Clayton Homes, Inc.

Dreams 2000

Annual Report 2000

Dreams 2000

2000
Manufacturer
Of The Year

CLAYTON HOMES, INC.

Company Profile

Headquartered in Knoxville, Tennessee, employing more than 7,400 people and operating in 33 states, Clayton Homes, Inc. builds, sells, finances and insures manufactured homes, and owns and operates residential manufactured housing communities. The Manufacturing group is a leading producer of homes with 20 plants supplying 1,101 independent and Company-owned retail centers. The Retail group sells, installs and services factory built homes. As of June 30, 2000, Company-owned retail centers numbered 318 in 23 states. Financial Services provides financing and insurance for homebuyers of Company-owned and selected independent retail sales centers through Vanderbilt Mortgage and Finance, a wholly-owned subsidiary. The Communities group owns and operates 76 manufactured housing communities with 20,168 homesites in 12 states.

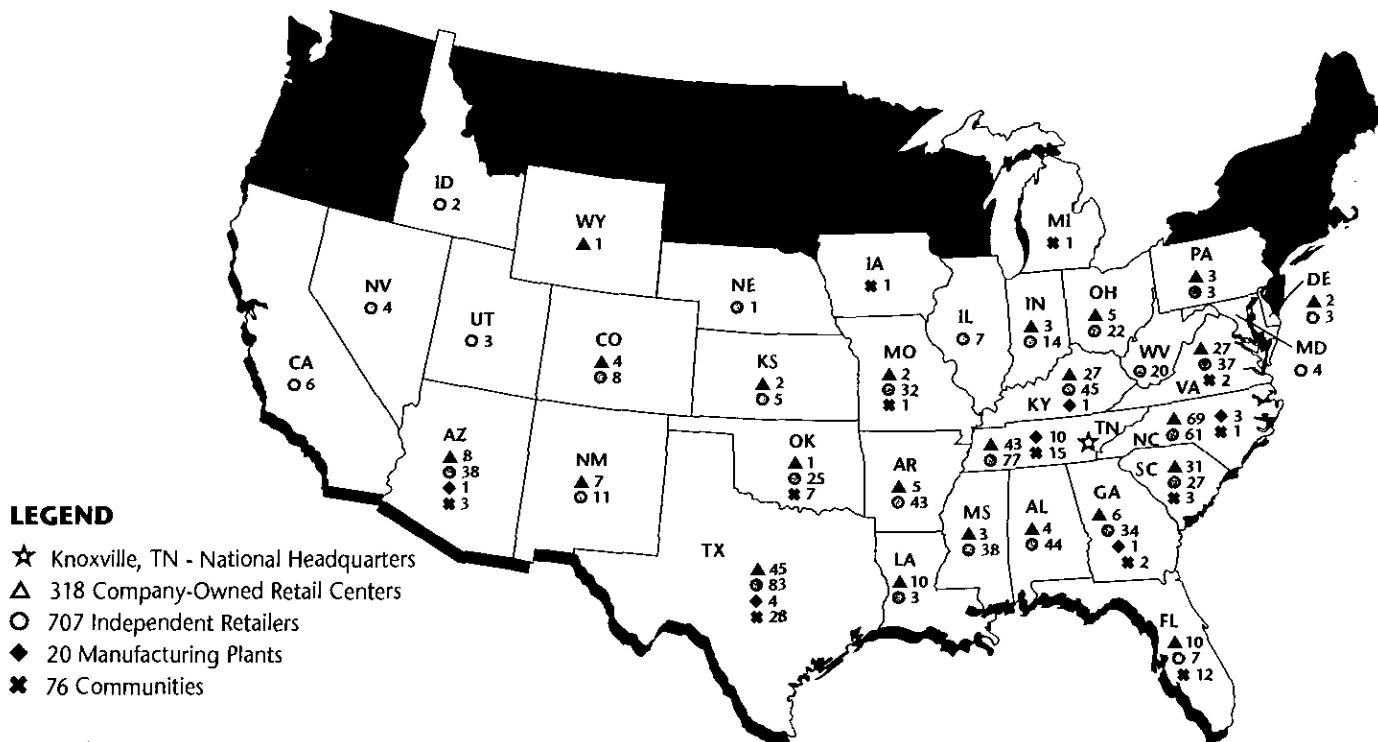
TABLE OF CONTENTS

Financial Highlights 1
To Our Shareholders 2
Manufacturing 4
Retail 6
Financial Services 8
Communities 10
Eleven Year Review 12
Management's Discussion and Analysis .. 13
Report of Independent Accountants 16
Directors, Officers and Stockholder Information 25

FINANCIAL HIGHLIGHTS

	(dollars in thousands, except per share)	Year ended June 30, 2000	1999	Percent Change
INCOME STATEMENT DATA	Revenues	$1,293,345	$1,344,283	-4%
	Income before income taxes	228,625	245,968	-7%
	Net income	144,025	154,968	-7%
	Earnings per share			
	Basic	1.03	1.07	-4%
	Diluted	1.03	1.06	-3%
	Dividends per share	$.064	$.064	
BALANCE SHEET DATA	Total assets	$1,506,378	$1,417,245	6%
	Shareholders' equity	$1,036,375	$ 947,768	9%
	Return on average shareholders' equity	14.5%	16.9%	
PORTFOLIO DATA	Loans serviced	$3,936,000	$3,473,000	13%
	Delinquency % (over 30 days)			
	Originated contracts	1.7%	1.8%	
	All contracts	2.2%	2.1%	
	Net losses as a % of average loans outstanding			
	Originated contracts	1.2%	1.0%	
	All contracts	1.4%	1.4%	
OTHER DATA	Total floors sold	45,384	50,325	-10%
	Total homes sold	31,520	35,526	-11%
	National market share	8.9%	8.1%	
	Manufacturing plants	20	19	5%
	Independent retailers	707	671	5%
	Company-owned retail centers	318	306	4%
	Communities	76	75	1%
	Community home sites owned	20,168	19,708	2%
	Personnel count	7,429	7,292	2%

Where appropriate, data in this report has been adjusted for the five-for-four stock split paid on December 8, 1998.

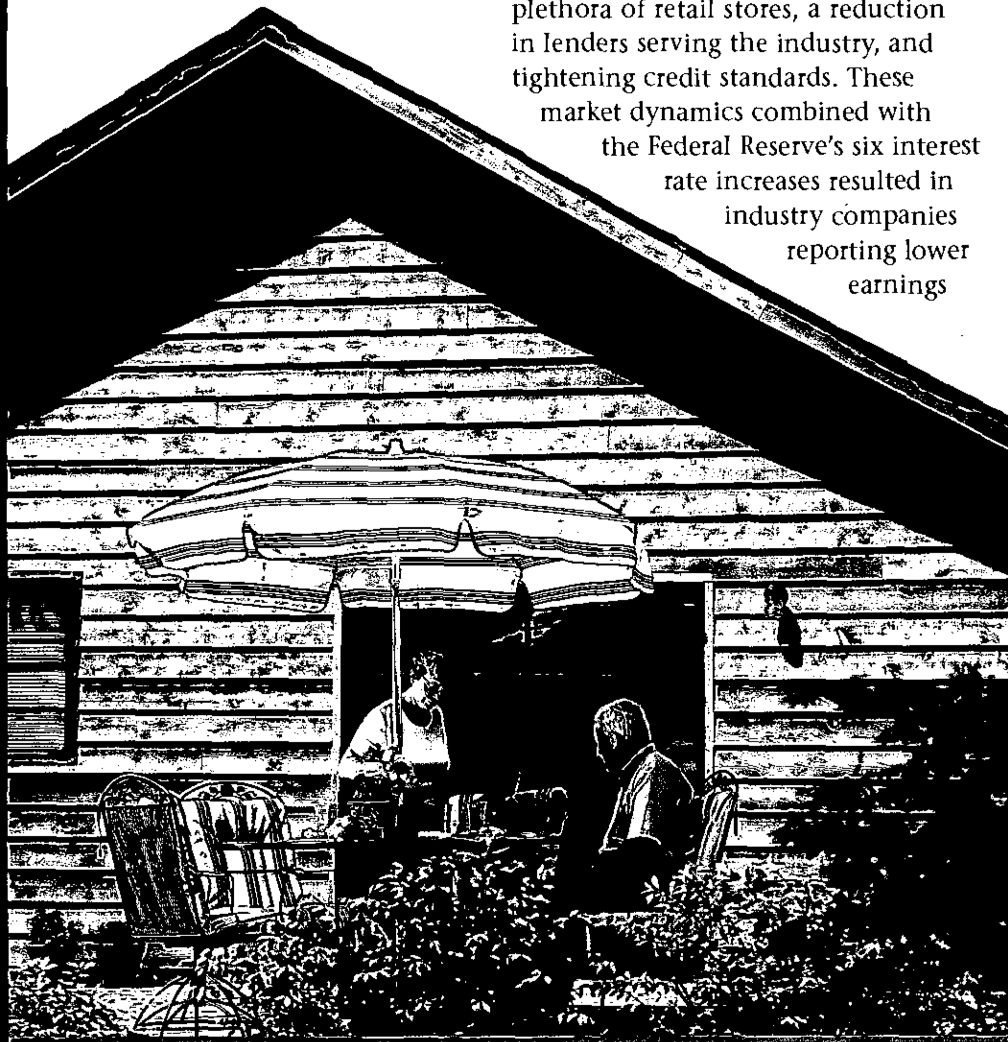


© 2000, Clayton Homes, Inc.

To Our Shareholders

In a challenging operating environment, fiscal year 2000 was your Company's second best year for revenues, net income, and earnings per share. Revenues were reported of $1.3 billion, net income of $144 million, and earnings per share of $1.03. For the second consecutive year, Clayton Homes was named to Forbes Magazine's Platinum List, a roster of the nation's 400 best performing companies based on growth and profitability.

For fiscal 2000, the manufactured housing industry was faced with over-capacity in manufacturing, a plethora of retail stores, a reduction in lenders serving the industry, and tightening credit standards. These market dynamics combined with the Federal Reserve's six interest rate increases resulted in industry companies reporting lower earnings and stock prices. Although we were not pleased with the 30 percent decline in CMH stock price, the performance exceeded that of the industry, which was down 60 percent. Similarly, earnings per share fell 2.8 percent, while the average for the industry fell more than 90 percent.



The Company's ten-year compounded growth in earnings per share was 19.1 percent, while the stock price increased at a 16 percent rate. Clayton Homes achieved a 15 percent return on equity for FY2000 and finished the year at a conservative 9 percent debt to capital. Illustrating management's confidence in CMH stock, 5.4 million shares were repurchased during the year providing remaining shareholders with a greater percentage ownership in the Company.

Operating highlights from the year included:

- Awarded 2000 Manufacturer of the Year by the Manufactured Housing Institute.
- Opened the Company's 20th manufacturing plant in Hodgenville, Ky.
- Expanded Vanderbilt's loan servicing to $4 billion.

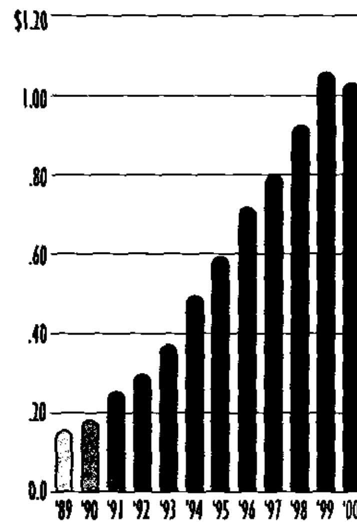
- Increased the number of Company-owned stores to 318.
- Raised independent retailer locations to 707.
- Purchased $205 million in portfolios.
- Upgraded the Clayton Homes website at www.clayton.net.
- Developed 460 new community sites.
- Introduced our proprietary Internet LINK system to 330 Company-owned locations.
- Securitized $1.3 billion in manufactured housing mortgages.
- Reduced over 30-day delinquency to 1.67 percent, a key performance measure.

Now our attention is focused on FY2001. Shareholder value will be enhanced by leveraging the Company's core competencies, including efficient loan servicing, producing and retailing low-cost, high-value homes, and prudent balance sheet management, to take advantage of opportunities during the coming year.

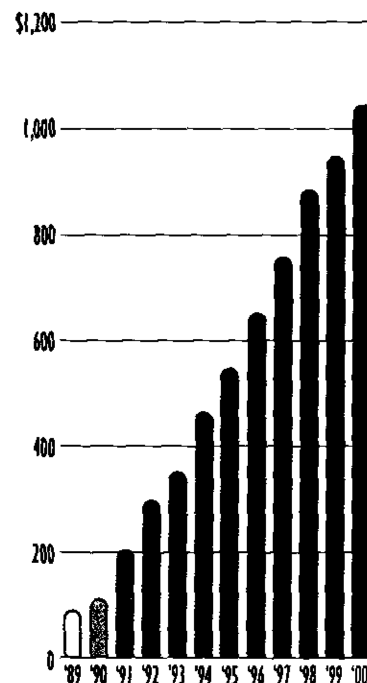
Our goals for 2001 include:

- Strengthen Best Practices Training to improve efficiency and quality.
- Enhance measurement and promotion of customer satisfaction.
- Expand loan servicing to $4.5 billion.
- Improve profitability of Company-owned stores and communities.
- Increase volume purchase opportunities.
- Further support the communities where we live and work.

Earnings Per Share *(diluted)*



Shareholders' Equity
(in millions)



The coming year will be difficult for all industry participants. More stores and manufacturing plants will close, financing will continue to tighten, and housing stocks will likely remain out of favor as long as interest rates continue to rise and industry shipments decline. The Company has historically survived and prospered in similar business cycles. Clayton's loan portfolio performs well and provides an annuity type income – as do the Communities and insurance operations. The Company has a strong balance sheet and one of the most seasoned management teams in the industry, augmented by highly motivated and dedicated team members. CMH has been profitable for 26 consecutive years, and 2001 should be no exception.

Our strategic intent involves preserving the Company's strong fundamentals while laying the foundation for continued growth and increased profitability as industry conditions improve. As always, we thank all Clayton shareholders for support and patience as we continue managing your Company to maximize results for the long term.

James L. Clayton
Chairman of the Board

Kevin T. Clayton
Chief Executive Officer and President

Dreams 2000

Manufacturing

Only high quality materials and name brand fixtures go into a Clayton home.

The focus of the Manufacturing group is to provide high-quality homes of exceptional value that exceed our customers' expectations. In recognition of the group's dedication to quality and superior contributions to the industry, your Company was named "Manufacturer of the Year" by the Manufactured Housing Institute. This prestigious honor is bestowed by industry peers and is a tribute to all Clayton team members for their unparalleled efforts in delivering the best-built homes in the industry.

In FY2000, our plants produced and sold 26,348 homes representing 39,355 floors. Product mix was divided 49 percent multi-section versus 51 percent single-section homes. Manufacturing sales revenues fell by 4.6 percent to $624 million due to the industry's excessive capacity and bloated retail inventories closing 1 of every 7 industry plants. All Clayton plants continued to operate and were profitable except for the new Hodgenville, Kentucky, plant which opened in April.

The Hodgenville facility expanded our presence in the Midwest and is well positioned to serve the prime manufactured housing states of Michigan, Indiana, Ohio, Illinois, and Pennsylvania. Historically, 50,000 manufactured homes are shipped into the Midwest annually, and prior to the Hodgenville plant opening, Clayton was under-represented in the region. In accordance with our operating concept, team members were carefully selected for attitude, aptitude, and a desire to build high-quality, affordable housing. Consistent with our philosophy of recruiting, training, and retaining only the best talent, 135 start-up team members were chosen from more than 1,000 applicants.

Capital expenditures of $9.6 million were invested this year to further improve processes, safety, plant efficiency and capacity. Clayton's new generation of ergonomically efficient

manufacturing facilities provide user-friendly work environments, increased productivity, consistent quality, and reduced absenteeism. Just-in-time delivery – even to the individual workstations – minimizes material handling, workman's compensation, and direct labor costs.

In Manufacturing, the direct link to our customer is the retailer. Today, Clayton markets homes in 33 states through 1,101 locations: 707 independent retail partners, 318 Company-owned sales centers and 76 Company-owned community sales offices. This stable cross section of retailer customers provides more consistent demand through industry cycles and real time feedback on consumer preferences. Traditionally in industry downturns, the Company has gained market share as a result of this unique distribution structure.

The Clayton Manufacturing Leadership Academy located at the Company's on-campus training and conference center was utilized extensively this year. All supervisors, including general managers, production managers, and area coordinators, are required to successfully complete this comprehensive leadership curriculum which focuses on team dynamics, leadership skills, best practices, and quality production. Classes facilitated by current operating managers encourage "hands-on" involvement by all team members and promote Clayton's continued growth and profitability.

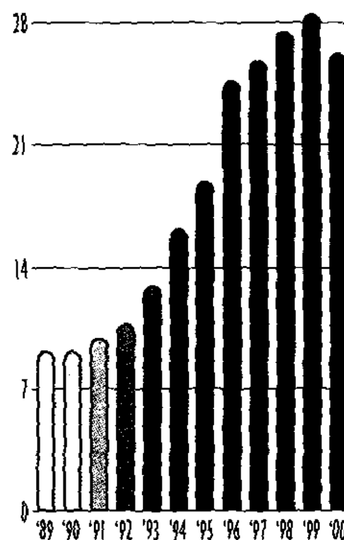
Selective partnerships with our national contract suppliers result in very high quality raw materials, component standardization, and volume discounts. Suppliers, including Moen, Georgia Pacific, Weyerhaeuser, Congoleum, Johns Manville, Armstrong, and Carriage Carpets, support the CMH inventory management control systems resulting in inventory turns of 24 times for the year.

The Manufacturing group continues to produce low-cost, high-value homes that are designed to exceed customer expectations. The judicious use of resources, coupled with excellent facilities, a well-seasoned management team, and a continued focus on quality and customer satisfaction, positions the group to capture a larger share of the market in fiscal 2001 and beyond.

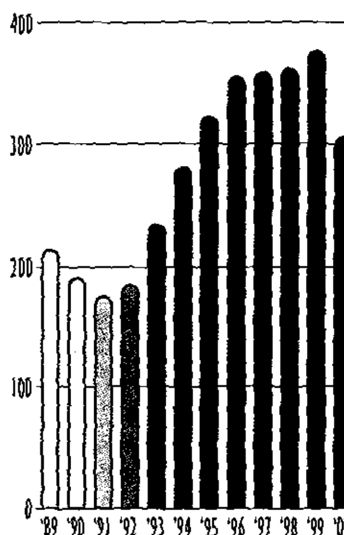
	June 30, 2000	1999	Percent Change
Sales (in millions)			
Independent dealers	$278.9	$333.0	-16%
Intercompany*	345.0	320.8	8%
Total	$623.9	$653.8	-5%
Homes built (units)			
Single-section	13,373	14,663	-9%
Multi-section	12,975	13,681	-5%
Total	26,348	28,344	-7%
Intercompany*	(14,101)	(13,364)	6%
Independent retailers	12,247	14,980	-18%

*Represents sales to the Company's Retail and Communities operations.

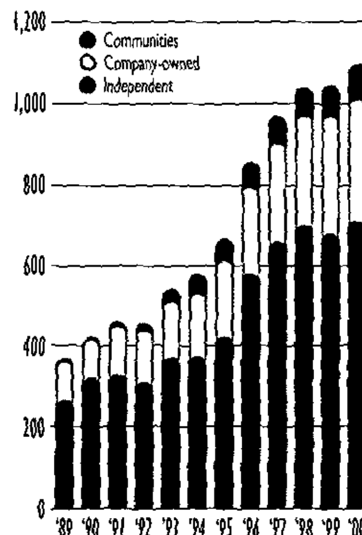
Clayton Homes Built
(in thousands)



Industry Shipments
(in thousands)



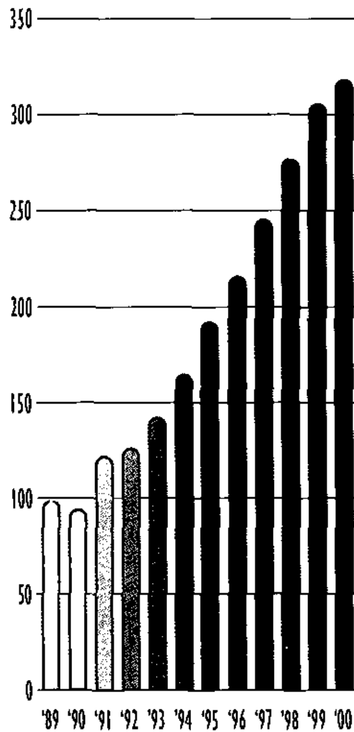
Distribution Centers



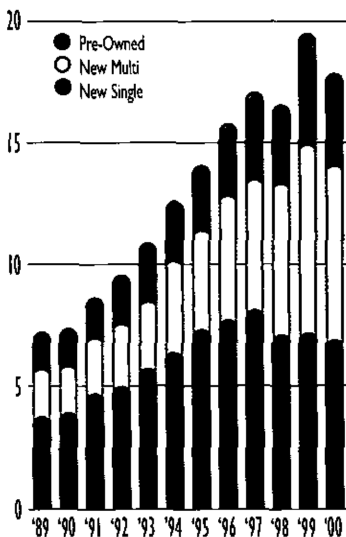
Dreams 2000

Retail

Company-Owned Retail Centers



Homes Retailed
(in thousands)



Fiscal 2000 represented a challenging year for the Retail group amidst a turbulent industry environment. Competitors began closing stores that had been acquired at premium prices or newly opened during recent euphoric years. The Company ended the year with 318 sales centers, a 4 percent increase, achieved by opening 16 green-field locations and by acquiring 10 sales centers. Fourteen under-performing stores were closed.

The Retail group sold 17,932 homes, generating sales revenues of $670 million. Same store sales were down 9 percent for the year in the highly competitive marketplace fueled by increased industry store population, excessive retail inventories, and overly aggressive lending practices.

With the addition of Wyoming, Clayton Retail now operates stores in 23 states. While managing this growth, the group maintained its traditional strategic course of expanding in prime retail markets where qualified sales management teams are available. Multi-section homes sold by Retail exceeded single-sections for the first time in Company history. The increase in demand for multi-sectional homes can be attributed to several factors: availability of sites, lifestyles requiring expanded living space, affordability of manufactured homes relative to site-built housing, and the teaming of Retail and Financial Services in developing and marketing flexible mortgage programs. The expansion of the Dream series – multi-section homes that combine a furniture/ appliance/ décor and other amenity options with our proprietary lending plans – greatly contributed to the multi-section sales growth. The Dream 2000 and its single-section counterpart, the Millennium 2000, fulfill consumers' demand for high-value homes at affordable prices.

Significant technology resources were directed toward eliminating paper-based processes as new application and communication systems were deployed. During the year, LINK, our proprietary Internet-based interactive communication system, was installed at 280 Company-owned retail stores. LINK supports the Retail sales teams in the preliminary credit evaluation process and the paperless, real time collaboration with their credit managers at Vanderbilt, where the final underwriting decisions are made. A more enjoyable home buying experience is created while improving the quality of the loan portfolio, reducing costs, and standardizing processes.

Another enhancement for the Retail group was to improve the drive-by appeal of sales centers, adding bold, new signage, landscaping, paving and other quality upgrades that make retail stores more enticing to prospective buyers.

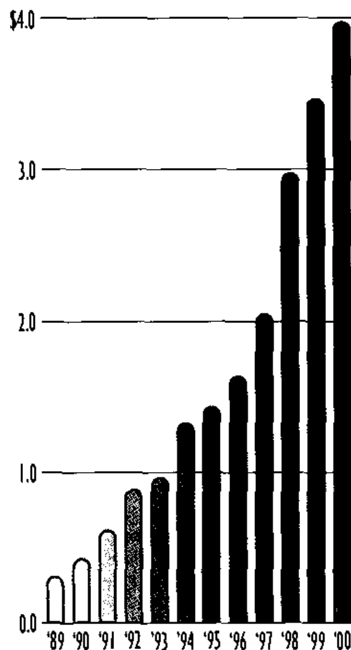
The Retail Sales Training Academy continues to focus on best practice initiatives and honing skills that reinforce core competencies. Training is conducted by experienced and successful team members who have historically embraced Clayton business, marketing, and sales practices which are time tested and result in superior customer satisfaction.

The Retail group will continue to be a leader in the industry by maintaining its focus on the basics: unmatched attention to best practices; attracting, coaching, and retaining top sales talent; utilizing technology that simplifies the home buying experience; and selling good homes to good people on good sites. This concept promotes well-managed, consistent growth and favorable operating results.

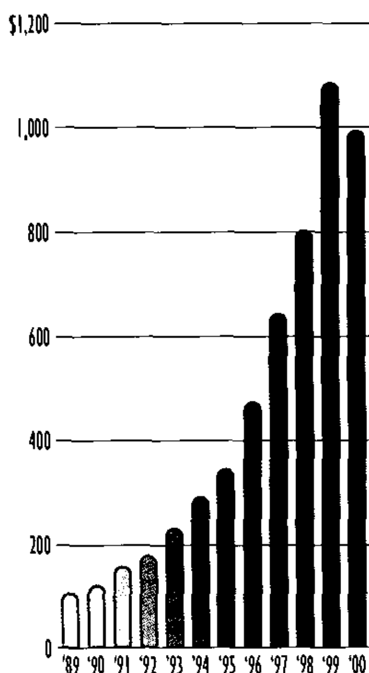
	June 30, 2000	1999	Percent Change
Sales (in millions)			
New homes	$615.4	$613.2	–
Used homes	54.6	59.4	-8%
Total	$670.0	$672.6	–
Homes Sold (units)			
New single-section	6,871	7,597	-10%
New multi-section	7,151	7,297	-2%
Total new	14,022	14,894	-6%
Used	3,910	4,580	-15%
Total	17,932	19,474	-8%

Financial Services

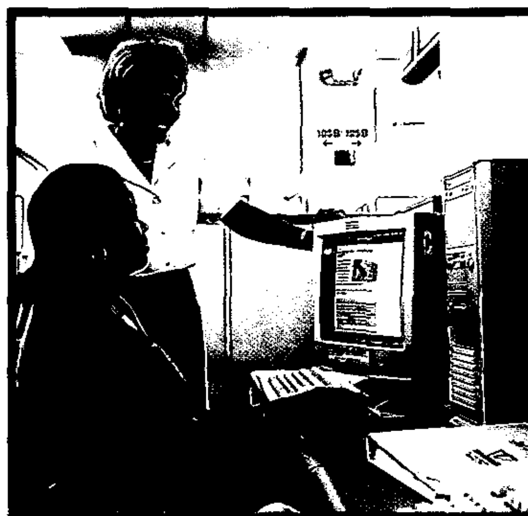
Loans Serviced
(in billions)



Loan Originations
(in millions)



The Financial Services group successfully navigated an extremely challenging year. During FY2000, Vanderbilt Mortgage and Finance originated and securitized more than $980 million in mortgages, raising the total serviced portfolio to $4 billion – up 13 percent for the year.

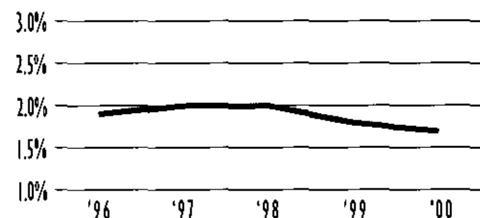


Vanderbilt continued to enjoy a relatively low cost of funds attributable to its historical performance and excellent servicing reputation within the investment community. Diligent collection efforts resulted in the key performance measure of over 30-day delinquency at 1.67 percent from 1.84 percent last year, well below industry norms. Improvements in delinquency are attributable to the continued emphasis on capturing the synergies that exist between Vanderbilt and its two largest originators, the Retail and Communities groups.

Sales center managers have a significant vested interest in the performance of the mortgages originated at their locations. There, utilizing LINK, they perform the initial underwriting before transmitting the applications to seasoned teams at Vanderbilt who make the final credit decisions. The entire process is paperless. Store managers in turn earn a portion of the servicing spread as their homebuyer payments are collected. The sales team, being close to the customer, is most effective and efficient in encouraging prompt payment, and the proximity eliminates the normal field collection overhead. This teamwork, where Vanderbilt focuses on letter and telephonic collection activities, leaving the in-person components to the sales team who already have an existing relationship with the homeowner, is productive and unique.

CMH Insurance achieved its strategic growth plan. Net insurance premiums written totaled a record $63.5 million for the year – up 4 percent – utilizing insurance products including Homeowners, Family Protection, and the Home Buyer Protection Plan, an extended warranty product. Active partnerships with the Retail and Communities groups resulted in at least

Loan Delinquency
(Vanderbilt Loan Originations)



one insurance product being sold on 91 percent of our financed home sales.

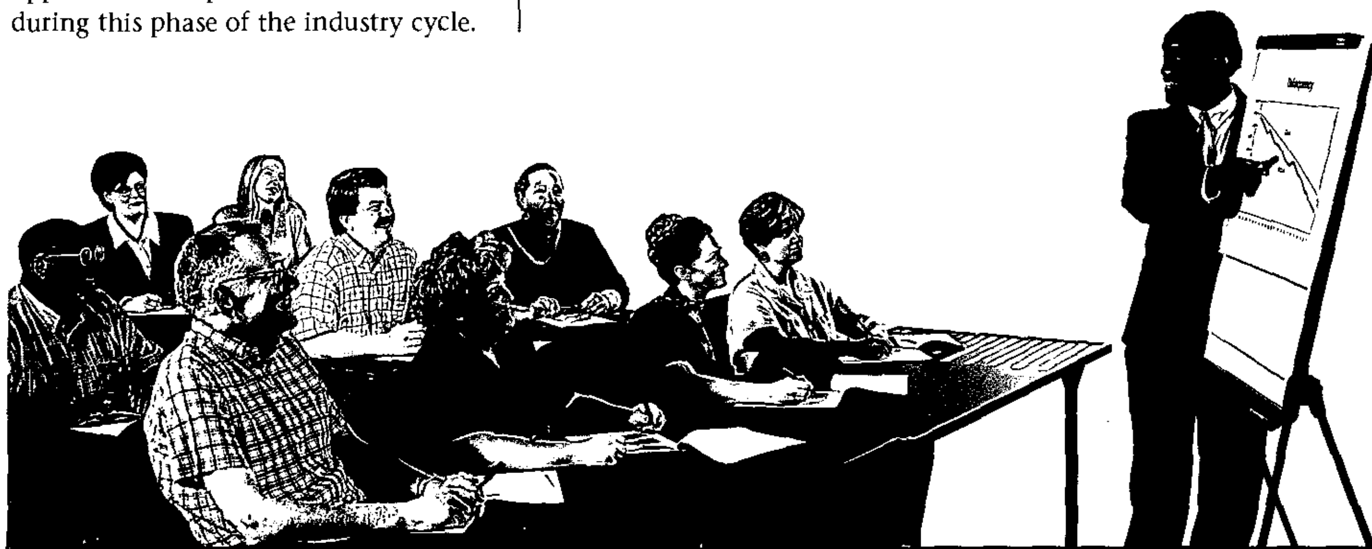
Best practices training, paperless systems, homebuyer communication,

and unit cost reduction remain high priorities for the Financial Services group. Introduced during the year, the Clayton On-line University, an interactive Internet-based training resource with testing features, ensures consistent delivery and accountability. LINK and its companion Clayton On-line University will be expanded during 2001 to include virtually all Company communications and training.

Industry conditions indicate the coming year will be unforgiving. Flawless execution in mortgage servicing will be required. Delinquencies and defaults must be minimized as the amount recovered on foreclosed inventory is likely to decline. Vanderbilt has the structure, training systems, experience, track record, and the people required to perform well in this challenging industry environment. In the meantime, the goal is to capitalize on portfolio acquisitions, servicing contracts, and other profit opportunities expected to materialize during this phase of the industry cycle.

	June 30,		
	2000	1999	Percent Change
Loans serviced (in millions)			
Originated and purchased loans serviced	$3,714	$3,204	16%
Master servicing contracts	222	269	-17%
Total	$3,936	$3,473	13%
Loans serviced (# of loans in thousands)			
Originated and purchased loans serviced	130	120	8%
Master servicing contracts	12	15	-19%
Total	142	135	5%
Originations (in millions)			
Company-owned	$ 712	$ 669	6%
Independent and other	271	416	-35%
Total	$ 983	$1,085	-9%
Acquisitions (in millions)	$ 205	$ 253	-19%

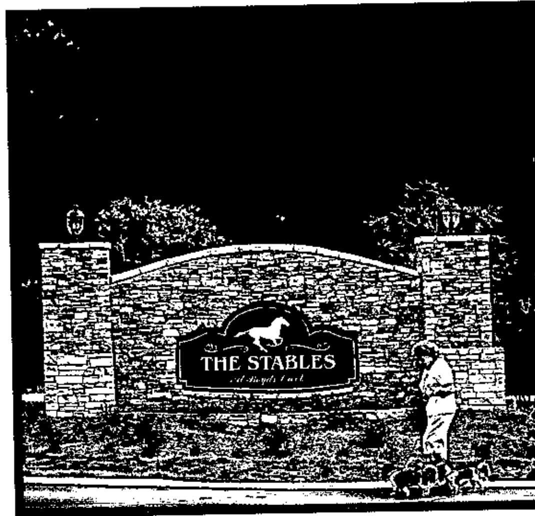
	2000	1999
Delinquency (% over 30 days - VMF only)		
Contracts originated by VMF	1.7%	1.8%
Contract portfolios purchased	4.9%	3.1%
All contracts	2.2%	2.1%
Net losses as % of average loans outstanding		
Contracts originated by VMF	1.2%	1.0%
Contract portfolios purchased	2.8%	3.7%
Total contracts	1.4%	1.4%
Number of repossessions on hand		
Originated by VMF	1,774	1,374
Contract portfolios purchased	457	483
Total repossessions	2,231	1,857



Communities

When Communities sells a home, profit is realized from manufacturing, retailing, financing, insuring and leasing the home site.

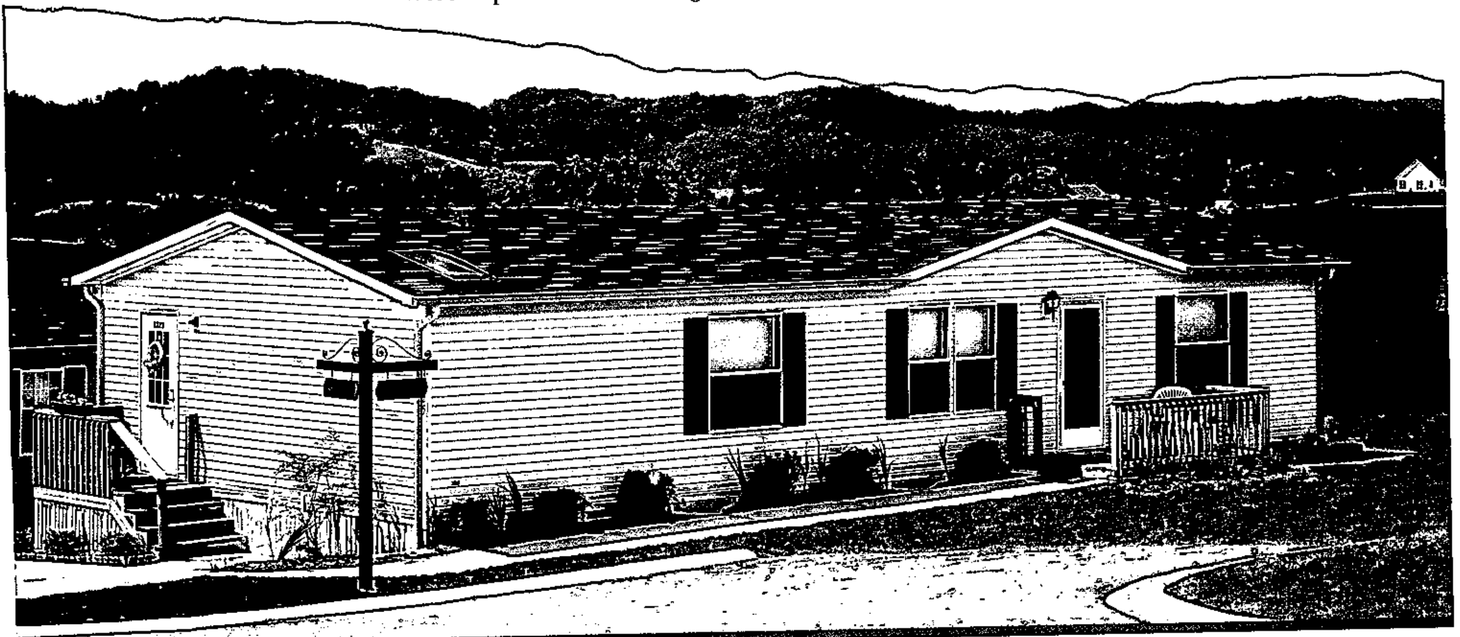
The Communities group best exemplifies the.Company's unique brand of vertical integration. When the group sells a home, profit is realized from five components of the transaction including manufacturing, retailing, financing, insuring and leasing the home site.



This group introduced process improvements in 2000 that fortified its operational effectiveness which resulted in increased revenues and profits. Sales increased 28.4 percent while rental revenues increased 8.6 percent. With the evolving process improvements and enhanced efficiencies, revenues from continuing operations increased 17.2 percent.

During a year when six communities were expanded and one greenfield location was developed, overall occupancy still increased to 75.3 percent. Historically the strategy was to acquire turnaround properties with low occupancy rates at a significant discount. More recently as prices have escalated, the strategy has turned to new development and expansion of existing communities. There is significant leverage resulting from incremental income without corresponding operational costs as occupancy increases.

In FY2000, the Communities group expanded its portfolio to 76 properties with 20,168 home sites. Clayton Crossing in East Tennessee held its grand opening in June with 76 sites developed and a total build out of



271 sites. Clayton Crossing offers amenities including larger sites for multi-section homes, off-street parking, garages, and attractive landscaping.

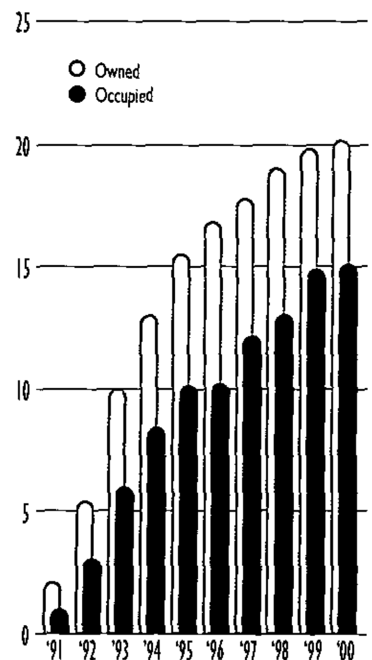
Six properties were expanded during the year resulting in 419 new home sites. Included were The Stables in Sevierville, Tennessee, near Dollywood; Preston on the Lake in Dallas, Texas; Hidden Lake and Clayton Estates in San Antonio, Texas; Clayton Estates in Knoxville, Tennessee; and Hickory Creek in Denton, Texas. Due to the Company's profitability requirements, opportunities for acquiring properties were limited. However, the Communities group remains committed to identifying turnaround and expansion opportunities in markets with positive economic and housing trends.

SCOPE, the acronym for the group's basic management processes involving Sales, Collections, Occupancy, People and Expense control, provides a consistent and reliable model for improving operational results for acquired communities. SCOPE provides focus, promotes accountability, and emphasizes best practices.

Investments in the continuous development of people and technology contributed to the Communities group increasing revenues and profits in 2000. This group is well positioned for continued growth in earnings as substantial appreciation builds; there is significant unrecognized value in these assets. In 2001, management will continue to focus on sound execution of SCOPE as we increase the number of sites and upgrade existing properties.

The Communities group is dedicated to providing a superior living environment for all Clayton Communities residents, while contributing to our homeowners' dreams of secure and affordable lifestyles.

Home Sites
(in thousands)



	June 30, 2000	1999
Home sites owned	**20,168**	19,708
Occupancy rate	75%	73%

Eleven Year Review

(in thousands except per share and other data)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Income Statement Data											
Revenues											
Net sales	$ 993,916	$1,040,668	$ 880,856	$ 822,906	$762,396	$621,351	$510,153	$384,491	$296,849	$257,557	$219,443
Financial services and other income	299,429	303,615	246,923	198,797	166,345	136,741	118,083	91,750	74,330	62,392	40,316
	1,293,345	1,344,283	1,127,779	1,021,703	928,741	758,092	628,236	476,241	371,179	319,949	259,759
Costs and expenses											
Cost of sales	660,429	705,128	598,589	559,274	521,200	431,826	357,698	267,201	206,049	176,374	153,786
SG&A	384,067	367,430	302,598	270,996	236,188	188,835	153,698	113,695	84,785	76,420	60,220
Financial services interest	1,032	7,981	2,015	2,885	3,649	5,533	8,196	11,819	16,585	18,198	11,595
Other expenses	20,800	12,459	7,976	1,000	–	–	–	–	3,300	3,772	2,213
	1,066,328	1,092,998	911,178	834,155	761,037	626,194	519,592	392,715	310,719	274,764	227,814
Operating income	227,017	251,285	216,601	187,548	167,704	131,898	108,644	83,526	60,460	45,185	31,945
Interest income (expense), net/other	1,608	(5,317)	5,499	5,152	4,596	3,902	(359)	(170)	(317)	(592)	(575)
Income before income taxes	228,625	245,968	222,100	192,700	172,300	135,800	108,285	83,356	60,143	44,593	31,370
Provision for income taxes	(84,600)	(91,000)	(84,400)	(73,200)	(65,500)	(48,800)	(39,000)	(29,600)	(20,800)	(16,000)	(11,500)
Income before accounting change	144,025	154,968	137,700	119,500	106,800	87,000	69,285	53,756	39,343	28,593	19,870
Cumulative effect of accounting change	–	–	–	–	–	–	3,000	–	–	–	–
Net income	$ 144,025	$ 154,968	$ 137,700	$ 119,500	$106,800	$ 87,000	$ 72,285	$ 53,756	$ 39,343	$ 28,593	$ 19,870
Net income per share											
Basic	$1.03	$1.07	$0.93	$0.81	$0.72	$0.59	$0.51	$0.39	$0.30	$0.27	$0.21
Diluted	$1.03	$1.06	$0.92	$0.80	$0.72	$0.59	$0.49	$0.37	$0.29	$0.24	$0.18
Average shares outstanding											
Basic	139,474	145,211	148,463	148,324	148,253	147,020	141,046	136,391	130,103	106,884	94,785
Diluted	139,815	145,931	149,504	149,346	149,183	148,285	149,875	149,106	142,100	126,216	120,217
Dividends per common share	$.064	$.064	$.064	$.061	$.049	$.030	–	–	–	–	–
Balance Sheet Data											
Total assets	$1,506,378	$1,417,245	$1,457,757	$1,045,761	$886,350	$761,151	$701,148	$587,032	$554,780	$488,817	$339,099
Debt obligations	99,216	96,477	247,591	22,806	30,290	48,737	70,680	137,038	192,931	227,444	177,374
Shareholders' equity	$1,036,375	$ 947,768	$ 881,019	$ 754,526	$650,189	$544,187	$462,154	$348,630	$292,950	$200,992	$108,334
Key Financial Ratios											
As a % of revenue											
Operating income	17.6%	18.7%	19.2%	18.4%	18.1%	17.4%	17.3%	17.5%	16.3%	14.1%	12.3%
Net income	11.1%	11.5%	12.2%	11.7%	11.5%	11.5%	11.5%	11.3%	10.6%	8.9%	7.6%
Debt as a % of total capital	8.7%	9.2%	21.9%	2.9%	4.5%	8.2%	13.3%	28.2%	39.7%	53.1%	62.1%
Other Data											
Company-owned retail centers	318	306	273	245	216	192	165	143	127	123	96
Independent retailers	707	671	702	663	580	421	372	371	312	330	322
Manufacturing plants	20	19	18	17	17	16	13	13	11	10	10
Communities	76	75	71	67	64	55	46	33	20	12	9

QUARTERLY RESULTS *Unaudited*

	2000				1999			
(in thousands except per share data)	First Sept. 30	Second Dec. 31	Third Mar. 31	Fourth June 30	First Sept. 30	Second Dec. 31	Third Mar. 31	Fourth June 30
Revenues	$337,297	$309,159	$306,981	$339,908	$314,686	$319,120	$308,306	$402,171
Operating income	56,277	55,551	56,725	58,464	53,690	56,841	57,314	83,440
Income before income taxes	56,424	55,831	56,993	59,377	52,697	55,613	55,432	82,226
Net income	35,524	35,231	35,893	37,377	33,197	35,013	34,932	51,826
Earnings per share - Basic	$ .25	$.25	$.26	$.27	$ .23	$.24	$.24	$.36
- Diluted	$ .25	$.25	$.26	$.27	$ .22	$.24	$.24	$.36
Price range of stock - High	$11.88	$11.94	$10.13	$10.38	$16.35	$13.81	$15.19	$13.25
- Low	$8.56	$8.50	$7.81	$7.94	$12.35	$10.80	$10.69	$10.69
Dividends per common share	$.016	$.016	$.016	$.016	$.016	$.016	$.016	$.016

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following table reflects the percentage changes in sales by the Company's retail and community sales centers and in wholesale sales to independent retailers. It also shows the percentage changes in the average number of Company-owned retail centers, communities and independent retailers, the average sales per location, and the average price per home sold in each category.

	Year ended June 30,	
	2000 vs 1999	1999 vs 1998
RETAIL		
Dollar sales	-0.4%	+25.8%
Number of retail centers	+7.8%	+11.8%
Dollar sales per retail center	-7.6%	+12.5%
Price of home	+8.2%	+6.8%
WHOLESALE		
Dollar sales	-16.2%	+6.8%
Number of independent retailers	+0.4%	+0.6%
Dollar sales per independent retailer	-16.6%	+6.2%
Price of home	+2.4%	+5.0%
COMMUNITIES		
Dollar sales	+28.4%	+2.5%
Number of communities	+3.4%	+5.8%
Dollar sales per community	+24.1%	-3.1%
Price of home	+2.6%	+4.5%

FISCAL 2000 COMPARED TO FISCAL 1999

Total revenues decreased 4% to $1.3 billion, as manufactured housing sales decreased 4% to $994 million, financial services income decreased 2% to $229 million and rental and other income increased 1% to $71 million.

Current conditions in the manufactured housing industry are highly competitive at both the retail and wholesale levels. For fiscal 2000, the industry was faced with over-capacity in manufacturing, too many retail centers, and high product inventories. This competitive environment, as well as rising interest rates and general credit tightening, has contributed to decreased industry and Company sales.

Net sales of the Retail group fell slightly to $670 million. This decline was the result of an 8% decrease in homes sold, offset by an 8% increase in the average number of Company-owned retail centers and an 8% increase in the average price per home. Multi-section homes accounted for 51% of total new homes sold versus 49% last year.

During the year, the Company opened 26 retail centers and closed 14 under-performing retail centers. The Company continually evaluates specific markets and opens, acquires or closes retail centers as conditions warrant. Of the 26 new openings, 10 were acquired and 16 were greenfield start-ups. Eleven of the new retail centers were opened in the fourth quarter.

Net sales of the Manufacturing group to independent retailers decreased 16% to $279 million, as the number of homes sold fell 18%. The average wholesale price increased 2% principally due to a shift toward multi-section homes. Multi-section homes accounted for 49% of total shipments versus 48% last year.

Net sales of the Communities group increased 28% to $45 million as 25% more homes were sold while the average home selling price increased 3%. The Company added 460 sites during the year bringing the total to 20,168 sites.

Within the Financial Services segment, interest and loan servicing revenues increased $8 million, and insurance related revenues rose $6 million. Rental and other income increased 1% on a 9% rise in Communities rental income.

The average outstanding balance of receivables owned declined 27% to $440 million with a weighted average interest rate of 11.9%, up from 10.3%. The average outstanding balance of receivables sold rose 29% to $3.3 billion, and the weighted average loan service spread decreased to 3.3% from 3.7%, as the Federal Reserve increased interest rates.

Financial Services interest expense decreased $7 million to $1 million. Debt collateralized by installment contract receivables dropped 26% to an average of $10 million, and the weighted average interest rate increased to 10.5% from 10.4%. Loan covenants preclude prepaying these higher cost obligations.

Gross profit margins increased to 33.6% from 32.2%. This increase is attributable to a higher percentage of retail sales in the total sales mix as well as a shift in mix to multi-section units.

Selling, general and administrative expenses were 29.7% and 27.3% of revenues for the years ended June 30, 2000, and 1999, respectively. This increase as a percentage of revenues was primarily due to a decline in overall sales volume, in addition to growth of Company-owned sales centers without a corresponding increase in sales. Additional set up costs associated with the shift in mix toward multi-section units and sales of larger homes was also a factor.

Net losses as a percentage of loans outstanding for fiscal 2000 remained steady at 1.4% while delinquency rates on all loans increased to 2.2% on a unit basis from 2.1%. The size, character and rate of change in the credit loss and contingent liability reserves are dependent upon many factors, including, but not limited to, origination volume, portfolio performance and market conditions.

The changes in inventory levels at June 30, 2000, compared to June 30, 1999, are shown below in millions:

MANUFACTURING	Increase
Raw materials	$ 2.1
Finished goods	3.6
RETAIL	
Inventory to stock 12 new Company-owned sales centers	8.6
Increase in inventory levels at 306 Company-owned sales centers open at June 30, 1999	21.0
COMMUNITIES	
Inventory to stock one new community	0.3
Increase in inventory levels at 75 communities open at June 30, 1999	2.4
	$ 38.0

FISCAL 1999 COMPARED TO FISCAL 1998

Total revenues grew 19% on an 18% increase in manufactured housing sales and a 23% rise in financial services and other income.

Net sales of the Retail group rose 26% to $673 million. This growth was the result of a 12% increase in the average number of Company-owned retail centers, a 7% increase in the average price per home, and an 18% increase in homes sold. Multi-section homes accounted for 49% of total new homes sold versus 46% last year.

During the year, the Company opened 38 retail centers and closed five under-performing retail centers. The Company continually evaluates specific markets and opens, acquires or closes retail centers as conditions warrant. Of the 38 new openings, 15 were acquired and 23 were greenfield start-ups. Ten of the new retail centers were opened in the fourth quarter.

Net sales of the Manufacturing group to independent retailers increased 7% to $333 million, and the number of homes sold rose 2%. The average wholesale price increased 5% principally due to a shift toward multi-section homes. Multi-section homes accounted for 48% of total shipments versus 44% last year.

Net sales of the Communities group increased 3% to $35 million as 2% less homes were sold while the average home selling price increased 5%. Two acquisitions and two greenfield start-ups brought the number of communities to 75 at year end.

Within the Financial Services segment, interest and loan servicing revenues increased 42% to $166 million, and insurance related revenues rose $8 million. Rental and other income increased 23% on a 19% rise in Communities rental income.

The average outstanding balance of receivables owned rose 55% to $600 million with a weighted average interest rate of 10.3%, up from 10.2%. The average outstanding balance of receivables sold rose 35% to $2.5 billion, and the weighted average loan service spread was 3.7% compared to 3.6%.

Financial Services interest expense increased $6 million to $8 million. Debt collateralized by installment contract receivables dropped 28% to an average of $13 million, and the weighted average interest rate increased to 10.4% from 10.1%. Loan covenants preclude prepaying these relatively higher cost obligations.

Gross profit margins increased slightly to 32.2% from 32.0%.

Selling, general and administrative expenses were 27.3% and 26.8% of revenues for the years ended June 30, 1999, and 1998, respectively. Expenses associated with the start-up of 38 new sales centers, four additional communities, one new plant, the reconstruction of the Waycross plant, and costs associated with portfolio acquisitions were primary causes of the increase.

Net losses as a percentage of loans outstanding for fiscal 1999 increased to 1.4% from .8% while delinquency rates on all loans decreased to 2.1% on a unit basis from 3.3%. Increases in the reserve for credit losses and contingent liabilities were related to purchases of installment contract receivable portfolios. The size, character and rate of change in the credit loss and contingent liability reserves are dependent upon many factors, including, but not limited to, origination volume, portfolio performance and market conditions.

The changes in inventory levels at June 30, 1999, compared to June 30, 1998, are shown below in millions:

MANUFACTURING	Increase(decrease)
Raw materials	$ (0.5)
Finished goods	0.4
RETAIL	
Inventory to stock 33 new Company-owned sales centers	14.1
Increase in inventory levels at 273 Company-owned sales centers open at June 30, 1998	2.0
COMMUNITIES	
Inventory to stock four new communities	0.8
Increase in inventory levels at 71 communities open at June 30, 1998	0.5
	$ 17.3

LIQUIDITY AND CAPITAL RESOURCES

The Company anticipates meeting cash requirements with proceeds from asset securitizations, cash provided from operations, a commercial paper conduit facility, revolving credit lines and long-term debt. A principal strength of the Company is its ability to access global capital markets; continued access to the public and private capital markets is critical to the Company's ability to continue to fund its finance operations. During the year ended June 30, 2000, the Company raised $1.3 billion through asset securitizations.

At June 30, 2000, the Company had long-term debt outstanding of $99 million. Short-term debt available consists of $171 million committed and $66 million uncommitted lines of credit for working capital needs. Long-term debt outstanding principally consists of $75 million of privately issued senior notes, $8 million of installment paper collateralized debt and $16 million of tax-exempt bonds and other long-term debt.

During fiscal 2000, the Company renewed its committed one-year $300 million commercial paper conduit facility used to facilitate sales of manufactured housing contracts. At June 30, 2000, the conduit facility was not utilized, as compared to $105 million being outstanding at June 30, 1999.

In fiscal 2000, the Company repurchased 5.4 million shares for $50 million. Under board approved repurchase programs, all shares may be acquired, at management's discretion, over time on the open market. Shares repurchased will be retired.

The Company originated and acquired approximately $1.2 billion of installment contracts and mortgage loan receivables during fiscal 2000. Additional investments were made of approximately $10 million to expand, develop, or improve manufactured housing communities and $2 million in related rental units, $12 million for opening and upgrading of Company-owned retail centers, and $10 million for construction and improvement of manufacturing facilities.

In fiscal 2001, the Company expects to originate approximately $1 billion of installment contract and mortgage loan receivables. It expects to invest approximately $24 million in acquisitions or construction of manufactured housing communities, up to $13 million for opening and upgrading Company-owned retail centers and up to $5 million for construction and improvement of manufacturing facilities.

MARKET RISK

The Company is exposed to market risks related to fluctuations in interest rates on its installment paper contract receivables, servicing receivables and variable rate debt, which principally consists of revolving credit lines. The Company uses interest rate swaps to minimize interest rate risk on certain credit lines, effectively converting these to fixed rate debt. Foreign currency and commodity price risk are not considered to have a material impact on the Company.

As of June 30, 2000, the Company has outstanding long-term debt of $99 million. There is no significant exposure to changes in interest rates on debt obligations as the majority of its long-term debt, $83 million, carries fixed interest rates. Remaining long-term debt of $16 million carries variable interest rates, which reprice weekly. Holding the variable rate debt 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 $99,000, net of tax.

The Company has variable interest rate installment paper contract receivables of $43 million on June 30, 2000. Holding the outstanding principal amount constant, each one percentage point increase in interest rates occurring on the first day of the year would result in an increase in interest income for the coming year of approximately $209,000, net of tax.

The Company has outstanding regular REMIC interests with variable interest rates collateralized by variable and fixed installment contract receivables of $1.2 billion on June 30, 2000. Holding the outstanding regular interests amounts constant, each one percentage point increase in interest rates occurring on the first day of the year would result in a decrease in servicing income for the coming year of approximately $5.7 million, net of tax.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* which was subsequently amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133,* in June 1999 and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* in June 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments embedded in other contracts and for hedging activities. The Company will adopt SFAS No. 133, as amended, in the first quarter of 2001. Such adoption is not expected to have a material impact on the Company's reported results of operations, financial position or cash flows.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements.* It summarizes the SEC's views in applying generally accepted accounting principles to selected revenue recognition issues. An amendment was issued in June 2000, which delays the implementation until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company believes that its practices already comply with the provisions of SAB No. 101, and its adoption is expected to have no material impact on the Company's reported results of operations, financial position or cash flows.

EFFECTS OF INFLATION

Inflation has had an insignificant impact on the Company during the past several years.

FORWARD LOOKING STATEMENTS

Certain statements in this annual report are forward looking as defined in the Private Securities Litigation Reform Law. These statements involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this report. These risks fall generally within three broad categories consisting of industry factors, management expertise, and government policy and economic conditions. Industry factors include such matters as potential periodic inventory adjustments by both captive and independent retailers, availability of wholesale and retail financing, general or seasonal weather conditions affecting sales and revenues, catastrophic events impacting insurance reserves, cost of labor and/or raw materials and industry consolidation trends creating fewer, but stronger, competitors capable of sustaining competitive pricing pressures.

Management expertise is affected by its overall ability to anticipate and meet consumer preferences, maintain successful marketing programs, continue quality manufacturing output, keep a strong cost management oversight, and project stable gain on sale accounting assumptions. Lastly, management has the least control over government policy and economic conditions such as prevailing interest rates, capital market liquidity, government monetary policy, stable regulation of manufacturing standards, consumer confidence, favorable trade policies, and general prevailing economic and employment conditions.

REPORT OF INDEPENDENT ACCOUNTANTS

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Clayton Homes, Inc. and Subsidiaries at June 30, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States. 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 of these statements in accordance with auditing standards generally accepted in the United States which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
Knoxville, Tennessee
August 8, 2000

CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, **2000**	1999
ASSETS		
Cash and cash equivalents	**$ 43,912**	$ 2,680
Trade receivables	**21,796**	24,998
Other receivables, principally installment contracts, net of reserves for credit losses and unamortized discounts of $4,217 and $9,133, respectively	**500,942**	551,744
Residual interests in installment contract receivables	**150,329**	131,146
Inventories	**222,431**	184,444
Securities available-for-sale	**47,734**	19,047
Restricted cash	**96,904**	100,127
Property, plant and equipment	**305,479**	291,503
Deferred income taxes	**24,284**	20,505
Other assets	**92,567**	91,051
Total assets	**$1,506,378**	$1,417,245
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	**$ 122,760**	$ 130,579
Debt obligations	**99,216**	96,477
Other liabilities	**248,027**	242,421
Total liabilities	**470,003**	469,477
Shareholders' equity		
Preferred stock, $.10 par value, authorized 1,000 shares, none issued	—	—
Common stock, $.10 par value, authorized 200,000 shares, issued 137,499 at June 30, 2000, and 142,373 at June 30, 1999	**13,750**	14,237
Additional paid-in capital	**39,500**	85,236
Retained earnings	**983,806**	849,116
Accumulated other comprehensive income (loss)	**(681)**	(821)
Total shareholders' equity	**1,036,375**	947,768
Total liabilities and shareholders' equity	**$1,506,378**	$1,417,245

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share data)	**2000**	Year ended June 30, 1999	1998
Revenues			
Net sales	**$ 993,916**	$ 1,040,668	$ 880,856
Financial services	**228,642**	233,848	190,204
Rental and other income	**70,787**	69,767	56,719
	1,293,345	1,344,283	1,127,779
Costs and expenses			
Cost of sales	**660,429**	705,128	598,589
Selling, general and administrative	**384,067**	367,430	302,598
Financial services interest	**1,032**	7,981	2,015
Provision for credit losses	**20,800**	12,459	7,976
	1,066,328	1,092,998	911,178
Operating income	**227,017**	251,285	216,601
Interest income (expense), net / other	**1,608**	(5,317)	5,499
Income before income taxes	**228,625**	245,968	222,100
Provision for income taxes	**(84,600)**	(91,000)	(84,400)
Net income	**$ 144,025**	$ 154,968	$ 137,700
Net income per common share			
Basic	**$1.03**	$1.07	$0.93
Diluted	**$1.03**	$1.06	$0.92
Average shares outstanding			
Basic	**139,474**	145,211	148,463
Diluted	**139,815**	145,931	149,504

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands except per share data)	Total Shareholders' Equity	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 1997	$ 754,526	$ 14,812	$163,191	$ 576,523	$ —
Net income	137,700	—	—	137,700	—
Purchase of 713 shares of common stock	(9,506)	(71)	(9,435)	—	—
Dividends declared ($.064 per common share)	(10,469)	—	—	(10,469)	—
Issuances related to stock incentive, employee benefit plans and other	8,768	111	8,657	—	—
Balance at June 30, 1998	881,019	14,852	162,413	703,754	—
Net income	154,968	—	—	154,968	—
Other comprehensive income, net of tax					
Unrealized loss on securities available-for-sale	(821)	—	—	—	(821)
Comprehensive income	154,147				
Purchase of 6,465 shares of common stock	(81,394)	(647)	(80,747)	—	—
Dividends declared ($.064 per common share)	(9,606)	—	—	(9,606)	—
Issuances related to stock incentive, employee benefit plans and other	3,602	32	3,570	—	—
Balance at June 30, 1999	947,768	14,237	85,236	849,116	(821)
Net income	**144,025**	—	—	**144,025**	—
Other comprehensive income, net of tax					
Unrealized loss on securities available-for-sale during the year	**(627)**	—	—	—	**(627)**
Realized loss on securities available-for-sale included in net income	**767**	—	—	—	**767**
Other comprehensive income	**140**	—	—	—	**140**
Comprehensive income	**144,165**				
Purchase of 5,382 shares of common stock	**(49,776)**	**(538)**	**(49,238)**	—	—
Dividends declared ($.064 per common share)	**(9,335)**	—	—	**(9,335)**	—
Issuances related to stock incentive, employee benefit plans and other	**3,553**	**51**	**3,502**	—	—
Balance at June 30, 2000	**$1,036,375**	**$13,750**	**$ 39,500**	**$ 983,806**	**$ (681)**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year ended June 30, 2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 144,025**	$ 154,968	$ 137,700
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	**20,422**	17,795	14,733
Amortization of installment contract receivables, net of gain on sale	**3,256**	(15,089)	(31,699)
Provision for credit losses	**20,800**	12,459	7,976
Realized loss on securities available-for-sale	**1,218**	—	—
Deferred income taxes	**(3,861)**	(8,267)	(25,830)
Increase in other receivables, net	**(12,954)**	(103,070)	(25,700)
Increase in inventories	**(37,987)**	(17,331)	(47,679)
Increase (decrease) in accounts payable, accrued liabilities, and other	**(41,510)**	24,687	55,429
Cash provided by operations	**93,409**	66,152	84,930
Origination of installment contract receivables	**(983,090)**	(1,085,484)	(801,865)
Proceeds from sales of originated installment contract receivables	**886,040**	1,030,442	705,420
Principal collected on originated installment contract receivables	**48,040**	80,610	50,260
Net cash provided by operating activities	**44,399**	91,720	38,745
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of installment contract receivables	**(206,154)**	(253,625)	(520,912)
Proceeds from sales of acquired installment contract receivables	**229,412**	389,866	230,311
Principal collected on acquired installment contract receivables	**19,836**	73,200	27,703
Proceeds from sales of securities available-for-sale	**37,733**	—	—
Acquisition of property, plant and equipment	**(34,398)**	(47,749)	(62,210)
Decrease (increase) in restricted cash	**3,223**	(13,951)	(15,179)
Net cash provided by (used in) investing activities	**49,652**	147,741	(340,287)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends	**(9,335)**	(9,606)	(10,469)
Net borrowings (repayment) on credit facilities	—	(227,873)	227,873
Proceeds from (repayment of) long-term debt	**2,739**	76,759	(3,088)
Issuance of stock for incentive plans and other	**3,553**	3,602	8,768
Repurchase of common stock	**(49,776)**	(81,394)	(9,506)
Net cash provided by (used in) financing activities	**(52,819)**	(238,512)	213,578
Net increase (decrease) in cash and cash equivalents	**41,232**	949	(87,964)
Cash and cash equivalents at beginning of year	**2,680**	1,731	89,695
Cash and cash equivalents at end of year	**$ 43,912**	$ 2,680	$ 1,731
Supplemental disclosures for cash flow information			
Cash paid during the year for			
Interest	**$ 6,781**	$ 19,976	$ 4,285
Income taxes	**$ 97,903**	$ 95,931	$ 93,832

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements

The consolidated financial statements include the accounts of Clayton Homes, Inc. (CMH) and its wholly- and majority-owned subsidiaries. CMH and its subsidiaries are collectively referred to herein as the Company. The Company is a vertically-integrated manufactured housing company headquartered near Knoxville, Tennessee. Employing approximately 7,400 people and operating in 33 states, the Company builds, sells, finances and insures manufactured homes, as well as owns and operates residential manufactured housing communities. Significant intercompany accounts and transactions have been eliminated in the financial statements. See Note 10 for information related to the Company's business segments.

Income Recognition

Sales to independent retailers of homes produced by CMH are recognized as revenue upon shipment. Retail sales are recognized when: cash payment is received, or in the case of credit sales, which represent the majority of retail sales, when a down payment is received and the home buyer enters into an installment sales contract; construction of the home is complete; the home buyer has inspected and accepted the home; and title has passed to the retail home buyer. Most of these installment sales contracts, which are normally payable over 84 to 360 months, are financed by Vanderbilt Mortgage and Finance, Inc. (VMF), the Company's financing subsidiary.

The Company acts as agent on physical damage, family protection and home buyer protection plan insurance policies written by unaffiliated insurance companies (ceding companies) for the purchasers of manufactured homes. The insurance policies are in turn reinsured by certain subsidiaries of the Company. Premiums from policies represent short-duration contracts with terms of one to 10 years and are deferred and recognized as revenue over the terms of the policies. Claims expenses are recorded as insured events occur. Expenses are matched to revenue over the terms of the policies by means of deferral and amortization of policy acquisition costs. Such costs include commissions, premium taxes and ceding fees, which vary with and are directly related to the production of insurance policies and are deferred and amortized over the terms of the related policies.

Installment Contract Receivables and Mortgage Loan Receivables

Installment contract receivables and mortgage loan receivables originated or purchased by VMF are generally sold to investors through an asset backed securities facility, with VMF retaining servicing on the contracts. Certain purchased mortgage loan receivables are sold to financial institutions with servicing released.

Installment contract receivables held for sale are included in other receivables and are carried at the lower of aggregate cost or market. Certain of the installment contract receivables are purchased in bulk at a discount. The purchase discounts are allocated between unamortized discount and reserves for credit losses and contingent liabilities based on management's assessment of risks existing in the portfolio. Unamortized discount is amortized over the life of the related portfolio after giving consideration to anticipated prepayments. Adjustments between the reserves for credit losses and contingent liabilities and unamortized discount are made to reflect changes in the estimated collectibility of each portfolio purchased.

VMF provides servicing for investors in installment contract receivables. Total contracts serviced at June 30, 2000, and 1999, including contracts held for investment, were approximately $3.9 billion and $3.5 billion, respectively. Most of the installment contract receivables are with borrowers in the east, south and southwest portions of the United States and are collateralized by manufactured homes. Interest income on installment contract receivables is recognized by a method which approximates the simple interest method. Service fee income is recognized as the service is performed. The Company accrues for obligations related to cash collections from sold and serviced only loans and remits these collections to investors on a monthly basis. See "Investors payable" in Note 11.

The Company utilizes a financial components approach to transfers and servicing of financial assets, requiring that the carrying amount of the receivables sold be allocated between the assets sold and the assets (liabilities) created, if any, based upon their fair value at the date of sale. The assets (liabilities) created are: 1) an interest-only strip valued as the discounted present value of the excess (deficiency) interest due the residual interest owner (VMF) during the expected life of the contracts over: i) the stated investor yield; ii) the contractual servicing fee; and iii) estimated credit losses; and 2) servicing asset (liability), representing the discounted present value of the contractual servicing fee over the cost of servicing the contracts. Profit (loss) recorded at the time of the sale is computed as the difference between the allocated carrying amount of the receivables sold and the proceeds realized from the sale. The servicing asset at June 30, 2000, and 1999, is as follows:

(in thousands)	2000	1999
Servicing asset beginning balance	$27,024	$13,043
Servicing asset recognized	23,781	20,718
Amortization	(10,101)	(6,737)
Servicing asset ending balance	$40,704	$27,024

The balance represents the estimated fair value of the aggregate servicing assets at June 30, 2000. The estimate of fair value assumes: 1) discount rates which, at the time the asset was created, approximate current market rates; and 2) expected prepayment rates based on loan prepayment experience for similar transactions. The servicing assets are amortized using the effective interest method over the estimated weighted average life of the underlying securities.

The residual interests in the installment receivables sold are classified as available-for-sale securities (as defined by SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), and changes in their value are recorded as adjustments to equity in the period of change. The Company assesses the fair value of the residual interests periodically. Amortization of the residual interest balances is calculated using the effective interest method over the estimated weighted average life of the underlying securities and is reflected as a reduction of net financial services revenues.

Cash Equivalents

For purposes of the statements of cash flows, all unrestricted highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

Investment Securities

The Company follows SFAS No. 134, *Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise,* which requires that the Company classify mortgage-backed securities retained after a securitization in accordance with SFAS No. 115. Accordingly, these securities are classified as available-for-sale, are stated at fair value, and can be reasonably expected to mature in 6-10 years. The Company also has certain other investments that had been designated as available-for-sale and accordingly have been stated at fair value. The fair value of these securities is estimated based on quoted market prices, when available. If not available, fair value is estimated using quoted market prices for similar financial instruments. Net unrealized holding gains and losses are reported as a separate component of other comprehensive income, net of tax, until realized.

Inventories

New homes and raw materials are valued at the lower of cost or market, using the last-in, first-out (LIFO) method of inventory valuation. Previously-owned manufactured homes are recorded at estimated wholesale value (cost) but not in excess of net realizable value.

Property, Plant and Equipment

Land and improvements, buildings, and furniture and equipment are valued at cost. Major renewals and improvements are capitalized while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed currently. When depreciable assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in earnings for the period. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the respective assets ranging from three to 40 years.

The Company follows SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* which requires recognition of impairment losses for long-lived assets whenever events or changes in circumstances result in the carrying amount of the assets exceeding the sum of the expected future undiscounted cash flows associated with such assets. The measurement of the impairment losses recognized is based on the difference between the fair values and the carrying amounts of the assets. SFAS 121 also requires that long-lived assets held for sale be reported at the lower of carrying amount or fair value less cost to sell. The Company has not experienced any impairment losses.

Reserves for Credit Losses and Contingent Liabilities

Reserves for credit losses and contingent liabilities are established related to installment contract receivables. Actual credit losses are charged to the reserves when incurred. The reserves established for such losses are determined based on the Company's historical loss experience after adjusting for current economic conditions. Management, in assessing the loss experience and economic conditions, adjusts reserves through periodic provisions. The Company also maintains a reserve for contingent liabilities related to guarantees of installment contract receivables sold with recourse.

Interest Rate Swaps

The Company uses interest rate swaps to assist in minimizing interest incurred on its short-term variable rate debt. The difference between amounts received and amounts paid under such agreements is recorded as a reduction of, or addition to, interest expense as incurred over the life of the swap.

Restricted Cash

Restricted cash primarily represents: 1) trust account cash balances required by certain VMF servicing agreements, and 2) insurance reserves required by custodial or trust agreements.

Income Taxes

Deferred income taxes are recorded to reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is presented net of income taxes and is comprised of unrealized gains and losses on securities available-for-sale.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Other

Per share and share data have been retroactively adjusted to reflect a 5-for-4 stock split paid in December 1998. Certain reclassifications have been made to the 1998 and the 1999 financial statements to conform to the 2000 presentation.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and for Hedging Activities,* and subsequently amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133,* in June 1999 and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* in June 2000. SFAS No. 133 establishes accounting and reporting standards of derivative instruments embedded in other contracts, and for hedging activities. The Company will adopt SFAS No. 133, as amended, in the first quarter of 2001. Such adoption is not expected to have a material impact on the Company's reported results of operations, financial position or cash flows.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements.* It summarizes the SEC's views in applying generally accepted accounting principles to selected revenue recognition issues. An amendment was issued in June 2000, which delays the implementation until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company believes that its practices already comply with the provisions of SAB No. 101, and its adoption is expected to have no material impact on the Company's reported results of operations, financial position or cash flows.

NOTE 2 - INVENTORIES

Inventories at June 30, 2000, and 1999, are as follows:

(in thousands)	2000	1999
Manufactured homes		
New	$148,658	$125,456
Previously-owned	53,593	40,956
Raw materials	20,180	18,032
	$222,431	$184,444

If the first-in, first-out (FIFO) method of inventory valuation had been used, inventories would have been higher by $21,633,000 and $20,591,000 at June 30, 2000, and 1999, respectively.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2000, and 1999, are as follows:

(in thousands)	2000	1999
Land and improvements	$199,329	$183,449
Buildings	156,689	147,252
Furniture and equipment	45,964	42,392
	401,982	373,093
Less: accumulated depreciation and amortization	(96,503)	(81,590)
	$305,479	$291,503

NOTE 4 - DEBT OBLIGATIONS

Debt obligations at June 30, 2000, and 1999, are summarized as follows:

(in thousands)	2000	1999
Senior notes, 6.25%, due December 2003	$75,000	$75,000
Debt collateralized by installment contract receivables, average effective rate 10.19% on June 30, 2000, due through 2004	8,373	11,625
Tax-exempt bonds, effective rate of 4.90% on June 30, 2000, due through 2030	15,230	9,230
Lines of credit	–	–
Other notes payable	613	622
	$99,216	$96,477

Annual maturities of long-term debt as of June 30, 2000, are as follows:

(in thousands)			
2001	$ 3,143	2004	$ 75,200
2002	3,053	2005	–
2003	1,977	Thereafter	15,843

In December 1998, the Company issued $75 million of 6.25% Senior Subordinated Notes due December 2003 (the "6.25% Notes"), with interest payable each June and December. The 6.25% Notes are redeemable at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium at any time prior to December 30, 2003. The 6.25% Notes are not subject to any sinking fund requirements.

In January 2000, the Company renewed its committed one-year $300 million commercial paper conduit facility to facilitate sales of manufactured housing contracts. Commitment fees are payable quarterly on the unused portion of the facility. At June 30, 2000, the conduit facility was not utilized, as compared to $105 million being outstanding at June 30, 1999.

The Company has a $150 million five-year revolving credit facility with its bank group. The facility's pricing is based on LIBOR rates; commitment fees are payable quarterly on the unused portion of the facility.

The Company's tax-exempt manufacturing facilities' bonds carry no sinking fund requirements and bear interest at weekly adjustable rates.

The preceding facilities are governed by various financial covenants which require maintenance of certain financial ratios and are uncollateralized. In addition, the Company has committed and uncommitted lines of credit amounting to $87 million with several banks, prices based on LIBOR rates. These lines are subject to periodic review by each bank and may be canceled by the Company at any time.

Under certain interest rate swap agreements, the Company agrees with other parties to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. At June 30, 2000, the Company's interest rate swap agreements have an aggregrate notional amount of $100 million and fix the interest rate on the Company's debt to rates ranging from 5.42% to 5.62%. If the Company had terminated all swaps as of June 30, 2000, it would have received a net amount of approximately $1,946,000 based on quoted market values from the other parties holding the swaps.

NOTE 5 - RESERVES FOR CREDIT LOSSES AND CONTINGENT LIABILITIES

An analysis of the reserves for losses on installment contract receivables and contingent liabilities for the years ended June 30, 2000, 1999, and 1998, are as follows:

(in thousands)	2000	1999	1998
Balance, beginning of year	$ 44,275	$ 35,828	$ 8,051
Provision	20,800	12,459	7,976
Charges, net of recoveries applicable to installment contract receivables			
Purchased	(12,199)	(13,384)	(2,762)
Other	(20,044)	(11,951)	(3,981)
Reserves transferred from (to) unamortized discounts	(6,000)	(1,981)	2,318
Reserves associated with receivables purchased	8,893	23,304	24,226
Balance, end of year	$ 35,725	$ 44,275	$35,828
Reserves for credit losses	$ 3,650	$ 8,541	$29,964
Reserve for contingencies	32,075	35,734	5,864
	$ 35,725	$ 44,275	$35,828

The reserves for credit losses are netted against receivables and the reserve for contingencies is included in other liabilities on the consolidated balance sheets. The Company is contingently liable as guarantor on installment contract receivables sold with recourse. At June 30, 2000, and 1999, the outstanding principal balances of these receivables totaled approximately $117 million and $164 million, respectively. The associated contingent liability is approximately $14 million and $22 million, respectively. There were no receivables sold with recourse in 2000, 1999 and 1998.

NOTE 6 - SHAREHOLDERS' EQUITY

Stock Option Plan

In 1983, 1985, 1991, and 1997, the Company established Stock Option Plans for a total of 17,021,036 shares of common stock which provide for granting "incentive stock options" or "non-qualified options" and stock appreciation rights to officers and key employees of the Company. In addition, non-management members of the Board of Directors have, with shareholder approval of prices and provisions for exercise, been granted options to purchase shares of common stock. The option prices were established at not less than the fair market value as of the date of grant. Options are exercisable after one or more years and expire no later than 10 years from the date of grant. Activity and price information regarding the plans are as follows:

	Shares	Stock Option Price Range	Weighted Avg Exercise Price	Stock Options Exercisable	Weighted Avg Exercise Price
Balance June 30, 1997	4,416,948	$ 1.10 - $13.70	$ 7.74	1,888,935	$ 6.32
Granted	1,529,856	$ 8.19 - $12.60	$11.61		
Exercised	(1,193,195)	$ 1.10 - $13.70	$ 6.21		
Canceled	(450,571)	$ 1.41 - $13.70	$ 9.90		
Balance June 30, 1998	4,303,038	$ 1.41 - $13.70	$ 9.32	1,187,395	$ 7.29
Granted	1,477,846	$ 8.19 - $15.75	$12.73		
Exercised	(162,002)	$ 1.41 - $13.70	$ 5.03		
Canceled	(757,731)	$ 1.76 - $15.75	$11.55		
Balance June 30, 1999	4,861,151	$ 1.41 - $15.75	$10.15	1,449,866	$ 8.13
Granted	762,325	$ 9.38 - $11.88	$ 9.91		
Exercised	(208,725)	$ 1.41 - $ 8.27	$ 2.65		
Canceled	(309,295)	$ 3.64 - $15.75	$11.11		
Balance June 30, 2000	5,105,456	$ 2.16 - $15.75	$10.36	1,655,984	$ 9.18

Options available for future grant at June 30, 2000, and 1999, were 4,939,727 and 5,077,035, respectively. Options were held by 950 persons at June 30, 2000.

The following table summarizes information about the plans' stock options at June 30, 2000, including weighted average remaining life (Life) and weighted average exercise price (Price):

	Options Outstanding			Options Exercisable	
Range	Number	Life	Price	Number	Price
$ 2.16 - $ 3.63	14,895	0.4 years	$ 2.16	14,895	$ 2.16
$ 3.64 - $ 5.05	290,256	1.4 years	$ 4.02	132,044	$ 3.83
$ 7.22 - $10.32	2,239,675	5.5 years	$ 8.53	981,236	$ 7.94
$11.50 - $15.75	2,560,630	7.0 years	$12.73	527,809	$13.01

The Company has elected to continue following Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock option plans rather than the alternative fair value accounting provided for under SFAS 123, *Accounting for Stock-Based Compensation*. Under APB 25, because the exercise price of the Company's employee and director stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the accompanying financial statements. Pro forma information regarding net income and net income per common share is required by SFAS 123 and has been determined as if the Company has accounted for its stock options under the fair value method of that standard. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The pro forma results do not purport to indicate the effects on reported net income for recognizing compensation expense which are expected to occur in future years. The Company's pro forma information is as follows:

(in thousands except per share data)	2000	June 30, 1999	1998
Net income - as reported	$144,025	$154,968	$137,700
Net income - pro forma	141,634	153,610	136,643
Net income per diluted common share - as reported	$1.03	$1.06	$0.92
Net income per diluted common share - pro forma	1.01	1.05	0.91

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants issued from 1998 to 2000; dividend yields ranging from 0.41% to 0.78% with a weighted average yield of 0.56%; expected volatility of 0.29%; risk-free interest rates ranging from 5.70% to 6.25% with a weighted average rate of 5.98%; and expected lives ranging from 6.47 to 10.00 years with a weighted average life of 7.19 years. The weighted average grant date fair value of options granted in fiscal years 2000, 1999 and 1998 was $4.66, $5.66, and $5.02 per share, respectively.

NOTE 7 - INCOME TAXES

The components of deferred tax assets and liabilities at June 30, 2000, and 1999, are as follows:

(in thousands)	2000	1999
Reserves for credit losses and contingencies and discounts	$ 9,258	$ 11,618
Insurance reserves	9,911	10,216
Unearned premiums	9,348	8,001
Residual interest in installment contract receivables	11,781	7,934
Total deferred tax assets	$ 40,298	$ 37,769
Deferred costs	$ (6,728)	$ (5,931)
Other	(9,286)	(11,333)
Total deferred tax liabilities	(16,014)	(17,264)
Net deferred tax asset	$ 24,284	$ 20,505

The provision for income tax is composed of the following:

(in thousands)	2000	1999	1998
Current tax provisions			
Federal	$82,654	$92,706	$103,336
State	5,807	6,561	6,894
Total current	$88,461	$99,267	$110,230
Deferred tax benefit	(3,861)	(8,267)	(25,830)
	$84,600	$91,000	$ 84,400

At June 30, 2000, 1999, and 1998, a deferred tax provision (benefit) of $82,000, ($482,000), and $0, respectively, was allocated directly to shareholders' equity for the unrealized loss on securities available-for-sale. The provision for income tax reflected in the financial statements differs from income taxes calculated at the statutory federal income tax rate of 35% in 2000, 1999 and 1998, as follows:

(in thousands)	2000	1999	1998
Income taxes at the statutory rate	$80,019	$86,089	$77,735
State income taxes, net of federal benefit	3,775	4,265	4,481
Other, net	806	646	2,184
	$84,600	$91,000	$84,400

NOTE 8 - EMPLOYEE BENEFIT PLANS

The Company has a 401(k) defined contribution plan covering all employees who meet participation requirements. The amount of the Company's contribution is discretionary as determined by the Board of Directors, up to the maximum deduction allowed for federal income tax purposes. Contributions accrued and paid were $3,169,000, $3,162,000, and $2,488,000 for the years ended June 30, 2000, 1999 and 1998, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Certain operating properties are rented under non-cancelable operating leases which expire at various dates through 2009. Total rental expense under operating leases was $5,340,000 in 2000, $5,210,000 in 1999, and $4,440,000 in 1998. Minimum rental commitments under non-cancelable operating leases, primarily for retail centers, in effect at June 30, 2000 were 2001 - $4,308,000; 2002 - $3,548,000; 2003 - $2,896,000; 2004 - $2,005,000; 2005 - $1,109,000; and thereafter - $1,807,000.

Institutions financing independent retailer purchases require the Company to execute repurchase agreements. As a result of these agreements, the Company is contingently liable for repurchasing homes in the event of a default by the dealer to the lending institution. These agreements are customary in the manufactured housing industry, and the Company's losses in the past have not been significant. The maximum potential repurchase obligation is approximately $72 million at June 30, 2000, excluding any resale value.

At June 30, 2000, the Company has letters of credit, primarily related to insurance reserves and performance guarantees related to asset backed securitizations of approximately $113 million and $257 million, respectively. The Company believes a significant loss from any such guarantee is remote. Please see Note 5 for discussion of guarantees of installment contract receivables.

NOTE 10 - BUSINESS SEGMENT INFORMATION

The Company has identified four major business segments: Retail, Manufacturing, Financial Services, and Communities. The Retail group purchases homes from the Company's manufacturing operations and third party manufacturers to sell to retail customers. The Manufacturing group builds homes for Company-owned and independent retailers. Financial Services provides retail financing of manufactured homes, reinsures risk on family protection, physical damage, and homebuyer protection plan insurance policies, and offers certain specialty finance products. Communities owns and operates manufactured housing communities. Income from operations consists of total revenues less cost of sales and operating expenses. Identifiable assets are used in the operation of each business segment.

Information concerning operations by business segment follows:

(in thousands)	2000	1999	1998
Revenues			
Retail	$ 733,916	$ 737,044	$ 590,256
Manufacturing	624,586	654,471	599,561
Financial Services	188,365	198,527	158,828
Communities	92,492	78,902	70,740
Intersegment sales	(346,014)	(324,661)	(291,606)
	$ 1,293,345	$ 1,344,283	$ 1,127,779
Income from operations			
Retail	$ 53,623	$ 66,364	$ 59,272
Manufacturing	62,729	72,377	65,437
Financial Services	108,792	117,385	99,685
Communities	16,130	15,850	14,133
Eliminations/Other	(14,257)	(20,691)	(21,926)
	$ 227,017	$ 251,285	$ 216,601
Interest			
Interest expense	(5,749)	(11,995)	(2,270)
Interest revenue/ Other income	7,357	6,678	7,769
Income before taxes	$ 228,625	$ 245,968	$ 222,100
Identifiable assets			
Retail	$ 287,705	$ 247,009	$ 208,064
Manufacturing	100,112	94,773	80,487
Financial Services	902,913	901,769	1,003,528
Communities	185,784	177,723	166,871
Eliminations/Other	29,864	(4,029)	(1,193)
	$ 1,506,378	$ 1,417,245	$ 1,457,757
Depreciation and amortization			
Retail	$ 5,639	$ 4,684	$ 3,725
Manufacturing	6,516	5,478	5,016
Financial Services	472	235	121
Communities	6,724	6,412	5,418
Eliminations/Other	1,071	986	453
	$ 20,422	$ 17,795	$ 14,733
Capital expenditures			
Retail	$ 11,535	$ 18,152	$ 15,147
Manufacturing	9,558	12,971	5,721
Financial Services	454	576	931
Communities	12,059	14,703	31,316
Eliminations/Other	792	1,347	9,095
	$ 34,398	$ 47,749	$ 62,210

NOTE 11 - OTHER ASSETS AND LIABILITIES

At June 30, 2000, and 1999, other assets and liabilities consisted of:

(in thousands)	2000	1999
Other assets		
Interest and other receivables	$ 52,605	$ 56,674
Deferred policy acquisition costs	19,304	16,693
Prepaid expenses and other	20,658	17,684
	$ 92,567	$ 91,051
Other liabilities		
Investors payable	$ 85,161	$ 89,925
Reserve for contingencies (Note 5)	32,075	35,734
Escrow deposits	10,603	11,378
Unearned insurance premiums	94,669	82,199
Other	25,519	23,185
	$248,027	$242,421

NOTE 12 - FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments,* requires that the Company disclose the estimated fair values of its financial instruments. The following methodologies and assumptions were used by the Company to estimate its fair value disclosures for financial instruments.

Fair value estimates are made at a specific point in time, based on relevant market data and information about the financial instrument. The estimates do not reflect any premium or discount that could result from offering for sale in a single transaction the Company's entire holdings of a particular financial instrument. The lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values. Comparability to financial instruments between similar companies may not be reasonable because of varying assumptions concerning the estimates of fair value.

Cash and Cash Equivalents

The carrying values for cash and cash equivalents, including those restricted by agreement, approximate the fair value of the assets.

Residual Interests in Installment Contract Receivables

Residual interests in installment contract receivables are calculated using prepayment, default and interest rate assumptions that the Company believes are appropriate at the time of the sale of the installment contract receivables. Projected performance is monitored after the sale. The fair value primarily assumes an appropriate discount rate to be applied to the asset as a whole. The Company used a discount rate and such other assumptions as it believed to be used for similar instruments.

Contracts Held For Sale and as Collateral

Contracts held for sale are generally recent originations or purchased portfolios which will be sold with limited or no recourse during the following year. The Company does not charge fees to originate loans, and, as such, its contracts have origination rates in excess of rates on the securities into which they will be pooled. The Company estimates the fair value of the contracts held for sale using expected future cash flows of the portfolio discounted at the current origination rate.

The carrying values of contracts pledged as collateral to long-term lenders are estimated using discounted cash flow analyses and interest rates being offered for similar contracts. The carrying amount of contracts with a variable rate of interest is estimated to be at fair value.

The carrying value of accrued interest adjusted for credit risk equals its fair value.

Debt Collateralized by Installment Contract Receivables

Debt collateralized by installment contract receivables consists primarily of notes collateralized by contracts with maturities that coincide with the underlying contract maturities. The fair value of these financial instruments is based on the current rates offered to the Company for debt of similar maturities using a discounted cash flow calculation. Loan covenants preclude prepayment.

The carrying amounts and estimated fair values of the Company's financial assets and liabilities are as follows:

	June 30, 2000		June 30, 1999	
(in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents, including restricted cash	$140,816	$140,816	$102,807	$102,807
Residual interests in installment contract receivables	150,329	150,329	131,146	131,146
Contracts held for sale and as collateral, including accrued interest receivable	450,531	448,446	486,717	482,881
Financial liabilities				
Senior notes, 6.25%	75,000	72,160	75,000	72,661
Debt collateralized by installment contract receivables	8,373	9,006	11,625	12,190

NOTE 13 - EARNINGS PER SHARE

The following reconciliation details the numerators and denominators used to calculate basic and diluted earnings per share for the respective periods:

(in thousands except per share data)	2000	1999	1998
Net income	$144,025	$154,968	$137,700
Average shares outstanding			
Basic	139,474	145,211	148,463
Add: common stock equivalents	341	720	1,041
Diluted	139,815	145,931	149,504
Earnings per share - Basic	$1.03	$1.07	$0.93
- Diluted	$1.03	$1.06	$0.92

NOTE 14 – RELATED PARTY TRANSACTIONS

The Company maintains an agreement to purchase certain installment contract receivables originated or acquired by 21st Century Mortgage Corp. in which the Company maintains a 50% ownership interest. The Company acquired approximately $92,000,000, $147,000,000, and $192,000,000 in installment contract receivables and received interest and other related fees totaling approximately $1,618,000, $2,038,000, and $1,735,000 during fiscal 2000, 1999 and 1998, respectively.

The Company paid approximately $82,000, $89,000, and $196,000, in 2000, 1999 and 1998, respectively, for legal services provided by a law firm, a partner of which serves as a director of the Company.

Board of Directors

Officers

James L. Clayton
Chairman of the Board

Kevin T. Clayton
Chief Executive Officer and President

David M. Booth
Executive Vice President President, Retail

Richard D. Strachan
Executive Vice President President, Manufacturing

Allen Morgan
Vice President General Manager, Communities

Amber W. Krupacs
Vice President, Finance

Greg A. Hamilton
Vice President and Controller

Carl O. Koella, III
Director of Investor Relations and Secretary

James L. Clayton
Chairman of the Board, Clayton Homes, Inc.; Director, Dollar General Corporation and Chateau Communities, Inc.; Chairman of the Board, BankFirst Corporation

Kevin T. Clayton
Chief Executive Officer and President

C. Warren Neel (1)(2)
Dean, College of Business Administration, University of Tennessee; Director, O'Charley's, Inc., Sak's, Inc., BankFirst Corporation, and American Health Corp., Inc.

Wilma H. Jordan (2)
Chief Executive Officer, The Jordan, Edmiston Group, Inc.

John J. Kalec (1)
Executive Vice President and Chief Financial Officer, Internet Pictures Corporation

Dan W. Evins (1)
Chairman of the Board, President, and Chief Executive Officer, CBRL Group, Inc.

Thomas N. McAdams (2)
Partner, Bernstein, Stair & McAdams L.L.P.; Director, Rafferty's, Inc.

B. Joe Clayton
Chief Executive Officer, Clayton Automotive Group; Regional Director, First Tennessee Bank

(1) Audit Committee (2) Compensation Committee

Stockholder Information

Form 10-K
Clayton Homes, Inc. Form 10-K Annual Report to the Securities and Exchange Commission is available without charge to shareholders upon written request to:

Investor Relations
Clayton Homes, Inc.
Box 15169
Knoxville, TN 37901

Independent Accountants
PricewaterhouseCoopers LLP
Knoxville, Tennessee

Stock Exchange Listing
The Company's common shares are listed on the New York Stock Exchange, symbol CMH.

Shareholders
There were approximately 54,000 beneficial holders of common stock on June 30, 2000.

Registrar, Transfer Agent, and Dividend Reinvestment Plan Administrator
American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
1.800.278.4353

Annual Meeting
The annual meeting of shareholders will be held on November 1, 2000, at 10:30 a.m. (EST) at the Clayton Homes Headquarters, 5000 Clayton Road, Maryville, TN 37804. Shareholders of record at the close of business on August 30, 2000, will be entitled to vote.

Clayton Homes, Inc.

Box 15169

Knoxville, Tennessee 37901

Phone: 865.380.3000

Fax: 865.380.3750

Internet: www.clayton.net

E-mail: info@clayton.net

Human resources:
careers@clayton.net