



FELLOW SHAREHOLDERS:

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# What do you say

to shareholders in a year in which industry shipments declined 28%, earnings were off 44% and our stock price fell 28% from its yearly high?

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## 2001 OPERATING HIGHLIGHTS

- Net sales totaled \$650 million.
- Net income totaled \$19.8 million.
- Earnings amounted to \$0.87 per share.
- Opened a net of 12 retail superstores.

### THE BOTTOM LINE AT PALM HARBOR

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Satisfied customers are the bottom line at Palm Harbor. Customer satisfaction is a goal that is deceptively easy to state but very difficult to define and attain. Satisfied customers are the foundation of our longer term record of expansion and the linchpin to our confidence about the future. As the nation's leading brand of multi-section manufactured homes, we work hard to deliver value. We do this nationwide, with a vertically integrated organization, through our own retail superstores and selected independent retailers.

### ANNUAL MEETING

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The annual meeting of shareholders of Palm Harbor Homes will be held at 10:00 a.m. (CDT) on June 27, 2001, at the Colonnade Conference Center; Addison, Texas. Shareholders of record as of May 14, 2001, will be entitled to vote at this meeting.

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## FINANCIAL HIGHLIGHTS

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	2000	2001
<b>Income</b>		
Net sales	\$ 777,471	\$ 650,451
Income from operations	66,832	41,424
Net income	38,596	19,829*
Net income per common share	\$ 1.66	\$ 0.87*
Weighted average number of shares	23,225	22,760
<b>Operations</b>		
Number of homes sold	14,301	10,829
Number of manufacturing facilities	15	15
Number of retail sales centers		
Company-owned	133	145
Independent	200	150
<b>Balance Sheet</b>		
Working capital	\$ 59,452	\$ 80,368
Total assets	457,174	468,368
Long-term debt	2,906	2,745
Shareholders' equity	217,176	235,652

\* Effective April 1, 2000, the Company adjusted its method of recognizing revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The adjustment reduced net income for the year ended March 30, 2001 by approximately \$2.0 million, or \$0.09 per share. Prior years have not been restated.

(Throughout this annual report, 1998, 1999, 1999, 2000 and 2001 are used to refer, respectively, to the Company's fiscal years that ended on the last Friday in March in those calendar periods.)

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LETTER TO SHAREHOLDERS:

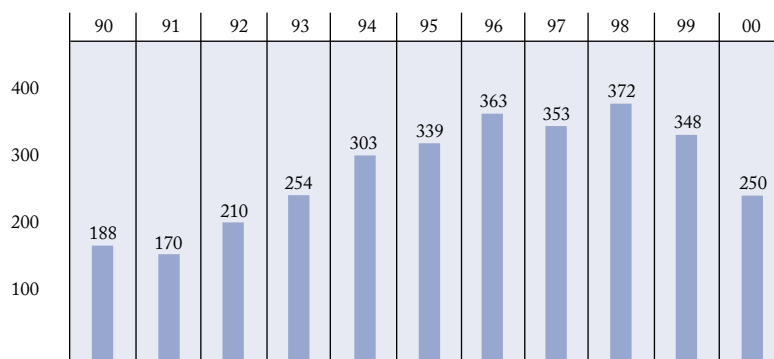
# We tell the truth;

namely, that times are tough – really tough – and that we take no joy in the decline in our share price. The manufactured housing industry is experiencing a major shakeout of retailing and manufacturing capacity. A severe restriction in retail financing for manufactured homes has precipitated an abrupt reversal in the trend in industry-wide shipments. This has impacted all competitors. For Palm Harbor, it has meant reduced profitability and a financial performance that we consider unsatisfactory. For other companies, many of which had an excess inventory of homes in their distribution channel, the impact has been more severe – in some cases, forcing bankruptcy.

Our message starts with a candid account of the industry today. Although the very near-term picture remains uncertain, we believe these difficulties will prove temporary. We'll also tell you about an experienced team that remains enthusiastic – outrageously enthusiastic – about working through this period and resuming the long-term progress that has characterized Palm Harbor.

Starting with the industry, no one should be surprised with cyclicity in a business that markets the most expensive product which most consumers will buy in their lifetime; namely, a home. During the 1990s, our industry rode a wave of consumer confidence that, coupled with available financing, fueled a doubling in annual shipments.

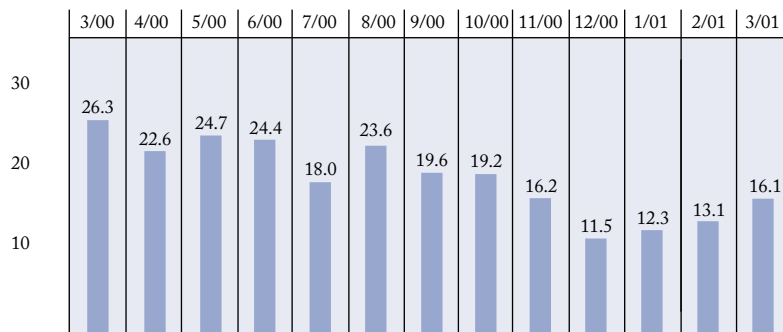
INDUSTRY SHIPMENTS (in thousands)



During this period we faced a number of new competitors, many with business models that proved flawed due to their short-term focus. Perhaps the most striking characteristic of the industry was an explosive growth in number of retail locations. In some areas, one could hardly find an interstate intersection that did not have multiple retail locations. The prospect of easy sales attracted entrants who opened locations with minimal financial strength.

The picture changed significantly and swiftly. Here's a graph that shows the decline in monthly shipments that started in early 2000 and accelerated into the second calendar half.

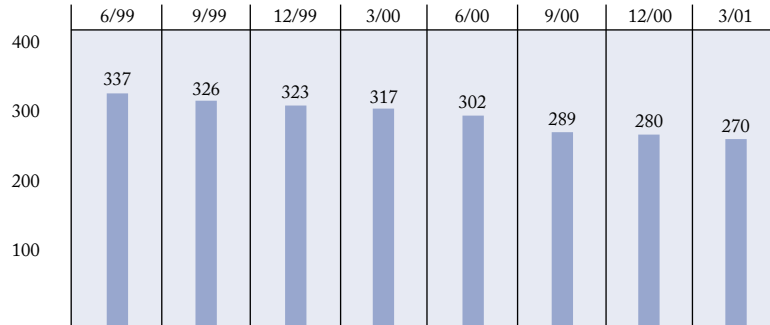
MONTHLY SHIPMENTS (in thousands)



What happened? The pattern in retail sales early in calendar 2000 remained relatively healthy, but there were indications that some competitors were accumulating too much inventory at the consumer level. In this environment, many in the industry stretched credit requirements to qualify new buyers. The combination of readily available retail financing and strong demand proved alluring to those not planning for the long term and undermined the foundation for the industry. All it took was a slowing in consumer traffic to change this picture. As the principal lenders found delinquencies and credit problems starting to rise, they naturally reacted by limiting funds, which, in turn, aggravated the industry's problems by slowing sales and increasing the supply of repossessed homes. This proved to be the knockout blow not only for many of our competitors but also for the lenders, several of which have exited the business altogether.

To bring this account into 2001, one only has to overlay the further slowdown in the economy to find an industry in turmoil. Some that had rationalized an outlook for unending prosperity are now downsizing and reducing their operating scope. The contraction in manufacturing capacity gives clear evidence of the industry's new reality.

MANUFACTURING CENTERS



We believe that even the most cynical observer of our industry would acknowledge the important role that manufactured housing now occupies in the solution to our nation's steadily rising housing needs. As the graphic shows, nearly one in every five new homes today is factory built.

MARKET SHARE OF MANUFACTURED HOUSING

*One in every **20%** five homes today is factory built.*

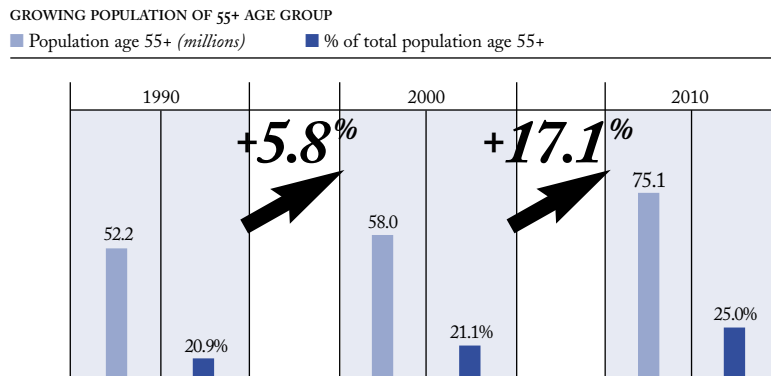
Controlled building conditions, efficient manufacturing systems and practical economies of scale add up to the compelling attribute of VALUE. In terms of dollar building costs, manufactured housing holds a commanding lead over site-built houses.

AVERAGE SQUARE FOOTAGE COST OF NEW HOME

<i>Factory Built Home</i>	<i>Site Built Home</i>
<b>\$29</b>	<b>\$63</b>

Couple that with the industry’s pragmatic commitment to improved product quality; and we believe that barring some change in the most fundamental demographic and sociological patterns, manufactured housing remains a clear long-term winner.

Statistics abound about family formations, population growth and other census-driven series. The bottom line is that there are more people every year needing homes. The market is so large that an investor trying to assess the growth potential really needs to consider niches. One group that attracts us and which we believe is playing directly to Palm Harbor’s strengths consists of those retiring and seeking to relocate. Over the next ten years, the ranks of those over 55 years will increase by more than 17 million. These are individuals and couples who will be changing their lifestyles – and their homes. They have the financial means to consider options, but they are not going to part with their earned savings unless they find value.



A Palm Harbor home – is exactly what many of these consumers are seeking. We have always found this segment of the market appealing, and look eagerly at the projected growth in this population group.

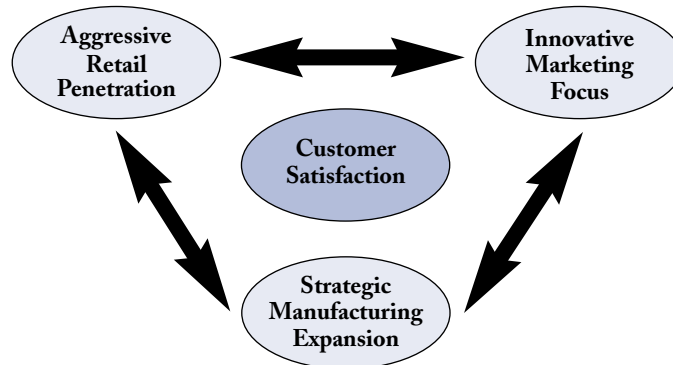
But let’s not get ahead of ourselves. We are here in 2001 facing a climate that demands exuberance about the future be tempered by the reality of a soft market. We don’t know what lies immediately ahead – no one does - but we believe it reasonable that normalized demand for manufactured housing is close to what one might call an “organic” level of about 250,000 homes annually. Prior to 2000, the industry last

experienced that volume of shipments in 1993, fully eight years ago, and based on manufacturers' shipments, the industry is now below that annualized sales level.

Here's where the Palm Harbor story becomes especially interesting. No business likes to report any decline in sales or earnings, and we are not an exception. But our fundamental business model is based on the sound core value of consistently delivering high customer satisfaction, that without question is our greatest ally in a hostile market.

Those familiar with Palm Harbor understand our advocacy that satisfied customers provide proof positive that one's procedures are working. This graphic depicts the three components of our strategy.

GROWTH STRATEGY



This plan is not in need of repair. This is a roadmap that we have refined for over 20 years. Our ability to maintain our gross margin percentage proves that it remains a sound path to follow. This is especially true during difficult times such as now. A central element of our strategy remains targeting a part of the market that no other company has selected on a nationwide basis; namely, marketing larger homes to highly demanding, credit worthy consumers. The Palm Harbor model specifically addresses these homebuyers, offering them superior quality and energy efficiency and encouraging them to customize the home to fit their individual needs. Mass customization is an off-used maxim for other industries; but when we developed it as part of our foundation, it was a new concept in manufactured housing. Today, nine of

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every ten purchasers of a Palm Harbor home make that home truly theirs by selecting the floor plan, options and finishes that they want. These are consumers who define value as being much more than price. They want choices, and they want a home builder that will deliver as promised. Our surveys routinely conclude with gratifying notes from customers that Palm Harbor would be their brand of choice again. Here's an excerpt from a recent, unsolicited letter we received.

*“...My husband being a professional engineer, once again, felt the structural quality of your home was superior. Little did we know how true that really was...until February 28th, 2001, at 10:55am. A 6.8 earthquake hit the Puget Sound/Olympia area here in Washington State. I was home alone at the time, Our Truman shook and bounced! It was the longest 35 seconds I've known! I could barely stand. When it was over, I looked around my house and sat and cried with joy...My husband crawled under the house, on the roof, checked the chimney. We searched the house for cracks. NOTHING! Not even hairline cracks.”*

*Unsolicited testimonial from Meghann and Jim Hurst*

One-third of all new owners of a Palm Harbor home were referred to us by an existing customer. Being vertically integrated is a key to our ability to generate referral business. By controlling each step in the marketing process – from manufacturing to retail sales – we are able to deliver on our promises. During 2001, 83% of the homes we manufactured were marketed through our own retail superstores. Our network of superstores now encompasses 145 locations in 28 states. We have grown our retail operations carefully and deliberately, realizing the vital importance of having sufficient managerial depth to make any location successful. We opened a net of 12 new locations during 2001 and plan to open approximately 15-20 additional superstores annually for the next several years. We are expanding while others are contracting. When overall business improves, we will have a head start that will be difficult for competitors to overcome.

Our vertical integration also includes financing and insurance operations. We developed these carefully to avoid exposing Palm Harbor shareholders to unreasonable risks and are pleased with their solid contribution to our earnings. For 2001, these operations provided approximately 35% of our net income, up from 20% only two years ago.

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As we begin 2002, our priority is to continue profitably increasing market share. We expect this year to be a better year. Here is what we plan to do:

- *Generate more referral customers by satisfying qualified buyers who demand the most.*
- *Continue expanding our network of retail superstores.*
- *Build greater brand awareness using targeted advertising.*
- *Continue training our team to strengthen our intellectual capital and marketing prowess.*
- *Sustain a strong balance sheet.*

We are confident about weathering the industry's current storm. We recently received the following customer testimonial about how a Palm Harbor home had withstood the earthquake that hit the Pacific Northwest. Palm Harbor homes have demonstrated their structural strength in other natural disasters, but it's always nice to get such a practical affirmation that we are succeeding in our mission.

*“ I thought that I would share this little update with you. The folks at Palm Harbor were instrumental in helping us get our first home and should be proud of how well the home handled the earthquake...the epicenter of the earthquake was not too far from our home, So, how did our home fair? Well, we are absolutely amazed!!!... We envisioned seeing our home split in half...what we found is a true testament and affirms our decision in purchasing a Palm Harbor Home... The house didn't give... We feel truly blessed. ”*

*Unsolicited testimonial from Russell and Robin Walker*

The real testament belongs to the entire Palm Harbor team that has shown unflagging spirit and determination. We have built a sound reputation for quality homes, for responsive service and for customer commitment. We have great management. We have great products. We have a solid balance sheet. We like our chances.

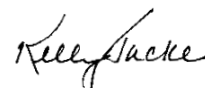


LEE POSEY  
*Chairman of the Board*

Sincerely,



LARRY H. KEENER  
*President and  
Chief Executive Officer*



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

**Corporate Address**

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**Internet Address**

<http://www.palmharbor.com>

**Registrar and Transfer Agent**

American Stock Transfer  
46th Floor  
40 Wall Street  
New York, NY 10005

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 elec-  
tronically on the Internet at  
<http://www.palmharbor.com>. This  
information is also available with-  
out 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.

**Nasdaq Symbol**

The Company's common stock is  
traded on The Nasdaq Stock  
Market (National Market) under  
the symbol PHHM.

**Market Prices and Dividend  
Information**

The prices in the table below repre-  
sent the high and low sales prices  
for Palm Harbor Homes, Inc. com-  
mon stock for the past two years.  
No cash dividends have been  
declared, and plans for the foresee-  
able future are to retain future earn-  
ings to support operations and  
finance the Company's expansion.  
As of March 30, 2001, Palm  
Harbor Homes had approximately  
3,000 shareholders based on the  
number of holders of record and an  
estimate of the number of individ-  
ual participants represented by  
security position listings.

2001	High	Low
First Quarter	\$ 16.75	\$ 13.25
Second Quarter	\$ 14.81	\$ 13.13
Third Quarter	\$ 17.00	\$ 12.38
Fourth Quarter	\$ 20.56	\$ 14.88

2000	High	Low
First Quarter	\$ 24.94	\$ 19.00
Second Quarter	\$ 25.38	\$ 15.00
Third Quarter	\$ 20.00	\$ 13.75
Fourth Quarter	\$ 19.00	\$ 12.00

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