palm Harbor difference.

market regains momentum. We ended the fiscal year in very strong financial condition with our balance sheet reflecting cash and cash equivalents of \$50.9 million compared with \$49.6 million a year ago. This balance is particularly significant considering the Company used over \$30 million to reduce our floor plan facility and invested over \$13 million to expand CountryPlace Mortgage during 2004. We exercised stringent controls over key balance sheet items and, as a result of our efforts, our receivables and new home inventory per retail superstore declined five percent since the beginning of our fiscal year. While we remain committed to maintaining tight controls over fixed expenses, we will continue to make prudent investments in areas of our business with significant growth potential including both CountryPlace and Nationwide. To further support our growth efforts, in early June 2004, we completed a successful private offering of \$75 million aggregate principal amount of senior notes that will be convertible into shares of Palm Harbor's common stock, subject to certain conditions. We intend to use the net proceeds from the offering to pay down existing debt and for general corporate purposes. Above all, we remain committed to maintaining a conservative financial profile and ensuring we have the financial flexibility to execute our business plan and reward our shareholders.

While fiscal 2004 was a difficult year, we believe it will prove to be the defining year for all the efforts we made to put even tighter disciplined processes in place, further improve our operating efficiencies and prepare Palm Harbor for the much-anticipated industry recovery. The Palm Harbor team was confronted with many challenges over the past year and they handled them confidently. We salute the incredible efforts of everyone associated with Palm Harbor and look forward with great expectations to what we can accomplish in the future.

We have many reasons to be optimistic about the industry outlook for fiscal 2005 as all vital signs indicate this will be a much better year for Palm Harbor. With an unrelenting devotion to our customers, a growing market share, efficient operations and a strong balance sheet, the "Keys to the Future" are ours. More importantly, we remain confident in our ability to leverage these fundamental strengths into tangible results. We enter fiscal 2005 with great enthusiasm about our business and our prospects. Above all, we are obsessed with building value and reaffirming your trust and confidence in Palm Harbor.

Thank you for your unwavering support.

Sincerely,



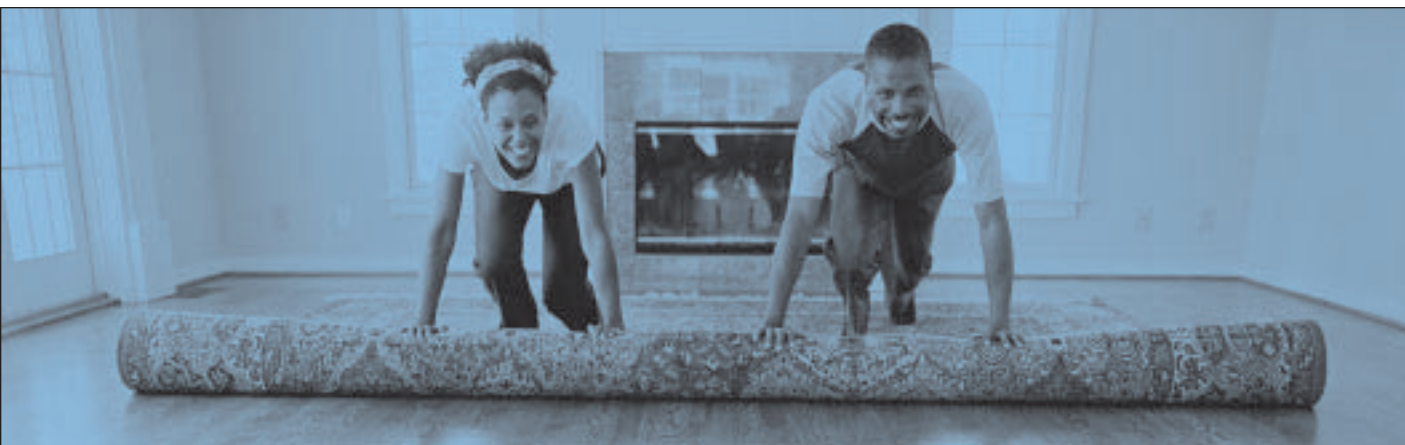
Lee Posey  
Chairman of the Board



Larry Keener  
President and  
Chief Executive Officer



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



A key factor that distinguishes Palm Harbor in our industry has been our ability to capitalize on the strength of our balance sheet. While we have focused on effectively managing our operations and enhancing our competitive ability, we also have worked hard to strengthen and protect our balance sheet so that we are well positioned to withstand the cycles that are characteristic of our industry.



# Balance Sheet Protection



Our first priority use of cash is to maintain an appropriate balance to protect against normal volatility in working capital, and as insurance against unforeseen events or disruptions in the capital markets. A solid financial position provides a secure and sound financial foundation for Palm Harbor's future growth now and as the industry recovers.

## DIRECTORS

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

Jerry D. Mallonee<sup>(1)</sup>  
*Financial Advisor*  
Carter Financial Management

Frederick R. Meyer<sup>(1)(2)</sup>  
*Chairman of the Board,*  
Aladdin Industries, Inc.  
(a diversified manufacturer)

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

Walter D. Rosenberg  
(Private investments)

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

William R. Thomas<sup>(2)</sup>  
*Chairman and President,*  
Capital Southwest  
(venture capital)

John H. Wilson<sup>(1)</sup>  
*President,*  
U.S. Equity Corporation  
(Venture capital)

(1) Member of Audit Committee

(2) Member of Compensation Committee

## EXECUTIVE OFFICERS

Lee Posey  
*Chairman of the Board*

Larry H. Keener  
*President and Chief Executive Officer*

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

## THE PALM HARBOR TEAM

John Akers  
Keith Alexander  
Brent Alford  
Doug Anderson  
Greg Aplin  
Forrest Barnes  
Dennis Beck  
Woody Bell  
Jeff Benoist  
Dallas Boggs  
Rick Boles  
HM Boswell  
Gary Boyd  
Ralph Brock  
Howard Broughton  
Mike Bueker  
Eric Clendenin  
Howard Coffey  
David Conway  
John Costanzi  
Kurt Cummins  
Rodney Dalton  
Bradley DePugh  
Sean Downing  
Mike Draper  
Frank Emmerich  
Doug Eudy  
Gene Fahey  
James Gildon  
Jason Grace  
Gary Graham  
John Greenleaf  
Richard Griffin

Dick Grymonprez  
Michael Gwaltney  
David Harris  
William Heck  
Jane Holcomb  
Blake Johnson  
Ken Johnson  
Michael Johnson  
Charlie Jourdan  
Larry Keener  
Bert Kessler  
Joe Kesterson  
Tom Kesterson  
Casper Koble  
Bill Kotylo  
Richard Krebs  
Gary Lambert  
John Lehman  
Tony Lucas  
Kendall Magruder  
Brent McCarver  
Howard McGirt  
Allen McKemie  
Chad Melin  
Mike Moquin  
Trelis Moore  
Carolyn Murdock  
Matt Nino  
Ted Norris  
Richard Peck  
Stuart Pikoff  
Lee Posey  
Ron Powell

Tom Pratt  
Tommy Rakes  
Ken Rarick  
Steve Reyenga  
Bryan Rogers  
Colleen Rogers  
Ralph Russell  
Gavin Ryan  
Mike Sanders  
Mike Schmitzer  
James Seekford  
Shawn Sexton  
Reggie Shropshire  
George Stevens  
Kareen Strickler  
Don Strick  
Kelly Tacke  
Nick Taylor  
David Thomasson  
Mark Todd  
Kenny Wallace  
Danny Warrick  
Tony Watson  
Paul Weist  
David Witherspoon  
Mike Wnek  
Bob Wright  
Margie Wright  
Jerry Young  
Don Ziebarth  
Lyle Zeller



## CORPORATE INFORMATION

### CORPORATE ADDRESS

15303 Dallas Parkway  
Suite 800  
Addison, Texas 75001-4600

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

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

### REGISTRAR AND TRANSFER AGENT

American Stock Transfer  
59 Maiden Lane  
New York, NY 10038

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

### AUDITORS

Ernst & Young LLP  
Dallas, Texas

### LEGAL COUNSEL

Locke Liddell & Sapp LLP  
Dallas, Texas

### FORM 10-K AND QUARTERLY REPORTS/INVESTOR CONTACT

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

### ANNUAL MEETING

The annual meeting of shareholders of Palm Harbor Homes will be held at 10:00 a.m. (CDT) on July 28, 2004, at the Company's headquarters in Addison, Texas. Shareholders of record as of June 3, 2004, will be entitled to vote at this meeting.

### MARKET PRICES AND DIVIDEND INFORMATION

The prices in the table below represent the high and low sales prices for Palm Harbor Homes, Inc. common stock for the past two years. No cash dividends have been declared, and plans for the foreseeable future are to retain future earnings to support operations and finance the Company's expansion. As of June 3, 2004, Palm Harbor Homes had approximately 3,000 shareholders based on the number of holders of record and an estimate of the number of individual participants represented by security position listings.

2004	High	Low
First Quarter	\$ 20.24	\$ 14.12
Second Quarter	\$ 19.17	\$ 16.70
Third Quarter	\$ 19.59	\$ 16.55
Fourth Quarter	\$ 24.04	\$ 16.22

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



CORPORATE HEADQUARTERS

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