

PALM HARBOR HOMES, INC.

COMPENSATION COMMITTEE CHARTER

PURPOSE

The purpose of the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of Palm Harbor Homes, Inc. (the “Company”) is to discharge the responsibilities relating to compensation of the Company’s executives, and to produce an annual report on executive compensation for inclusion in the Company’s annual report on Form 10-K (or proxy statement), in accordance with applicable rules and regulations.

MEMBERSHIP AND ORGANIZATION

The Board, upon the recommendation of the Nominating Committee, shall appoint the Chairman and members of the Committee annually. The Committee shall consist of a minimum of three and a maximum of four members of the Board. At least to the extent required by the rules adopted by the NASDAQ Stock Market, each member shall be “independent” as that term is defined under such rules. In addition, (i) if any compensation or benefit plan administered by the Committee is subject to Rule 16b-3 of the Securities Exchange Act of 1934, as amended, each Committee member must also qualify as a “Non-Employee Director,” as such term is defined under Rule 16b-3, and (ii) if an award or payment under any compensation or benefit plan administered by the Committee would be subject to the deduction limitation under Section 162(m) of the Internal Revenue Code of 1986, as amended (“Code”), each Committee member must also qualify as an “outside director,” as such term is defined under Section 162(m) and the regulations thereunder. Members of the Committee may be removed from the Committee (with or without cause) by action of the full Board.

The Committee shall meet at such times as the Chairman shall determine, preferably in conjunction with regular Board meetings. A quorum of the Committee will consist of at least 50% of the members of the Committee, and an act of a majority of the members present at any meeting at which there is a quorum shall be the act of the Committee. Meetings may, at the discretion of the Committee, include members of management, independent consultants and such other persons as the Committee shall determine. The Committee, in discharging its responsibilities, may meet privately for advice and counsel with independent consultants, lawyers, or any other persons knowledgeable in the matters under consideration. The Committee may also meet by telephone conference call or any other means permitted by law or the Company’s bylaws. The Committee may also act by unanimous written consent of its members without a meeting.

A Secretary, who need not be a member of the Committee, shall be appointed by the Committee to keep minutes of all meetings of the Committee and such other records as the Chairman deems necessary or appropriate.

The Committee may designate a subcommittee consisting of at least one member to address specific issues on behalf of the Committee, provided that such subcommittee has its own published charter.

The Committee shall report periodically to the Board on its activities.

RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties, the Committee will:

Review and approve corporate goals and objectives relevant to Chief Executive Officer (“CEO”) compensation, evaluate the CEO’s performance in light of those goals and objectives and determine and approve the CEO’s compensation level based on this evaluation. In determining the long-term incentive component of CEO compensation, the Committee will consider the Company’s performance and relative shareholder returns, the value of incentive awards to CEOs at comparable companies (which may or may not be in the same industry as the Company), and the awards given to the Company’s CEO in past years.

Authorize and determine all salaries and incentive compensation for the Company’s other executive officers.

Administer the Company’s Associate Stock Purchase Plan, and all other equity, ownership, compensation, retirement and benefit plans in accordance with the powers and authority granted in such plans.

Approve awards under restricted stock, option and deferred compensation plans for the officers of the Company that are reporting persons for purposes of Section 16(a) of the Securities Exchange Act of 1934, as amended.

Approve any performance-based compensation of individuals pursuant to Code Section 162(m). [Note: Section 162(m) disallows deductions for publicly-held companies with respect to compensation paid to some executive officers in excess of \$1,000,000. There are exceptions to this rule for certain pre-determined forms of performance based compensation.]

Make recommendations to the Board with respect to compensation plans, incentive-compensation plans, equity-based plans and any other employee benefit plan or program for the officers or directors of the Company.

Have the sole authority to retain and terminate any compensation consultant engaged to assist in the evaluation of director, CEO or senior executive compensation, and the sole authority to approve the firm’s fees and other retention terms.

Report regularly to the Board any issues that arise with respect to the Committee’s responsibilities.

Review and discuss with the Company’s management the Compensation Discussion and Analysis (the “CD&A”) and determine whether to recommend to the Board that the CD&A be included in the proxy statement (or Form 10-K) and to produce the Compensation Committee report for inclusion in the Company’s proxy statement (or Form 10-K).

Oversee the Company’s succession and management development programs and review the development of key employees.

Perform any other activities consistent with this charter, the Company's bylaws and governing law, as the Committee or the Board deems necessary or appropriate.

Review and re-examine this Charter periodically and make recommendations to the Board with respect to any proposed changes.

Review annually its own performance against the responsibilities outlined in this Charter and as otherwise established by the Board.