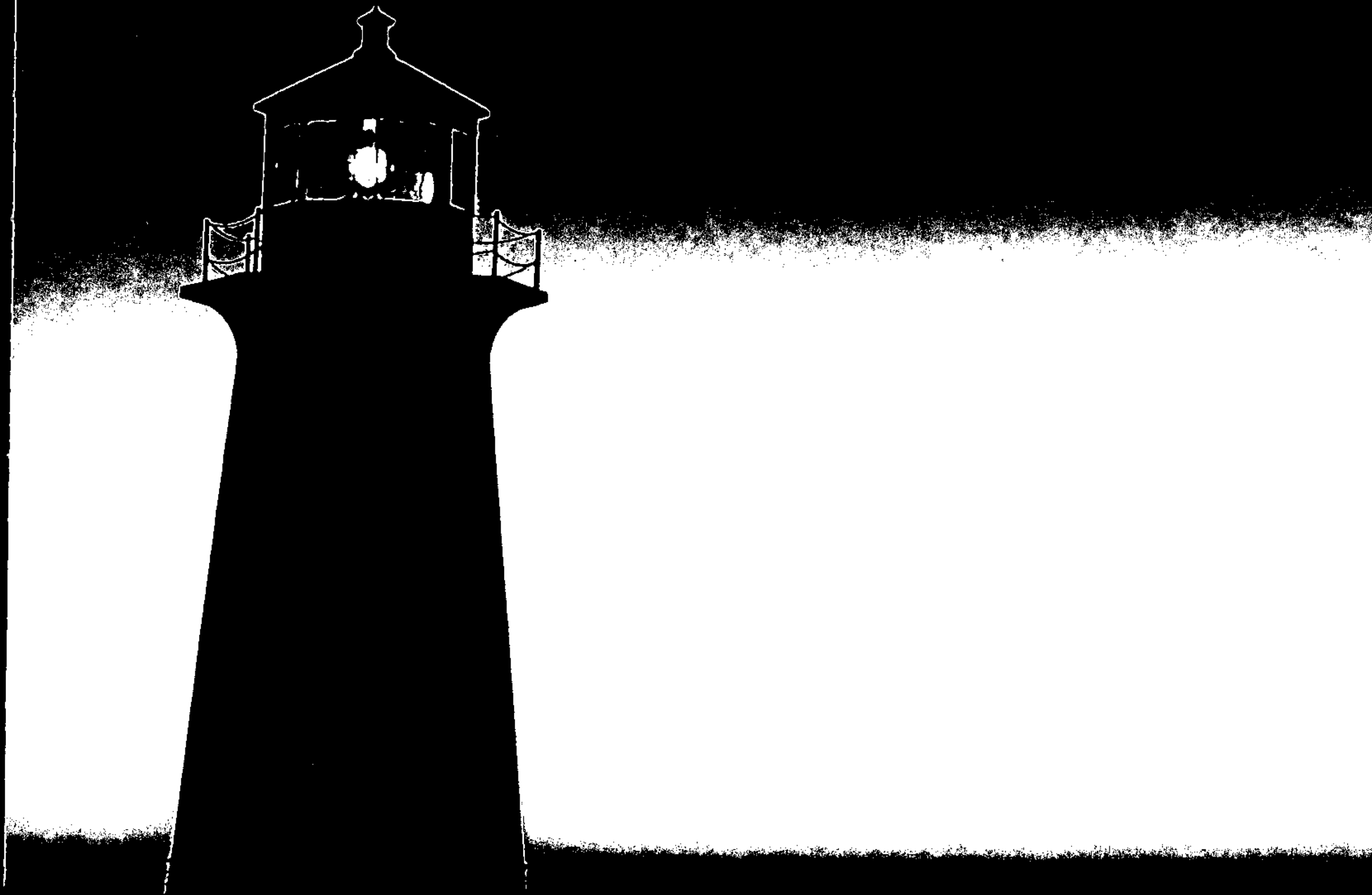
CLAYTON HOMES, INC.



STABILITY

CMH RETAIL

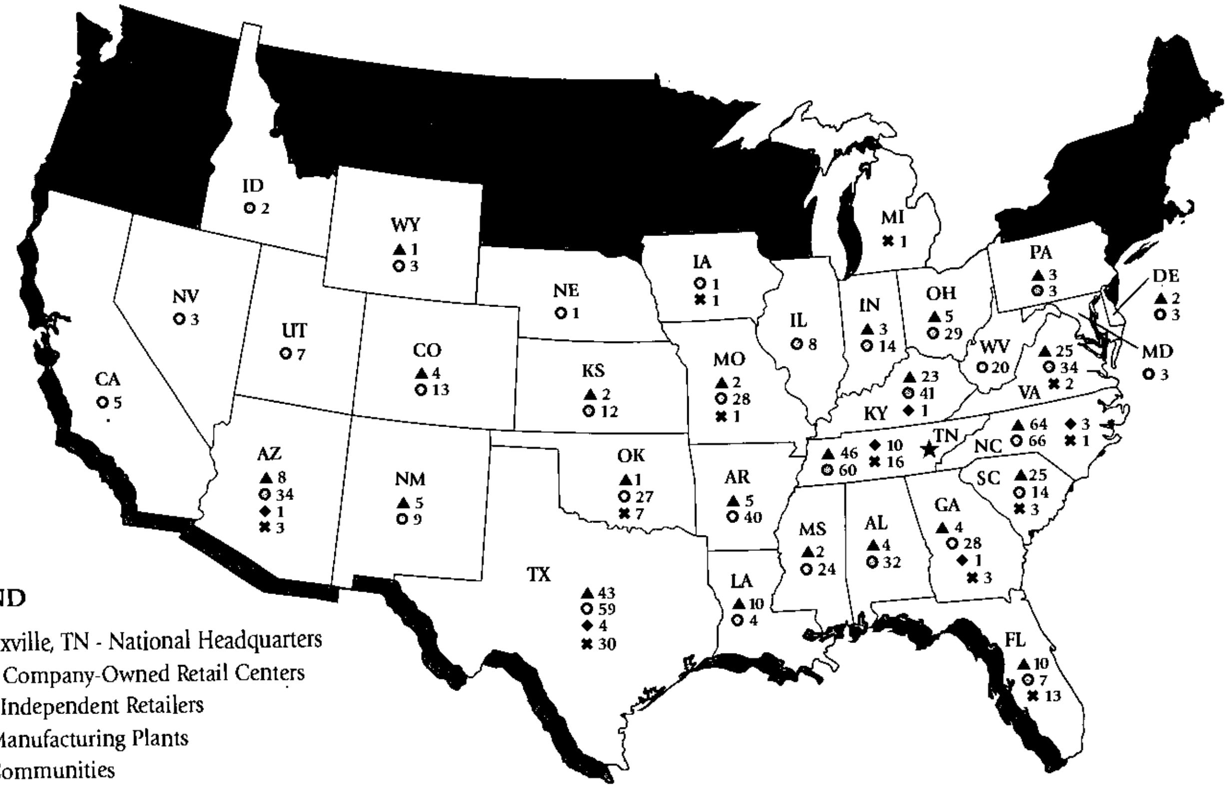
VANDERBILT MORTGAGE

CMH MANUFACTURING

HOMEFIRST INSURANCE

CMH COMMUNITIES

ANNUAL REPORT 2001



LEGEND

- ★ Knoxville, TN - National Headquarters
- ▲ 297 Company-Owned Retail Centers
- O 634 Independent Retailers
- ◆ 20 Manufacturing Plants
- ✖ 81 Communities

Financial Highlights

	(dollars in thousands, except per share)	Year ended June 30, 2001	2000	Percent Change
Income Statement Data	Revenues	$ 1,150,956	$ 1,293,345	-11%
	Income before income taxes	169,351	228,625	-26%
	Net income	106,651	144,025	-26%
	Earnings per share			
	Basic	.77	1.03	-25%
	Diluted	.77	1.03	-25%
	Dividends per share	$.064	$.064	
Balance Sheet Data	Total assets	$ 1,654,170	$ 1,506,378	10%
	Shareholders' equity	$ 1,147,478	$ 1,036,375	11%
	Return on average shareholders' equity	9.8%	14.5%	
Portfolio Data	Loans serviced	$ 4,309,000	$ 3,936,000	9%
	Delinquency % (over 30 days)			
	Originated contracts	2.1%	1.7%	
	All contracts	2.6%	2.2%	
	Net losses as a % of average loans outstanding			
	Originated contracts	1.7%	1.2%	
	All contracts	1.8%	1.4%	
Other Data	Total floors sold	38,171	45,384	-16%
	Total homes sold	26,215	31,520	-17%
	National market share	11.1%	8.9%	
	Manufacturing plants	20	20	
	Independent retailers	634	707	-10%
	Company-owned retail centers	297	318	-7%
	Communities	81	76	7%
	Community home sites owned	21,121	20,168	5%
	Personnel count	6,554	7,429	-12%

Company Profile

Headquartered in Knoxville, Tennessee, employing more than 6,500 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 1,012 independent and Company-owned sales locations. The Retail Group sells, installs and services factory built homes. As of June 30, 2001, Company-owned retail centers numbered 297 in 23 states. Financial Services provides financing and insurance for homebuyers of Company-owned and selected independent retail sales centers through Vanderbilt Mortgage and HomeFirst Insurance, wholly-owned subsidiaries. The Communities Group owns and operates 81 manufactured hous ng communities with 21,121 homesites in 12 states.

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To Our Shareholders

Fiscal year 2001 was Clayton's 27th consecutive profitable year with revenues of $1.2 billion, net income of $107 million and earnings per share of $.77. Your Company outperformed the industry in the midst of a downturn as net income for the year was greater than all other public manufactured housing retailers and manufacturers combined.

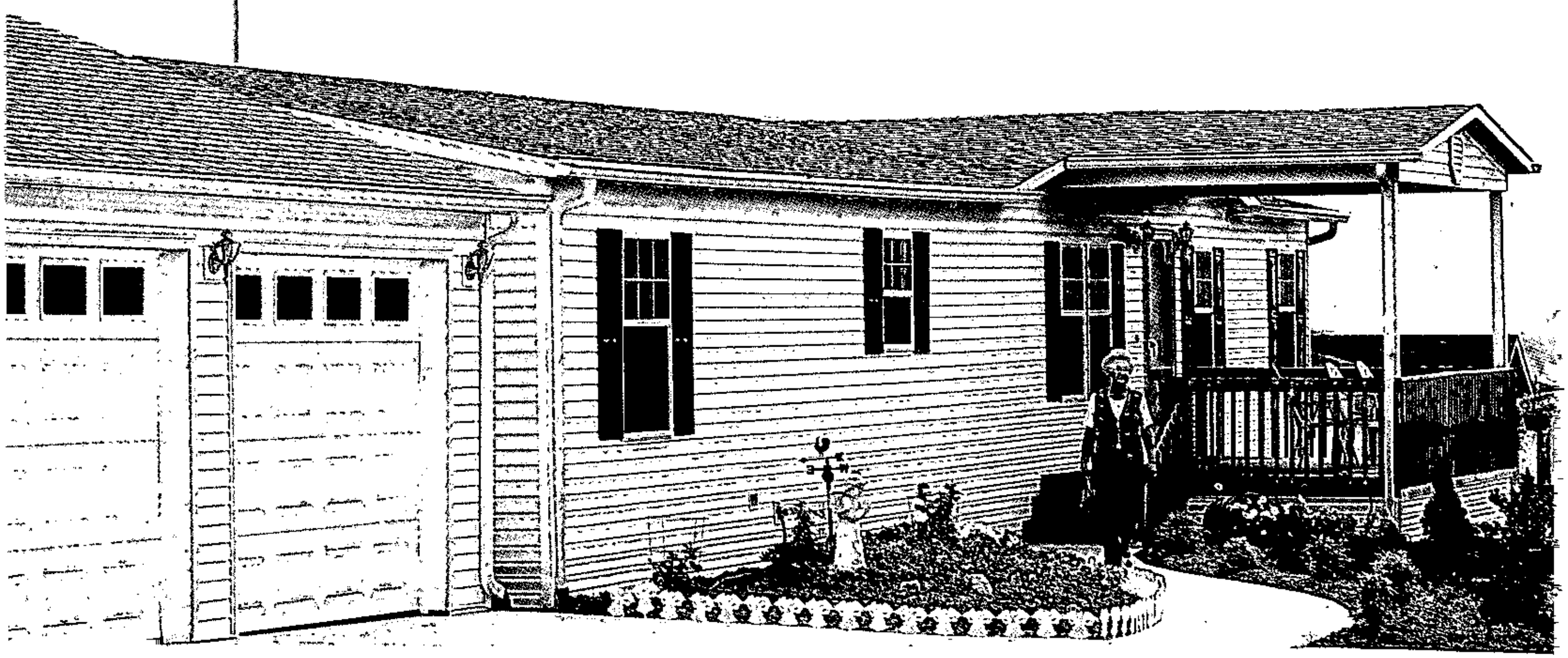
The Company's national market share increased to 11.1% from 8.9%, confirming the inherent strength of our unique vertical integration model which serves us especially well in market downturns. The Manufacturing Group remained profitable with zero plant closings, while 28% of the industry's factories closed during the last two years. As industry shipments fell 34%, CMH home production declined only 26%.

Manufacturing capacity utilization improved 10% during the fourth quarter. For the year, utilization declined to 57% as excess manufacturing capacity and bloated retailer inventories continued to strain the industry. Now capacity utilization has improved to 60%, and backlogs are up a significant 118% compared to last year, confirming expectations for a modest market rebound over the next few quarters.

Industrywide, retail unit sales declined 31% for the year, while a 12% decline at CMH Retail significantly outperformed the other participants. The Company's strategic inventory management process implemented early in the year produced the desired results as the number of units on hand was lowered by 1,812 or 23%. This effort improved free cash flow by $37 million.

Operating highlights included:

- Awarded Manufacturer of the Year by the Manufactured Housing Institute for the second consecutive year
- Received Industry Best House Award at our newest plant in Hodgenville, Ky.
- Expanded Vanderbilt's mortgage servicing to $4.3 billion
- Added five properties in the Communities Group; increased total sites by 953 to 21,121
- Expanded interactive Internet training to accommodate, on site, all 6,500 team members
- Achieved Financial Services' year-end delinquency target of 2.1%
- Originated mortgages with average terms 7 years less than peers' by demonstrating to homeowners the significant advantages involved



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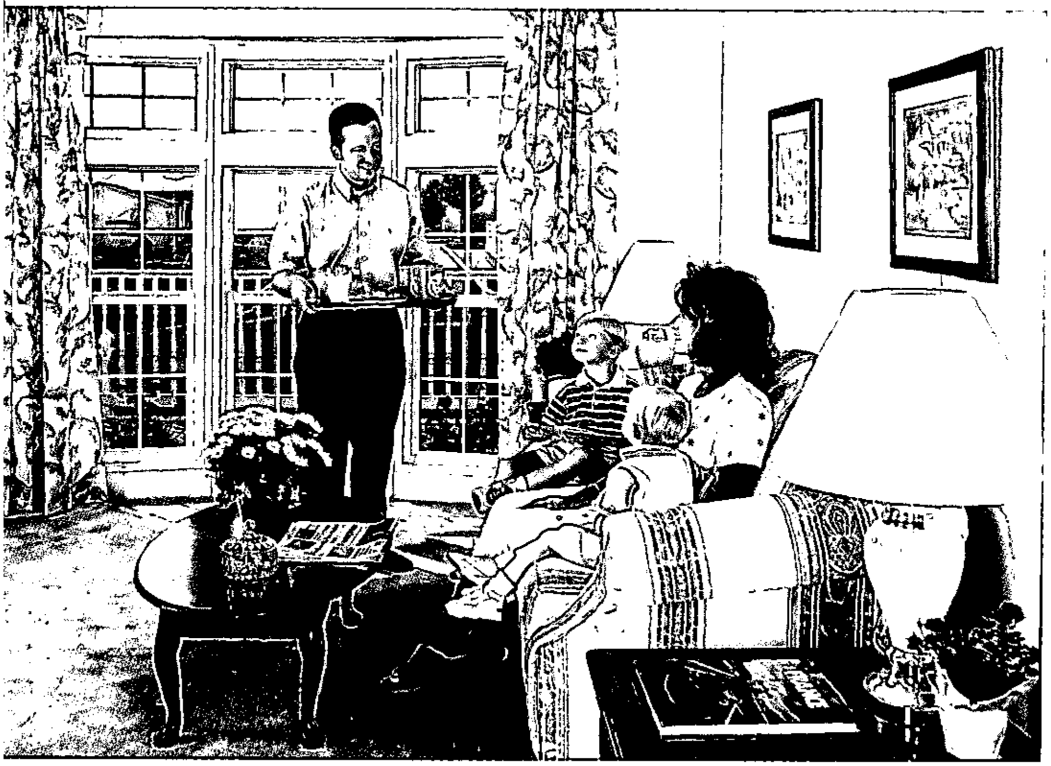
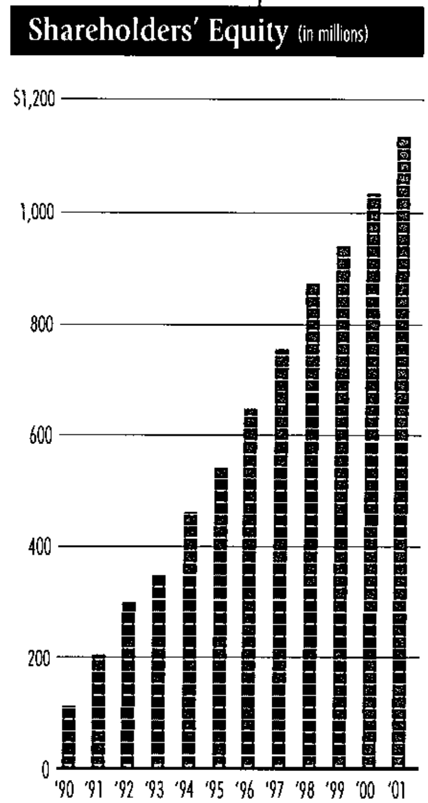
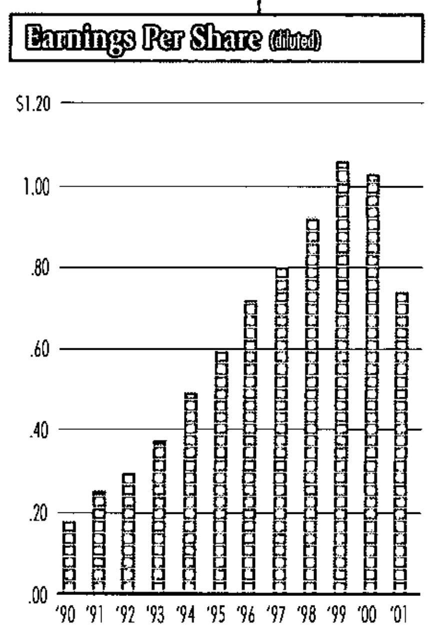






- Generated $128 million in free cash flow during an industry downturn.

For the upcoming year, shareholder value will be enhanced by leveraging the Company's core competencies, including efficient mortgage servicing, producing and retailing low cost, high value homes and prudent balance sheet management, to take advantage of opportunities during the coming years.

Goals for 2002 include:

- Expand loan servicing to $5 billion
- Improve profitability of Company-owned stores and communities
- Increase volume purchase opportunities
- Add four new communities
- Increase same store sales 7.5%
- Improve return on equity
- Support neighborhoods where we live and work.

Of course we are disappointed that record results were not achieved again in 2001, but we are pleased with your Company's results in light of the economic and industry environment. The performance of CMH stock has been favorable, up 97% compared to last year, and shareholders' equity increased to $1.15 billion.

Remember, too, that you do not have to worry about a goodwill writedown since Clayton has none on the balance sheet.

Despite the setbacks in 2001 in a tough competitive environment, Clayton Homes is the best-positioned manufactured housing company for the expected rebound. The Company's proprietary brand of vertical integration has served us well in the trough and will allow us to leverage results as the cycle's maturity is confirmed. We want you to own shares of Clayton Homes for years to come. The only way this is likely to happen is through long-term profitable growth of our business in ways that not only meet your expectations but exceed them.

Jim Clayton

James L. Clayton
Chairman of the Board

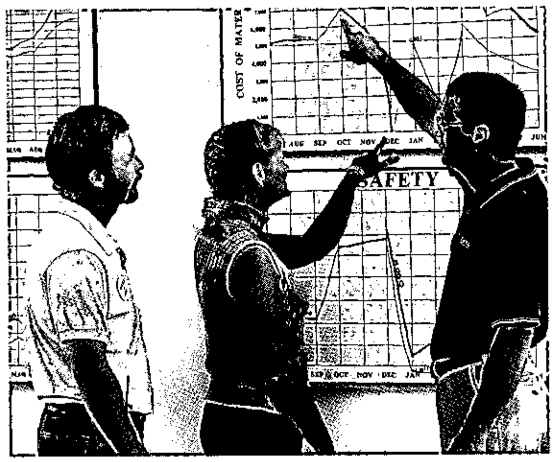
Kevin Clayton

Kevin T. Clayton
Chief Executive Officer and President

Manufacturing Group

For the second consecutive year, Clayton Homes was named "Manufacturer of the Year," a coveted industry recognition.

The Clayton Homes Manufacturing Group continues to provide high-value, aesthetically pleasing, affordable homes of superior quality to homebuyers across the nation. This consistent performance coupled with exceptional results was recognized again by the Manufactured Housing Institute, which named your Company "Manufacturer of the Year" for the second consecutive year. This prestigious award from industry peers is a tribute to the superior efforts of our dedicated team members.



To reinforce the Clayton continuous improvement initiatives, the Manufacturing Leadership Academy accommodated over 30,000 hours of intense off-site training for 600 team members. This comprehensive leadership curriculum focuses on team dynamics, leadership skills, Best Practices, quality production and safety. Classes are facilitated by experienced operating managers who encourage hands-on interaction between all team members regardless of responsibility, seniority, or geography. After experiencing four long days in this learning environment, individuals in North Carolina are eager to offer support to their peers in Arizona as responsibility level and distance boundaries largely disappear.

The Company's unique approach to open book management, developed over the last decade, shares operating results with all team members and forms the foundation of our proprietary compensation program, known as Team Profit Sharing (TPS). Quality, profitability and safety improvements are typical topics explored during the open book monthly meetings, and team members are directly sharing the profitability generated by their individual plant.

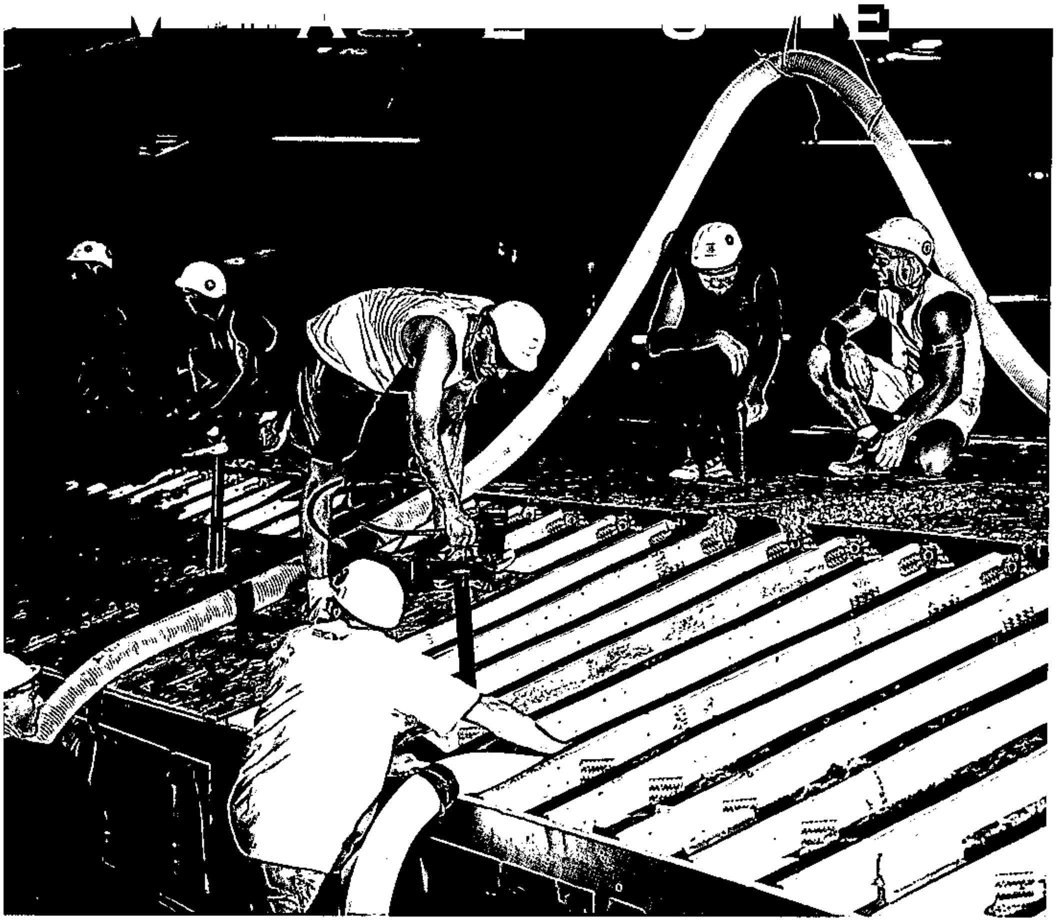
In Manufacturing, our direct customer is the retailer. Our 20 plants serve 1,012 retailers in 33 states - 634 independent, 297 Company-owned and 81 sales offices in our Communities. Our long-term relationships with retailers provide real time market feedback on the ever changing consumer preferences, and our diverse family of retailers guides our rapid response development and manufacturing teams in providing homes that satisfy distinct, geographic market requirements.

In fiscal year 2001, CMH Manufacturing produced and sold 19,923 homes. Product mix was divided 52% multi-section versus 48% single-section homes. Industry shipments fell 34% due to excess capacity and reduction of retail inventories, while CMH Manufacturing sales revenue declined only 21%. In this industry downturn, more than 90 plants closed, or approximately 1 out of every 4; in contrast, Clayton Manufacturing continued to operate all plants — profitably.

CMH Manufacturing faired well, but could not completely escape the industry downturn as our capacity utilization declined to only 57%. However, backlogs are up 118% compared to last year, providing optimism for the rebound expected in the

	June 30, 2001	2000	Percent Change
Sales (in millions)			
Independent dealers	$ 223.5	$278.9	-20%
Intercompany*	272.1	345.0	-21%
Total	$ 495.6	$623.9	-21%
Homes built (units)			
Single-section	9,571	13,373	-28%
Multi-section	10,352	12,975	-20%
Total	19,923	26,348	-24%
Intercompany*	(10,804)	(14,101)	-23%
Independent retailers	9,119	12,247	-26%

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



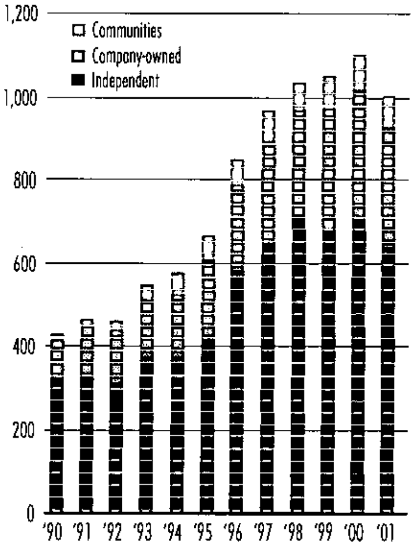
coming year. Reflecting the distribution effectiveness of our Company-owned stores and independent retailers, our national market share increased to 11.1% from 8.9%. Capital expenditures of $4 million were invested this year to further process improvements, safety, and plant efficiency.

Clayton's newest manufacturing facility, in Hodgenville, Kentucky, received a Best House Award from the Manufactured Housing Institute and is currently producing four floors per day. We are pleased with the acceptance of these homes, which are targeted to increase market share in Michigan, Indiana, Ohio, Illinois and other important midwestern states.

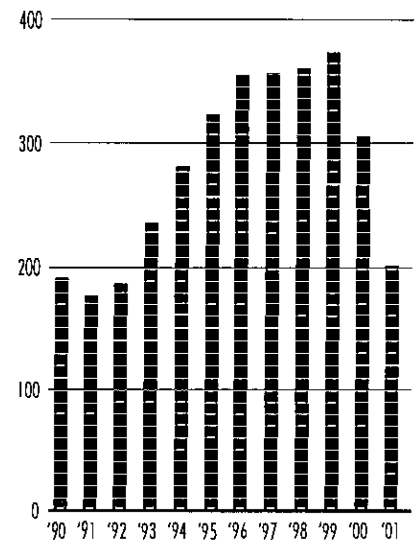
Our inventory control process team is supported by long-term, valued partnerships with the nation's most respected material manufacturers and vendors. This symbiotic model supports the Company especially well during industry troughs while, at the same time, our marketing teams indicate that prospective homebuyers are more confident in selecting their Clayton home. Congoleum, Carriage Carpets, Intertherm-Miller, Moen, GAF, Armstrong, State Water Heaters and Johns Manville meet our delivery, service and warranty expectations while providing components that are recognized and respected.

In fiscal year 2002, CMH Manufacturing will continue to focus on team member development, quality, value, design, safety and technology.

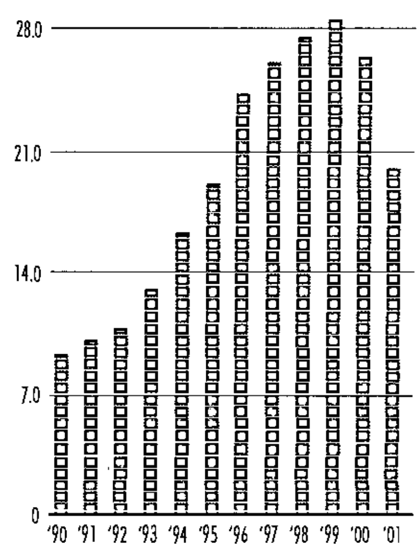
Distribution Centers



Industry Shipments (in thousands)

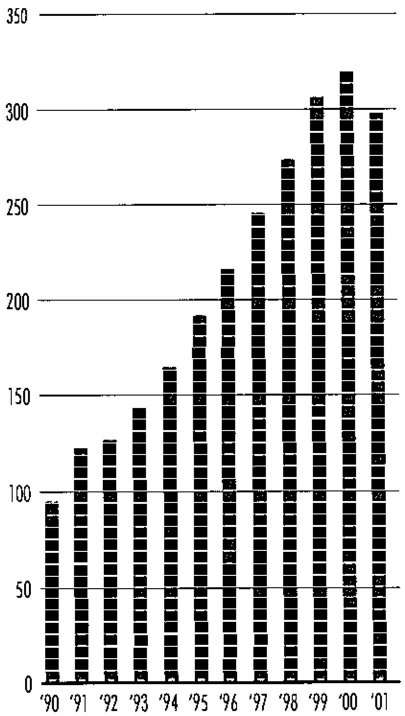


Clayton Homes Built (in thousands)



Retail Group

Company-Owned Retail Centers



Clayton's unique vertical integration advantage solidly withstood the multi-frontal attack of tighter credit, over-capacity, bloated inventories, and cannibalized new sales resulting from significantly increased foreclosures. Clayton Retail not only survived but remained profitable every quarter while all but a few public retailers experienced significant losses throughout the industry downturn.

Your Company now operates 297 stores in 23 states, acquiring seven sales centers and closing 28 under-performing stores during the year. Extensive market research is conducted to identify demographics favorable for store deployment. The Retail Group sold 15,902 homes, generating sales revenues of $586 million. Same store sales were down 13.7% for the year, while the average industry participant realized sales declines of 31%.

CMH Retail inventory levels, including new, used and foreclosed homes, were significantly reduced. The number of new homes per store decreased 15% to 16.5, and used homes per store declined 24% to 4.5. Foreclosures in inventory were held at 1,344, three less than last year.

Emphasis on team and individual development continued, supported by the monthly Sales Academy, which provides the foundation of the Retail Group's development programs. In the Company's off-site retreat, industry veterans, new salespeople and new managers share Best Practices in a facilitated, but informal atmosphere. The candidates appreciate Clayton's unique reliance on successful, experienced operating managers who serve as presenters and facilitators rather than depending on expensive consultants and staff trainers.

	June 30, 2001	2000	Percent Change
Sales (in millions)			
New homes	$538.8	$615.4	-12%
Used homes	47.5	54.6	-13%
Total	$586.3	$670.0	-12%
Homes Sold (units)			
New single-section	6,132	6,871	-11%
New multi-section	6,214	7,151	-13%
Total new	12,346	14,022	-12%
Used	3,556	3,910	-9%
Total	15,902	17,932	-11%

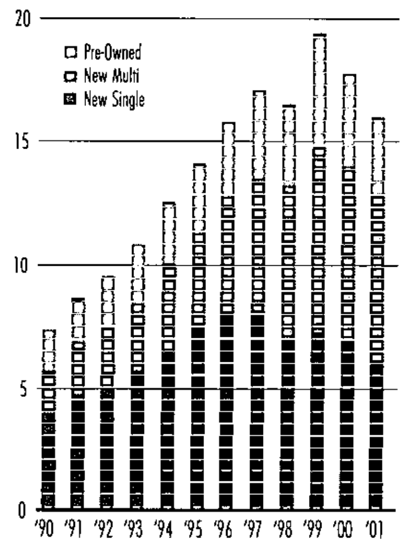
In fact, visitors are surprised to learn that a company with a strong focus on training does not even have a trainer position indicated on its organizational chart. The curriculum includes material for both professional and personal development in a powerful learning and mentoring retreat environment. The learning continues back at the office, supported by CMH interactive Internet online versions of the same courses.

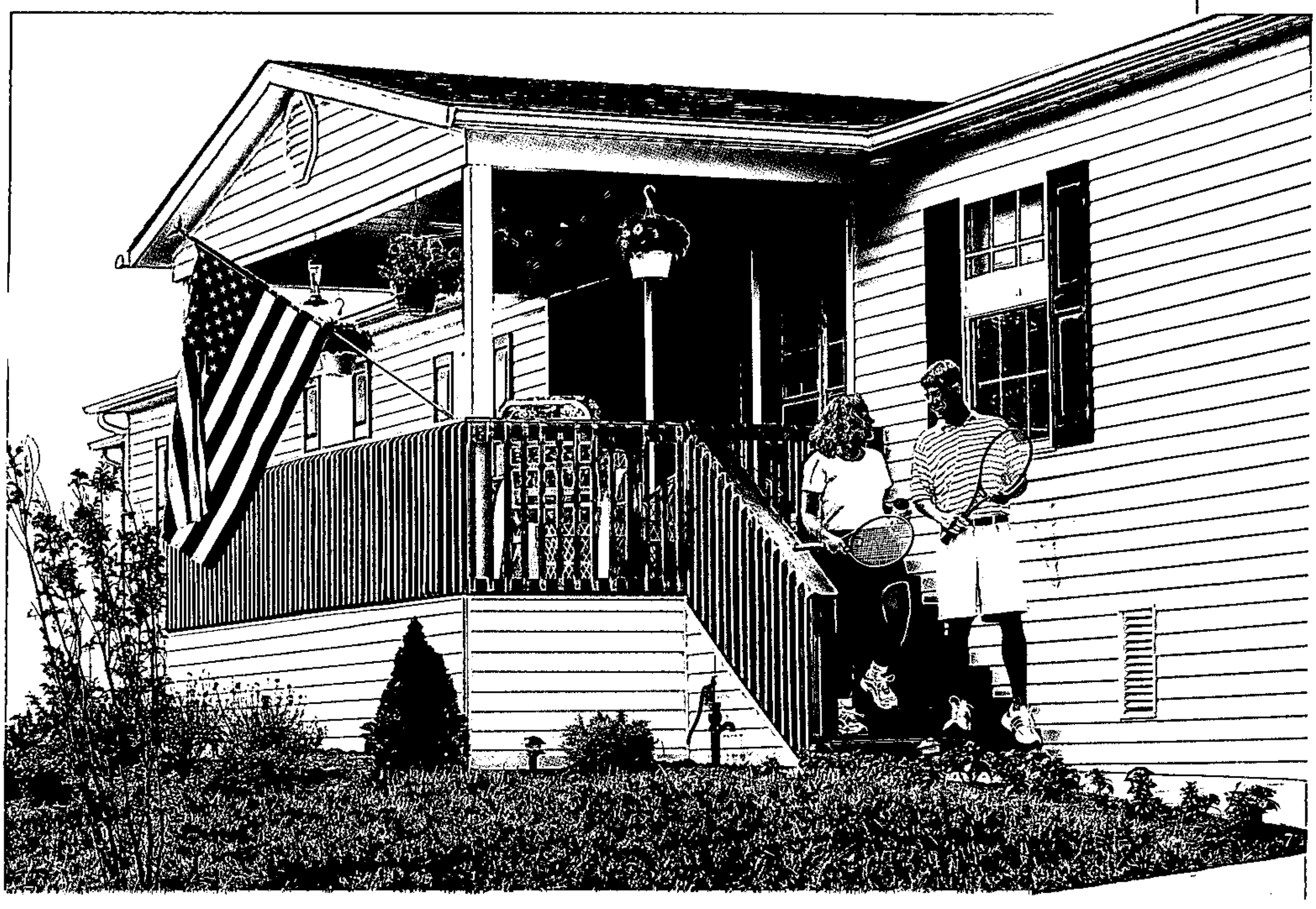
A Best Practices manual was developed which captured effectively the best processes in the industry. This resource focuses on proven marketing and sales practices that complement Clayton's vertical integration structure; for example, illustrating the retail marketing advantages of shorter-term, bi-weekly, electronic draft Vanderbilt mortgages and construction of multi-section homes as mono-structures where the individual modules are literally sawed apart only after completion.

The Company continues to invest significantly in systems and technology. LINK, our proprietary Internet-based interactive communication system, has been installed in all Retail sales centers and Communities across the nation. Each sales team is supported by LINK from the preliminary credit application to accounting for the sale and on through the life of the mortgage servicing. With LINK, communicating from Arizona to Virginia and from Michigan to Florida is as fast and effective as from a sales center across town to the home office.

Retail is a key component in the distribution arm of our unique brand of vertical integration. Although always important, effective distribution becomes critical in industry downturns. The results depicted throughout these pages confirm that our balanced one-price-to-all distribution process continues to serve us well. Targeting additional market share, planned growth, increased profitability and concentrating on Best Practices will assure Clayton Homes a bright future as the nation's leader in manufactured housing.

Homes Retailed (in thousands)





Financial Services

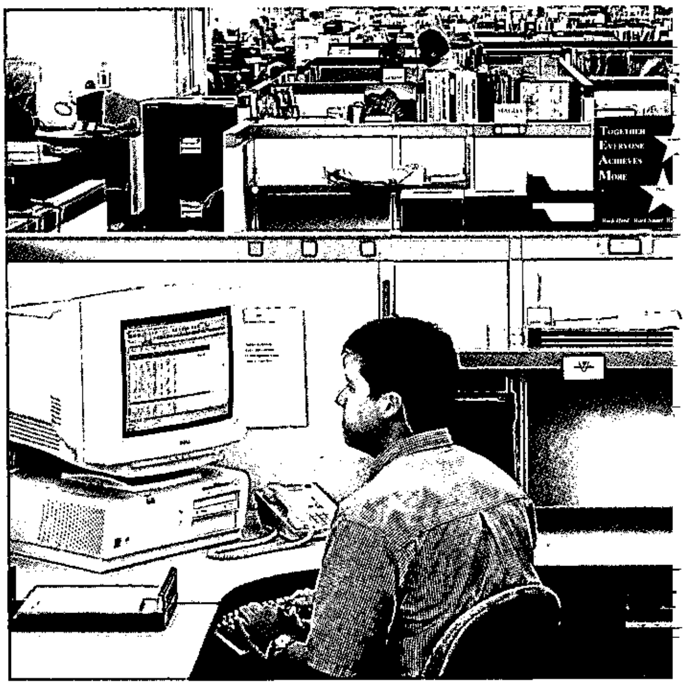
The Financial Services team originated $815 million in mortgages, growing the serviced portfolio 9.5% to $4.3 billion in an environment where industry retail sales were down 31%. Through well-executed mortgage servicing, Vanderbilt achieved its year-end delinquency goal of 2.12%, while minimizing defaults and outperforming the industry on recoveries. Mortgage and insurance products from Financial Services continue to offer a reliable stream of future income as 140,000 customers make their monthly mortgage payments, and 90,000 families are protected through our insurance group.

Aggressive, inexperienced lenders seduced by higher rates tend to exaggerate manufactured housing industry cycles. Every cycle downturn is preceded by a few large lenders that hurriedly commit vast resources to our industry. To expedite the deployment of capital, the newcomers tend to ignore mortgage underwriting and servicing fundamentals. Retailers are quick to accommodate their naiveté. Sales surge, and manufacturing capacity is added as the industry celebrates its success.

To gain market share, the new lenders approve more and more marginal applications. Initially, portfolios involving poor underwriting appear to perform well. The seemingly small number of foreclosures disguise true portfolio performance due to the increasing volume. It is only after the portfolio growth subsides and two to four years of seasoning occurs that the lender realizes the finality of early decisions as the foreclosures soar. Thus the lenders exit, retailers close and plants are idled. The cycle is complete.

Vanderbilt Mortgage was created in 1974 to insulate the Company from the credit cycles and to provide a stable, reliable source of customer mortgages. A long-term approach to underwriting with an emphasis on homeowner service was developed. The sales team and the lending staff, normally uncoupled, were incentivized to mutually support both disciplines. Thus the sales teams pre-underwrite and are responsible for the important field components of mortgage servicing. The accountability involved assures the long-term portfolio performance.

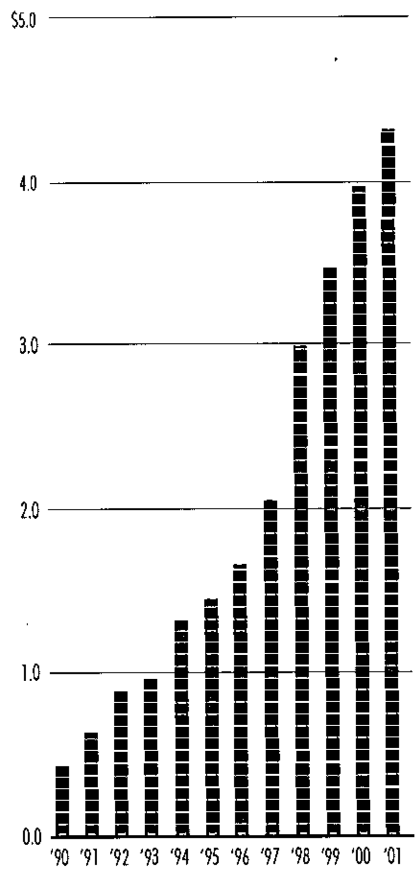
This superior approach to mortgage lending benefits everyone involved. Vanderbilt loan terms are seven years less than the industry norm — saving customers an average of $29,000 in interest — and our customers enjoy the convenience of bi-weekly electronic payment transfer without charge. Retailers benefit because the customer builds equity quickly and is likely to trade up, and Vanderbilt losses are minimized because of fewer foreclosures and lower outstanding balances.

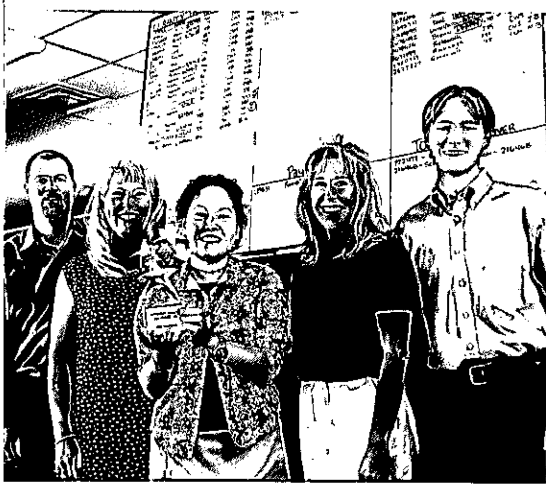


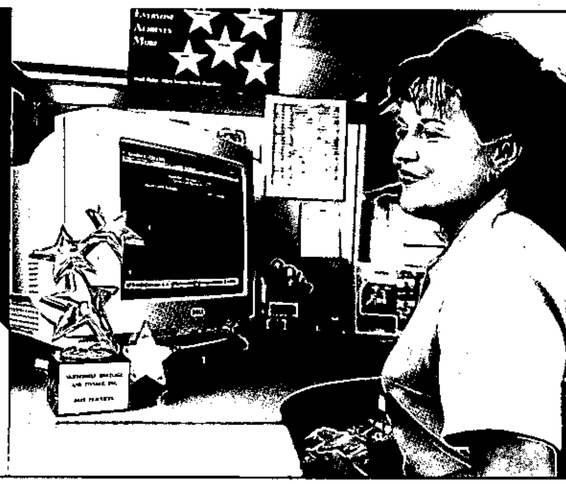
Insurance revenues increased 12 percent. Coverages offered include Homeowners Insurance, Family Protection and the Home Buyer Protection Plan. In Retail and Communities, 92% of mortgages include at least one CMH insurance product.

Financial Services places a high priority on becoming a learning company by seeking out Best Practices, emphasizing the importance of training and using on-line

Loans Serviced ($ in billions)







courses to reinforce the Company's culture.

The Financial Services team took advantage of the industry slowdown to improve on our core competencies, celebrate Best Practices and implement a cohesive leadership training program that includes all team members.

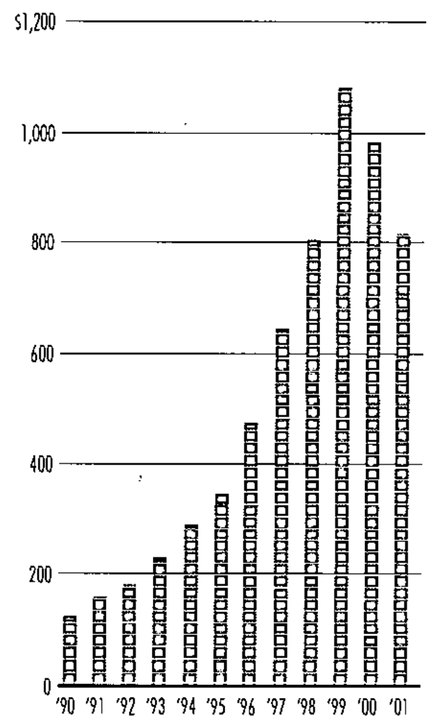
Vanderbilt continues a strong vertically integrated relationship with our two largest originators, the Retail and Communities groups, and to enjoy the cost savings and efficiency of our automated loan processing system, LINK. Vanderbilt will maintain its proven lending practices, customer-friendly mortgage servicing and prudent portfolio acquisitions. In order to leverage our experience, capital and human resource positioning as the industry rebounds, we are viewing our business from the customer's perspective to shift from a transaction mentality to a relationship mindset.

Vanderbilt Best Practices Awards (above) are proudly displayed by team members.

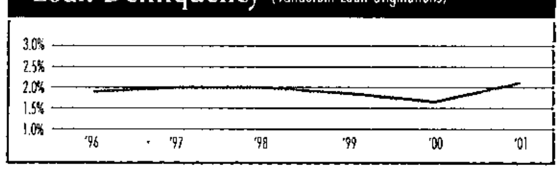
	June 30, 2001	June 30, 2000	Percent Change
Loans serviced (in millions)			
Originated and purchased loans serviced	$4,121	$3,714	11%
Master servicing contracts	188	222	-15%
Total	$4,309	$3,936	9%
Loans serviced (# of loans in thousands)			
Originated and purchased loans serviced	138	130	6%
Master servicing contracts	10	12	-13%
Total	148	142	4%
Originations (in millions)			
Company-owned	$ 647	$ 712	-9%
Independent and other	168	271	-38%
Total	$ 815	$ 983	-17%
Acquisitions (in millions)	$ 315	$ 205	53%

	2001	2000
Delinquency (% over 30 days - VMF only)		
Contracts originated by VMF	2.1%	1.7%
Contract portfolios purchased	4.9%	4.9%
All contracts	2.6%	2.2%
Net losses as % of average loans outstanding		
Contracts originated by VMF	1.7%	1.2%
Contract portfolios purchased	2.5%	2.8%
Total contracts	1.8%	1.4%
Number of repossessions on hand		
Originated by VMF	2,191	1,774
Contract portfolios purchased	461	457
Total repossessions	2,652	2,231

Loan Originations (in millions)



Loan Delinquency (Vanderbilt Loan Originations)



Communities Group

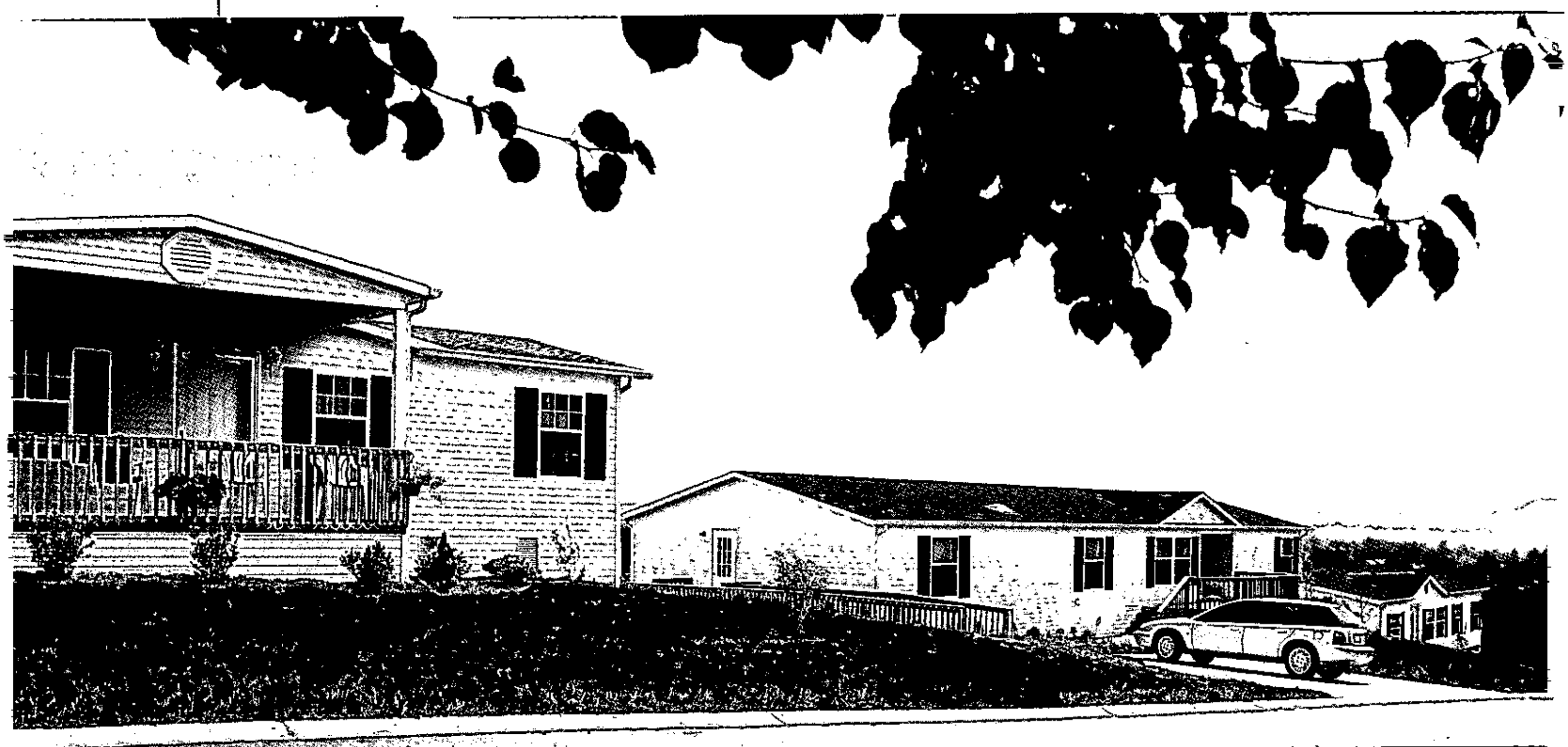
CMH Communities, along with Financial Services, again provided a valuable, annuity-type stream of revenues and income during a severe industry downturn. The group exemplifies Clayton's unique brand of vertical integration. When a home is sold in a Clayton Community, your Company earns five levels of profit: the home is manufactured, retailed, mortgaged, insured and sited all through Company subsidiaries. This is a distinct Clayton advantage.

In 2001, the Communities Group expanded its portfolio to 81 properties with 21,121 sites. Three new acquisitions were finalized in Rossville, Georgia; Chattanooga, Tennessee; and Plant City, Florida, totaling 449 sites. Same store occupancy rates increased 1% while overall occupancy remained steady at 75%. Same store rental revenue increased 4.4% while total rental revenues increased 7.5%. Sales decreased 12.3% for the year.

The group opened two new developments in San Antonio and Dallas totaling 284 sites. The group expanded four existing communities, bringing total expansions for the year to 953 sites.

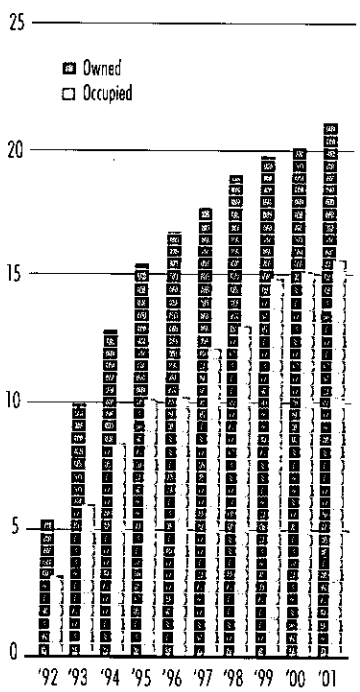
CMH Communities utilize SCOPE to provide emphasis on primary management functional areas: Sales, Collections, Occupancy, People, and Expense control. SCOPE rolls up the large number of management skill-sets required at a Clayton Community into five key areas. This model encourages communication, facilitates training, promotes accountability and allocates resources, while maximizing productivity.

The dual focus on disciplined property management and optimal sales productivity presents voluminous training and leadership challenges. The Communities Leadership Academy addresses each component of SCOPE and simplifies material normally considered complex. During the year, 92% of managers completed the curriculum. This retention, development and productivity focus is expected to contribute to the group's profitability goals.



E X P A N S I O N

Home Sites (in thousands)



Communities' Best Practices initiatives include centralized lock-box rent collection, freeing on-site management for marketing and customer relations activities; a quality resident screening process; standardization of construction planning and supervision; and interactive Internet learning delivery.

We are proud that 15,737 families, or 36,195 people, call a Clayton Community "their neighborhood." The Communities Group will continue to direct its resources to creating environments that provide desirable, affordable and secure neighborhoods. While focusing on building the dreams of our residents, the group is devoted to constant improvements. With expansion of existing Communities, greenfield development and the increased attention to the SCOPE model, the Company's goals for the group are expected to be achieved for FY2002.

	June 30,	
	2001	2000
Home sites owned	21,121	20,168
Occupancy rate	75%	75%

C L A Y T O N

Eleven Year Review

(in thousands except per share and other data)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
INCOME STATEMENT DATA											
Revenues											
Net sales	$ 849,157	$ 993,916	$1,040,668	$ 880,856	$ 822,906	$762,396	$621,351	$510,153	$384,491	$296,849	$257,557
Financial services and other income	301,799	299,429	303,615	246,923	198,797	166,345	136,741	118,083	91,750	74,330	62,392
	1,150,956	1,293,345	1,344,283	1,127,779	1,021,703	928,741	758,092	628,236	476,241	371,179	319,949
Costs and expenses											
Cost of sales	562,267	660,429	705,128	598,589	559,274	521,200	431,826	357,698	267,201	206,049	176,374
SG&A	374,628	384,067	367,430	302,598	270,996	236,188	188,835	153,698	113,695	84,785	76,420
Financial services interest	706	1,032	7,981	2,015	2,885	3,649	5,533	8,196	11,819	16,585	18,198
Provision for credit losses	42,500	20,800	12,459	7,976	1,000	–	–	–	–	3,300	3,772
	980,101	1,066,328	1,092,998	911,178	834,155	761,037	626,194	519,592	392,715	310,719	274,764
Operating income	170,855	227,017	251,285	216,601	187,548	167,704	131,898	108,644	83,526	60,460	45,185
Interest income (expense), net/other	(1,504)	1,608	(5,317)	5,499	5,152	4,596	3,902	(359)	(170)	(317)	(592)
Income before income taxes	169,351	228,625	245,968	222,100	192,700	172,300	135,800	108,285	83,356	60,143	44,593
Provision for income taxes	(62,700)	(84,600)	(91,000)	(84,400)	(73,200)	(65,500)	(48,800)	(39,000)	(29,600)	(20,800)	(16,000)
Income before accounting change	106,651	144,025	154,968	137,700	119,500	106,800	87,000	69,285	53,756	39,343	28,593
Cumulative effect of accounting change	–	–	–	–	–	–	–	3,000	–	–	–
Net income	$ 106,651	$ 144,025	$ 154,968	$ 137,700	$ 119,500	$ 106,800	$ 87,000	$ 72,285	$ 53,756	$ 39,343	$ 28,593
Net income per share											
Basic	$0.77	$1.03	$1.07	$0.93	$0.81	$0.72	$0.59	$0.51	$0.39	$0.30	$0.27
Diluted	$0.77	$1.03	$1.06	$0.92	$0.80	$0.72	$0.59	$0.49	$0.37	$0.29	$0.24
Average shares outstanding											
Basic	137,702	139,474	145,211	148,463	148,324	148,253	147,020	141,046	136,391	130,103	106,884
Diluted	138,340	139,815	145,931	149,504	149,346	149,183	148,285	149,875	149,106	142,100	126,216
Dividends per common share	$.064	$.064	$.064	$.064	$.061	$.049	$.030	–	–	–	–
BALANCE SHEET DATA											
Total assets	$ 1,654,170	$ 1,506,378	$1,417,245	$1,457,757	$1,045,761	$886,350	$761,151	$701,148	$587,032	$554,780	$488,817
Debt obligations	141,862	99,216	96,477	247,591	22,806	30,290	48,737	70,680	137,038	192,931	227,444
Shareholders' equity	$ 1,147,478	$ 1,036,375	$ 947,768	$ 881,019	$ 754,526	$650,189	$544,187	$462,154	$348,630	$292,950	$200,992
KEY FINANCIAL RATIOS											
As a % of revenue											
Operating income	14.8%	17.6%	18.7%	19.2%	18.4%	18.1%	17.4%	17.3%	17.5%	16.3%	14.1%
Net income	9.2%	11.1%	11.5%	12.2%	11.7%	11.5%	11.5%	11.5%	11.3%	10.6%	8.9%
Debt as a % of total capital	11.0%	8.7%	9.2%	21.9%	2.9%	4.5%	8.2%	13.3%	28.2%	39.7%	53.1%
OTHER DATA											
Company-owned retail centers	297	318	306	273	245	216	192	165	143	127	123
Independent retailers	634	707	671	702	663	580	421	372	371	312	330
Manufacturing plants	20	20	19	18	17	17	16	13	13	11	10
Communities	81	76	75	71	67	64	55	46	33	20	12

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, 2001 vs 2000	2000 vs 1999
RETAIL		
Dollar sales	-12.5%	-0.4%
Number of retail centers	-1.4%	+7.8%
Dollar sales per retail center	-11.2%	-7.6%
Price of home	-1.3%	+8.2%
WHOLESALE		
Dollar sales	-19.9%	-16.2%
Number of independent retailers	-2.7%	+0.4%
Dollar sales per independent retailer	-17.7%	-16.6%
Price of home	+7.6%	+2.4%
COMMUNITIES		
Dollar sales	-12.3%	+28.4%
Number of communities	+4.0%	+3.4%
Dollar sales per community	-15.6%	+24.1%
Price of home	-1.5%	+2.6%

Fiscal 2001 compared to Fiscal 2000

Total revenues decreased 11% to $1.2 billion, as manufactured housing sales decreased 15% to $849 million, financial services income decreased slightly to $228 million and rental and other income increased 4% to $74 million.

Current conditions in the manufactured housing industry remain highly competitive at both the retail and wholesale levels. For fiscal 2001, the industry was faced with manufacturing over-capacity and too many retail centers. This competitive environment, as well as an increase in industry foreclosures and aging retail inventory, has contributed to decreased industry and Company sales, and significant closings of retail centers.

Net sales of the Retail group fell 13% to $586 million. This decline was the result of an 11% decrease in homes sold, a 1% decrease in the average number of Company-owned retail centers and a 1% decrease in the average price per home. Multi-section homes accounted for 50% of total new homes sold versus 51% last year.

During the year, the Company opened seven retail centers and closed 28 under-performing retail centers. The Company continually evaluates specific markets and opens, acquires or closes retail centers as conditions warrant. All of the sales centers opened in fiscal 2001 were acquisitions. Two of the new retail centers were opened in the fourth quarter.

Net sales of the Manufacturing group to independent retailers decreased 20% to $223 million, as the number of homes sold fell 26%. The average wholesale price increased 8% principally due to a shift toward multi-section homes which accounted for 52% of total shipments versus 49% last year.

Net sales of the Communities group decreased 12% to $39 million as 11% fewer homes were sold, and the average home selling price decreased 1%. The Company added 953 sites during the year bringing the total to 21,121 sites at June 30, 2001.

Within the Financial Services segment, interest and loan servicing revenues increased $16 million, and insurance related revenues rose $6 million. Rental and other income increased 4% on an 8% rise in Communities rental income.

The average outstanding balance of installment contract and mortgage receivables declined slightly to $437 million with a weighted average interest rate of 9.8%, down from 11.9%. The average outstanding balance of receivables sold rose 12% to $3.7 billion, and the weighted average loan service spread increased to 3.4% from 3.3%.

Financial Services interest expense decreased $0.3 million to $0.7 million. Debt collateralized by installment contract receivables dropped 32% to an average of $7 million, and the weighted average interest rate increased to 10.6% from 10.5%. Loan covenants preclude prepaying these higher cost obligations.

Gross profit margins on retail, manufacturing, and communities sales increased to 33.8% from 33.6%.

Selling, general and administrative expenses were 32.5% and 29.7% of revenues for the years ended June 30, 2001, and 2000, respectively. This increase was primarily due to a decline in overall sales volume and reduced capacity utilization in manufacturing. Additional costs associated with portfolio acquisitions and fixed costs being spread over lower revenues were also a factor.

The provision for credit losses and contingent liabilities increased to $42.5 million in 2001 from $20.8 million in 2000 which was primarily due to the additional number of contracts in foreclosure as compared to the same period last year. Net credit losses as a percentage of loans outstanding for fiscal 2001 increased to 1.8% from 1.4% while delinquency rates on all loans increased to 2.6% on a unit basis from 2.2%. 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, 2001, compared to June 30, 2000, are shown below in millions:

	Increase (decrease)
MANUFACTURING	
Raw materials	$ (3.5)
Finished goods	(1.9)
RETAIL	
Inventory levels at Company-owned retail centers	(30.3)
COMMUNITIES	
Inventory to stock five new Communities	0.5
Inventory levels at 76 Communities open at June 30, 2000	(1.5)
	$ (36.7)

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.

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 as follows in millions:

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

Liquidity and Capital Resources

The Company anticipates meeting cash requirements with proceeds from asset securitizations, cash provided from operations, revolving credit lines, a participation facility 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, 2001, the Company raised $886 million through asset securitizations.

At June 30, 2001, the Company had debt outstanding of $142 million. Short-term debt available consists of $165 million committed and $71 million uncommitted lines of credit for working capital needs. Debt outstanding principally consists of $75 million of privately issued senior notes, $46 million of short-term borrowings, $5 million of installment paper collateralized debt and $16 million of tax-exempt bonds.

On January 11, 2001, the Company cancelled its committed one-year $300 million commercial paper conduit facility. Subsequent to June 30, 2001, the Company entered into a one-year committed $150 million participation facility to be used to facilitate the sale of manufactured housing contracts and mortgages.

In fiscal 2001, the Company repurchased 60,000 shares for $482,000. Under Board approved repurchase programs, all shares may be acquired, at management's discretion, over time on the open market. Shares repurchased are retired.

The Company originated and acquired approximately $1.1 billion of installment contracts and mortgage loan receivables during fiscal 2001. Additional investments were made of approximately $14 million to expand, develop, or improve manufactured housing communities, $5 million for opening and upgrading Company-owned retail centers, $4 million for construction and improvement of manufacturing facilities, and $2 million for other fixed assets.

In fiscal 2002, the Company expects to originate approximately $900 million of installment contract and mortgage loan receivables. It expects to invest approximately $24 million in acquisitions or construction of manufactured housing communities, up to $12 million for opening and upgrading Company-owned retail centers, up to $6 million for construction and improvement of manufacturing facilities, and up to $2 million for other fixed assets.

Market Risk

The Company is exposed to market risks related to fluctuations in interest rates on its installment paper contract receivables, related residual interests 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.

The Company has variable interest rate installment contract receivables of $14 million at June 30, 2001. 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 $42,000, net of tax.

The Company has residual interests collateralized by installment contract receivables with variable interest rate terms. These installment contract receivables aggregate $928 million on June 30, 2001. Holding the receivable balances constant, each one percentage point increase in interest rates occurring on the first day of the year would result in a decrease in financial services income for the coming year of approximately $3.7 million, net of tax.

As of June 30, 2001, the Company has outstanding debt of $142 million. There is no significant exposure to changes in interest rates on debt obligations as the majority of its long-term debt, $80 million, carries fixed interest rates. Remaining debt of $62 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 $391,000, net of tax.

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 costs, cost of labor and/or raw materials and industry consolidation trends creating fewer, but stronger, competitors capable of sustaining competitive pricing pressures.

Management expertise and experience affects its overall ability to anticipate and meet consumer preferences, maintain successful marketing programs, continue quality manufacturing output, keep a strong cost management oversight, and achieve stable results from its securitization activities.

Lastly, management has little 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.

QUARTERLY RESULTS *Unaudited*

	2001				2000			
(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	$300,807	$284,853	$272,070	$293,226	$337,297	$309,159	$306,981	$339,908
Operating income	45,408	45,468	38,620	41,359	56,277	55,551	56,725	58,464
Income before income taxes	45,982	43,565	37,752	42,052	56,424	55,831	56,993	59,377
Net income	28,982	27,465	23,752	26,452	35,524	35,231	35,893	37,377
Earnings per share - Basic	$.21	$.20	$.17	$.19	$.25	$.25	$.26	$.27
- Diluted	$.21	$.20	$.17	$.19	$.25	$.25	$.26	$.27
Price range of stock - High	$10.00	$12.88	$14.50	$15.82	$11.88	$11.94	$10.13	$10.38
- Low	$8.13	$8.75	$12.05	$11.55	$8.56	$8.50	$7.81	$7.94
Dividends per common share	$.016	$.016	$.016	$.016	$.016	$.016	$.016	$.016

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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America. 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 of America 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 our opinion.

PricewaterhouseCoopers LLP
Knoxville, Tennessee
August 7, 2001

Consolidated Balance Sheets

(in thousands)	June 30, 2001	2000
Assets		
Cash and cash equivalents	$ 47,763	$ 43,912
Trade receivables	14,683	21,796
Other receivables, principally installment contracts, net of reserves for credit losses and unamortized discounts of $20,560 in 2001 and $4,217 in 2000	657,224	500,942
Residual interests in installment contract and mortgage receivables	170,122	150,329
Inventories, net	185,695	222,431
Securities available-for-sale	30,956	47,734
Restricted cash	111,060	96,904
Property, plant and equipment, net	309,438	305,479
Deferred income taxes	22,710	24,284
Other assets	104,519	92,567
Total assets	$1,654,170	$1,506,378
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	$ 118,057	$ 122,760
Debt obligations	141,862	99,216
Other liabilities	246,773	248,027
Total liabilities	506,692	470,003
Shareholders' equity		
Preferred stock, $.10 par value, authorized 1,000 shares, none issued	—	—
Common stock, $.10 par value, authorized 200,000 shares, issued 137,991 at June 30, 2001, and 137,499 at June 30, 2000	13,799	13,750
Additional paid-in capital	43,593	39,500
Retained earnings	1,081,137	983,806
Accumulated other comprehensive income (loss)	8,949	(681)
Total shareholders' equity	1,147,478	1,036,375
Total liabilities and shareholders' equity	$1,654,170	$1,506,378

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

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share data)	2001	Year ended June 30, 2000	1999
Revenues			
Net sales	$ 849,157	$ 993,916	$1,040,668
Financial services	227,916	228,642	233,848
Rental and other income	73,883	70,787	69,767
	1,150,956	1,293,345	1,344,283
Costs and expenses			
Cost of sales	562,267	660,429	705,128
Selling, general and administrative	374,628	384,067	367,430
Financial services interest	706	1,032	7,981
Provision for credit losses	42,500	20,800	12,459
	980,101	1,066,328	1,092,998
Operating income	170,855	227,017	251,285
Interest expense	(5,561)	(5,749)	(11,995)
Interest revenue/other	4,057	7,357	6,678
Income before income taxes	169,351	228,625	245,968
Provision for income taxes	(62,700)	(84,600)	(91,000)
Net income	$ 106,651	$ 144,025	$ 154,968
Net income per common share			
Basic	$0.77	$1.03	$1.07
Diluted	$0.77	$1.03	$1.06
Average shares outstanding			
Basic	137,702	139,474	145,211
Diluted	138,340	139,815	145,931

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands except share data)	Total Shareholders' Equity	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
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 6,465,000 shares of common stock	(81,394)	(647)	(80,747)	—	—
Dividends declared ($.064 per common share)	(9,606)	—	—	(9,606)	—
Issuances related to stock incentive, employee benefit plans and other	3,602	32	3,570	—	—
Balance at June 30, 1999	947,768	14,237	85,236	849,116	(821)
Net income	144,025	—	—	144,025	—
Other comprehensive income, net of tax					
Unrealized loss on securities available-for-sale during the year	(627)	—	—	—	(627)
Realized loss on securities available-for-sale included in net income	767	—	—	—	767
Comprehensive income	144,165				
Purchase of 5,382,000 shares of common stock	(49,776)	(538)	(49,238)	—	—
Dividends declared ($.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)
Net income	106,651	—	—	106,651	—
Other comprehensive income, net of tax					
Unrealized gain on residual interests	7,591	—	—	—	7,591
Unrealized gain on securities available-for-sale during the year	1,732	—	—	—	1,732
Realized loss on securities available-for-sale included in net income	307	—	—	—	307
Comprehensive income	116,281				
Purchase of 60,000 shares of common stock	(482)	(6)	(476)	—	—
Dividends declared ($.064 per common share)	(9,320)	—	—	(9,320)	—
Issuances related to stock incentive, employee benefit plans and other	4,624	55	4,569	—	—
Balance at June 30, 2001	$1,147,478	$13,799	$ 43,593	$1,081,137	$ 8,949

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

Consolidated Statements of Cash Flows

(in thousands)	Year ended June 30, 2001	2000	1999
Cash Flows from Operating Activities			
Net income	$ 106,651	$ 144,025	$ 154,968
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	20,600	20,422	17,795
Amortization of residual interests, net of gain on sale	14,205	3,256	(15,089)
Provision for credit losses	42,500	20,800	12,459
Realized loss on securities available-for-sale	488	1,218	—
Deferred income taxes	(4,082)	(3,861)	(8,267)
Decrease (increase) in other receivables, net	1,200	5,720	(93,014)
Decrease (increase) in inventories	36,736	(37,987)	(17,331)
Increase (decrease) in accounts payable, accrued liabilities, and other	(55,766)	(60,184)	14,631
Cash provided by operations	162,532	93,409	66,152
Origination of installment contract receivables	(815,546)	(983,090)	(1,085,484)
Proceeds from sales of originated installment contract receivables	660,802	886,040	1,030,442
Principal collected on originated installment contract receivables	40,686	48,040	80,610
Net cash provided by operating activities	48,474	44,399	91,720
Cash Flows from Investing Activities			
Acquisition of installment contract receivables	(321,711)	(206,154)	(253,625)
Proceeds from sales of acquired installment contract receivables	225,654	229,412	389,866
Principal collected on acquired installment contract receivables	23,154	19,836	73,200
Proceeds from sales of securities available-for-sale	29,527	37,733	—
Acquisition of property, plant and equipment	(24,559)	(34,398)	(47,749)
Decrease (increase) in restricted cash	(14,156)	3,223	(13,951)
Net cash provided by (used in) investing activities	(82,091)	49,652	147,741
Cash Flows from Financing Activities			
Dividends	(9,320)	(9,335)	(9,606)
Net borrowings (repayment) on credit facilities	45,800	—	(227,873)
Proceeds from (repayment of) long-term debt	(3,154)	2,739	76,759
Issuance of stock for incentive plans and other	4,624	3,553	3,602
Repurchase of common stock	(482)	(49,776)	(81,394)
Net cash provided by (used in) financing activities	37,468	(52,819)	(238,512)
Net increase in cash and cash equivalents	3,851	41,232	949
Cash and cash equivalents at beginning of year	43,912	2,680	1,731
Cash and cash equivalents at end of year	$ 47,763	$ 43,912	$ 2,680
Supplemental disclosures for cash flow information			
Cash paid during the year for			
Interest	$ 6,267	$ 6,781	$ 19,976
Income taxes	$ 76,723	$ 97,903	$ 95,931

The accompanying notes are an integral part of these 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 6,500 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 11, *Business Segment Information*.

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.

During the fourth quarter of 2001, the Company adopted Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*, and determined that its practices already comply with the revenue recognition policy. Thus, such adoption did not have a material impact on the Company's reported results of operations, financial position or cash flows.

Installment Contract and Mortgage Receivables

Installment contract receivables and mortgage loan receivables originated or purchased by VMF are generally sold to investors through an asset-backed securities vehicle, with VMF retaining residual interests and servicing on the contracts.

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 discount and reserves for credit losses and contingent liabilities based on management's assessment of risks existing in the portfolio. Discount is accreted over the life of the related portfolio after giving consideration to anticipated prepayments. Adjustments between the reserves for credit losses and contingent liabilities and discount are periodically 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, 2001, and 2000, including contracts held for investment, were approximately $4.3 billion and $3.9 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 Note 12, *Other Assets and Other Liabilities*.

Retained Interests

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 estimated 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, 2001, and 2000, is as follows:

(in thousands)	2001	2000
Servicing asset beginning balance	$40,704	$27,024
Servicing asset recognized	15,994	23,781
Amortization	(11,570)	(10,101)
Servicing asset ending balance	$45,128	$40,704

The balance represents the estimated fair value of the aggregate servicing assets at June 30, 2001. 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. Servicing assets are periodically evaluated on a transaction basis for impairment based on the fair value of those assets. The Company has not experienced any impairment losses. The servicing assets are amortized using the effective interest method over the estimated weighted average life of the underlying securities.

Interest-only securities represent the right to receive future cash flows from securitization transactions. Such cash flows generally are equal to the value of the principal and interest to be collected on the underlying financial contracts of each securitization in excess of the sum of the principal and interest to be paid on the securities sold and contractual servicing fee, less estimated credit losses. The Company carries interest-only securities at estimated fair value. As market quotes are generally not available, fair value is determined by discounting the projected cash flows over the expected life of the receivables sold using current prepayment, default, loss and interest rate assumptions. Estimates for prepayments, defaults, and losses are determined based on a model developed by the Company and refined to reflect Company-specific experience and trends. See Note 2, *Securitizations.*

The residual interests in the installment receivables sold are classified as available-for-sale securities (as defined by Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities)*. On April 1, 2001, the Company adopted the consensus under Emerging Issues Task Force Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Assets.* Under previously existing accounting requirements, declines in fair value of such beneficial interests were recognized as other than temporary impairment when the present value of the underlying cash flows discounted at a risk-free rate using current assumptions were less than the carrying value of such assets. Pursuant to EITF Issue No. 99-20, declines in fair value are to be considered other than temporary when: (i) the carrying value of the beneficial interests exceeds the fair value of such beneficial interests using current assumptions, and (ii) the timing and/or extent of cash flows expected to be received on the beneficial interests has adversely changed - as defined - from the previous valuation date. Under the new guidelines, the Company evaluated the expected future cash flows from its interest-only securities and determined that there was a favorable difference in estimated cash flows of $12.0 million ($7.6 million after tax) for the year ended June 30, 2001. This favorable adjustment has been recorded as an element of accumulated other comprehensive income.

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, valued at $25.2 million, are classified as available-for-sale, are stated at fair value, and can be reasonably expected to mature in 3-10 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 temporary losses are reported as a separate component of accumulated other comprehensive income, net of tax, until realized.

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.

Inventories

New homes and raw materials are carried 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 recorded 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 and contracts in foreclosure. 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.

In 2001, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* which was subsequently amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities.* SFAS No. 133 establishes accounting and reporting standards for derivative instruments embedded in other contracts and for hedging activities. See Note 5, *Debt Obligations.*

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 temporary losses on securities available-for-sale, as described under *Retained Interests.*

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 1999 and the 2000 financial statements to conform to the 2001 presentation.

New Accounting Pronouncements

In June 2001, the FASB issued Statement No. 141 (FAS 141), *Business Combinations*, and Statement No. 142 (FAS 142), *Goodwill and Other Intangible Assets*. FAS 141 supercedes APB 16, *Business Combinations*, and primarily addresses the accounting for the cost of an acquired business (i.e., the purchase price allocation), including any subsequent adjustments to its cost. FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., the post-acquisition accounting) and supercedes APB 17, *Intangible Assets*.

The most significant changes made by FAS 141 involve the requirement to use the purchase method of accounting for all business combinations, thereby eliminating use of the pooling-of-interests method along with the establishment of new criteria for determining whether intangible assets acquired in a business combination should be recognized separately from goodwill. FAS 141 is effective for all business combinations (as defined in the Statement) initiated after June 30, 2001, and for all business combinations accounted for by the purchase method that are completed after June 30, 2001 (that is, the date of acquisition is July 1, 2001, or later).

Under FAS 142, goodwill and indefinite lived intangible assets will no longer be amortized and will be tested for impairment at least annually at a reporting unit level. Additionally, the amortization period of intangible assets with finite lives is no longer limited to forty years. FAS 142 is effective for fiscal years beginning after December 15, 2001, to all goodwill and other intangible assets recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim period financial statements have not been issued previously.

The Company does not expect adoption of either FAS 141 or FAS 142 to have a material impact on the Company's reported results of operations, financial position or cash flows.

Note 2 - Securitizations

In September 2000, the FASB issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, a replacement of FASB Statement No. 125. SFAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and requires certain additional disclosures. SFAS No. 140 was effective for all transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001.

The original key economic assumptions used in measuring the retained interests at the date of securitization resulting from securitizations completed in 2001, the key economic assumptions used to measure all retained interests at June 30, 2001, the sensitivity of the current fair value to adverse changes in the assumptions, and certain cash flows received from securitization trusts in 2001 are presented as follows:

($ in millions)	
Original Key Economic Assumptions	
Prepayment speed (% MHP Model)	300
Weighted average life (in years)	4.66
Expected credit losses	2.48%
Residual cash flow discount rate	15.75%
Current Economic Assumptions and Sensitivity Analysis	
Carrying value (fair value) of retained interests	$195.3
Weighted average life (in years)	4.49
Prepayment speed (% MHP Model)	200-400%
Impact of 10% adverse change	($8.6)
Impact of 20% adverse change	($16.4)
Expected credit losses	1.90%
Impact of 10% adverse change	($10.4)
Impact of 20% adverse change	($20.9)
Residual cash flow discount rate	15.75%
Impact of 10% adverse change	($6.7)
Impact of 20% adverse change	($12.8)
Cash Flow Activity	
Proceeds from new securitizations	$886.5
Servicing fees received	$48.9
Cash flow received from retained interests	$70.9

The sensitivity analysis is hypothetical and should be used with caution. For instance, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. In addition, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption, when in reality, changes in any one factor may result in changes in another factor.

Managed receivables at June 30, 2001, and related receivables past due 90 days are as follows:

($ in millions)	Total Principal Amount	90 Days or More Past Due (a)
Held in portfolio	$ 649	$14.7
Securitized	3,532	51.2
	$4,181	$65.9

(a) Includes bankruptcies and foreclosures.

Net credit losses for the year ended June 30, 2001 totaled $51.1 million. See Note 6, *Reserves for Credit Losses and Contingent Liabilities*.

Note 3 - Inventories

Inventories at June 30, 2001, and 2000, are as follows:

(in thousands)	2001	2000
Manufactured homes		
New	$114,874	$148,658
Previously-owned	54,171	53,593
Raw materials	16,650	20,180
	$185,695	$222,431

If the first-in, first-out (FIFO) method of inventory valuation had been used, inventories would have been higher by $20,282,000 and $21,633,000 at June 30, 2001, and 2000, respectively.

Note 4 - Property, Plant and Equipment

Property, plant and equipment at June 30, 2001, and 2000, are as follows:

(in thousands)	2001	2000
Land and improvements	$215,910	$199,329
Buildings	150,000	156,689
Furniture and equipment	50,422	45,964
	416,332	401,982
Less: accumulated depreciation and amortization	(106,894)	(96,503)
	$309,438	$305,479

Note 5 - Debt Obligations

Debt obligations at June 30, 2001, and 2000, are summarized as follows:

(in thousands)	2001	2000
Senior notes, 6.25%, due December 2003	$ 75,000	$75,000
Debt collateralized by installment contract receivables, average effective rate 10.18% on June 30, 2001, due through 2004	5,229	8,373
Tax-exempt bonds, effective rate of 2.85% on June 30, 2001, due through 2030	15,230	15,230
Lines of credit	45,800	–
Other notes payable	603	613
	$141,862	$99,216

Annual maturities of debt as of June 30, 2001, are 2002 - $48,853,000; 2003 - $1,977,000; 2004 - $75,199,000; 2005 - $0; and 2006 - $0.

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.

On January 11, 2001, the Company cancelled its committed one-year $300 million commercial paper conduit facility. Subsequent to June 30, 2001, the Company entered into a $150 million participation facility to be used to facilitate the sale of manufactured housing contracts.

The Company has a $150 million five-year revolving credit facility with its bank group. This 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 $86 million with several banks, interest based on LIBOR rates, of which $46 million was outstanding at June 30, 2001. 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, 2001, the Company's interest rate swap agreements have an aggregate notional amount of $100 million. The interest rates on the notional amounts range from 5.42% to 5.62%.

Note 6 - Reserves for Credit Losses and Contingent Liabilities

An analysis of the reserves for losses on installment contract receivables and contingent liabilities, including those contracts in foreclosure, for the years ended June 30, 2001, 2000, and 1999, are as follows:

(in thousands)	2001	2000	1999
Balance, beginning of year	$ 35,725	$ 44,275	$ 35,828
Provision	42,500	20,800	12,459
Charges, net of recoveries applicable to installment contract receivables			
Purchased	(13,105)	(12,199)	(13,384)
Other	(37,974)	(20,044)	(11,951)
Reserves transferred to unamortized discounts	(1,000)	(6,000)	(1,981)
Reserves associated with receivables purchased	4,390	8,893	23,304
Balance, end of year	$ 30,536	$ 35,725	$ 44,275

The reserves for credit losses are netted against receivables and the reserve for contingent liabilities 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, 2001, and 2000, the outstanding principal balances of these receivables totaled approximately $84 million and $117 million, respectively. There were no receivables sold with recourse in 2001, 2000 and 1999.

Note 7 - 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, 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
Granted	875,825	$ 8.38 - $ 9.31	$ 9.10		
Exercised	(278,401)	$ 2.16 - $13.70	$ 5.88		
Canceled	(242,418)	$ 7.22 - $15.75	$10.24		
Balance June 30, 2001	5,460,462	$ 3.83 - $15.75	$10.40	1,901,452	$ 9.84

Options available for future grant at June 30, 2001, and 2000, were 4,299,675 and 4,939,727, respectively. Options were held by 880 persons at June 30, 2001.

The following table summarizes information about the plans' stock options at June 30, 2001, including weighted average remaining life (Life) and weighted average exercise price (Price):

	Options Outstanding			Options Exercisable	
Range	Number	Life	Price	Number	Price
$ 3.83 - $ 5.05	155,857	0.6 years	$ 4.24	102,489	$ 3.83
$ 7.22 - $10.32	2,849,779	5.8 years	$ 8.72	1,051,092	$ 8.26
$11.50 - $15.75	2,454,826	6.0 years	$12.73	747,871	$12.89

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:

		June 30,	
(in thousands except per share data)	2001	2000	1999
Net income - as reported	$106,651	$144,025	$154,968
Net income - pro forma	104,352	141,634	153,610
Net income per diluted common share - as reported	$.77	$1.03	$1.06
Net income per diluted common share - pro forma	.75	1.01	1.05

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 1999 to 2001; dividend yields ranging from 0.41% to 0.76% with a weighted average yield of 0.59%; expected volatility of 0.34%, risk-free interest rates ranging from 4.10% to 6.54% with a weighted average rate of 5.65%; and expected lives ranging from 6.47 to 10.00 years with a weighted average life of 8.75 years. The weighted average grant date fair value of options granted in fiscal years 2001, 2000 and 1999 was $4.06, $4.66, and $5.66 per share, respectively.

Note 8 - Income Taxes

The components of deferred tax assets and liabilities at June 30, 2001, and 2000, are as follows:

(in thousands)	2001	2000
Reserves for credit losses and contingencies and discounts	$ 8,388	$ 9,258
Insurance reserves	10,850	9,911
Unearned premiums	9,604	9,348
Residual interest in installment contract receivables	12,729	11,781
Total deferred tax assets	41,571	40,298
Deferred costs	(6,549)	(6,728)
Other comprehensive income	(5,256)	–
Other	(7,056)	(9,286)
Total deferred tax liabilities	(18,861)	(16,014)
Net deferred tax asset	$ 22,710	$ 24,284

The provision for income tax is composed of the following:

(in thousands)	2001	2000	1999
Current tax provisions			
Federal	$64,010	$82,654	$92,706
State	2,772	5,807	6,561
Total current	66,782	88,461	99,267
Deferred tax benefit	(4,082)	(3,861)	(8,267)
	$62,700	$84,600	$91,000

At June 30, 2001, 2000, and 1999, a deferred tax provision (benefit) of $5,656,000, $82,000, and ($482,000), respectively, was allocated directly to shareholders' equity for the unrealized gain (loss) on residual interests and 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 2001, 2000 and 1999, as follows:

(in thousands)	2001	2000	1999
Income taxes at the statutory rate	$59,273	$80,019	$86,089
State income taxes, net of federal benefit	1,802	3,775	4,265
Other, net	1,625	806	646
	$62,700	$84,600	$91,000

Note 9 - 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 $2,938,000, $3,169,000, and $3,162,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

Note 10 - 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 $5,280,000 in 2001, $5,340,000 in 2000, and $5,210,000 in 1999. Minimum rental commitments under non-cancelable operating leases, primarily for retail centers, in effect at June 30, 2001, were: 2002 - $3,951,000; 2003 - $3,217,000; 2004 - $2,391,000; 2005 - $1,531,000; 2006 - $902,000; and thereafter - $1,279,000.

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 $74 million at June 30, 2001, excluding any resale value.

At June 30, 2001, the Company has letters of credit, primarily related to insurance reserves and performance guarantees related to asset backed securitizations of approximately $118 million and $324 million, respectively. The Company believes a significant loss from any such guarantee is remote. Please see Note 6 for discussion of guarantees of installment contract receivables.

Note 11 - 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)	2001	2000	1999
Revenues			
Retail	$ 651,133	$ 733,916	$ 737,044
Manufacturing	496,154	624,586	654,471
Financial Services	184,253	188,365	198,527
Communities	89,699	92,492	78,902
Intersegment sales	(270,283)	(346,014)	(324,661)
	$ 1,150,956	$ 1,293,345	$ 1,344,283
Income from operations			
Retail	$ 28,712	$ 53,623	$ 66,364
Manufacturing	36,637	62,729	72,377
Financial Services	95,469	108,792	117,385
Communities	14,022	16,130	15,850
Eliminations/other	(3,985)	(14,257)	(20,691)
	170,855	227,017	251,285
Interest			
Interest expense	(5,561)	(5,749)	(11,995)
Interest revenue/ other income	4,057	7,357	6,678
Income before taxes	$ 169,351	$ 228,625	$ 245,968
Identifiable assets			
Retail	$ 255,793	$ 287,705	$ 247,009
Manufacturing	82,616	100,112	94,773
Financial Services	1,080,416	902,913	901,769
Communities	191,802	185,784	177,723
Eliminations/other	43,543	29,864	(4,029)
	$ 1,654,170	$ 1,506,378	$ 1,417,245

continued

(in thousands)	2001	2000	1999
Depreciation and amortization			
Retail	$ 6,161	$ 5,639	$ 4,684
Manufacturing	5,767	6,516	5,478
Financial Services	512	472	235
Communities	7,030	6,724	6,412
Eliminations/other	1,130	1,071	986
	$ 20,600	$ 20,422	$ 17,795
Capital expenditures			
Retail	$ 5,211	$ 11,535	$ 18,152
Manufacturing	4,346	9,558	12,971
Financial Services	88	454	576
Communities	13,920	12,059	14,703
Eliminations/other	994	792	1,347
	$ 24,559	$ 34,398	$ 47,749

Note 12 - Other Assets and Liabilities

At June 30, 2001, and 2000, other assets and liabilities consisted of:

(in thousands)	2001	2000
Other assets		
Interest and other receivables	$ 63,442	$ 52,605
Deferred policy acquisition costs	19,716	19,304
Prepaid expenses and other	21,361	20,658
	$104,519	$ 92,567
Other liabilities		
Investors payable	$101,379	$ 85,161
Reserve for contingent liabilities	9,970	32,075
Escrow deposits	11,494	10,603
Unearned insurance premiums	96,555	94,669
Other	27,375	25,519
	$246,773	$248,027

Note 13 - 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.

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 amount 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 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:

(in thousands)	June 30, 2001 Carrying Amount	June 30, 2001 Estimated Fair Value	June 30, 2000 Carrying Amount	June 30, 2000 Estimated Fair Value
Financial assets				
Cash and cash equivalents, including restricted cash	$158,823	$158,823	$140,816	$140,816
Contracts held for sale and as collateral, including accrued interest receivable	655,011	653,129	450,531	448,446
Financial liabilities				
Senior notes, 6.25%	75,000	73,642	75,000	72,160
Debt collateralized by installment contract receivables	5,229	5,645	8,373	9,006

Retained interests in installment contract receivables - see Note 2, Securitizations

Note 14 - 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)	2001	2000	1999
Net income	$106,651	$144,025	$154,968
Average shares outstanding			
Basic	137,702	139,474	145,211
Add: common stock equivalents	638	341	720
Diluted	138,340	139,815	145,931
Earnings per share - Basic	$0.77	$1.03	$1.07
- Diluted	$0.77	$1.03	$1.06

Note 15 - Related Party Transactions

The Company maintains an agreement to purchase certain installment contract receivables originated or acquired by a finance company in which the Company maintains a 50% ownership interest. The Company acquired approximately $110,000,000, $92,000,000, and $147,000,000 in installment contract receivables and received interest and other related fees totaling approximately $1,880,000, $1,618,000, and $2,038,000 during fiscal 2001, 2000 and 1999, respectively.

Board of Directors

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

Kevin T. Clayton
Chief Executive Officer and President

Wilma H. Jordan (1)(2)
Chief Executive Officer, JEGI Capital

C. Warren Neel (1)(2)
Commissioner, Finance and Administration, State of Tennessee; Director, Sak's, Inc. and American Healthways, Inc.

Dan W. Evins (1)
Chairman of the Board, 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

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

John J. Kalec
Senior Vice President and Chief Financial Officer

Amber W. Krupacs
Vice President, Finance

Greg A. Hamilton
Vice President and Controller

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

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 48,000 beneficial holders of common stock on June 30, 2001.

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 October 30, 2001, 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 15, 2001, will be entitled to vote.

Clayton Homes, Inc.

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