

# CLAYTON HOMES INC

## **FORM DEF 14A** (Proxy Statement (definitive))

Filed 09/21/01 for the Period Ending 06/30/01

Address	5000 CLAYTON ROAD MARYVILLE, TN, 37804
Telephone	8653803000
CIK	0000719547
SIC Code	2451 - Mobile Homes
Industry	Forest & Wood Products
Sector	Basic Materials
Fiscal Year	06/30

# CLAYTON HOMES INC

## FORM DEF 14A (Proxy Statement (definitive))

Filed 9/21/2001 For Period Ending 6/30/2001

Address	5000 CLAYTON ROAD MARYVILLE, Tennessee 37804
Telephone	865-380-3000
CIK	0000719547
Industry	Construction Services
Sector	Capital Goods
Fiscal Year	06/30

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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**SCHEDULE 14A INFORMATION**  
**PROXY STATEMENT PURSUANT TO SECTION 14(a)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant ☒   
Filed by party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement  
☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
☒ Definitive Proxy Statement  
☐ Definitive Additional Materials  
☐ Soliciting Material Pursuant to ss. 240.14a-11(c) or ss. 240.14a-12

**CLAYTON HOMES, INC.**

(Name of Registrant as Specified In Its Charter)

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**Payment of Filing Fee (Check the appropriate box):**

- ☒ No fee required.  
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- 1 Title of each class of securities to which transaction applies:  
2 Aggregate number of securities to which transaction applies:  
3 Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):  
4 Proposed maximum aggregate value of transaction:  
5 Total fee paid:

- ☐ Fee paid previously with preliminary materials.  
☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1 Amount Previously Paid:

2 Form, Schedule or Registration Statement No.:

3 Filing Party:

4 Date Filed:

**CLAYTON HOMES, INC.**  
**"WE BUILD DREAMS"**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

Time: 10:30 a.m. EST, on Tuesday,  
October 30, 2001

Place: Clayton Homes Headquarters  
5000 Clayton Road  
Maryville, TN 37804

Items of  
Business: 1. To elect seven directors.  
2. To transact any other business properly  
brought before the meeting.

Who Can Vote: You can vote if you were a stockholder of  
record on August 15, 2001.

Annual Report: A copy of our 2001 Annual Report is  
enclosed.

Date of Mailing: This notice and the proxy statement are  
first being mailed to stockholders on or  
about September 21, 2001.

By Order of the Board of Directors Carl Koella, III, Secretary

## **ABOUT THE MEETING**

### **WHAT AM I VOTING ON?**

You will be voting to elect seven directors.

### **WHO IS ENTITLED TO VOTE?**

You may vote if you owned stock as of the close of business on August 15, 2001. Each share of common stock is entitled to one vote. As of August 15, 2001, we had 138,089,368 shares of common stock outstanding.

### **HOW DO I VOTE BEFORE THE MEETING?**

You have two voting options:

1. By mail by completing, signing and returning the enclosed proxy card, or
2. By telephone through calling the number shown on your proxy card.

If you hold your shares in the name of a bank or broker, whether you can vote by telephone depends on their voting processes. Please follow the directions on your proxy card carefully.

### **CAN I VOTE AT THE MEETING?**

You may vote your shares at the meeting if you attend in person. Even if you plan to attend the meeting, we encourage you to vote your shares by proxy. You may vote by proxy through the mail or by telephone.

### **CAN I CHANGE MY MIND AFTER I VOTE?**

You may change your vote at any time before the polls close at the meeting. However, you may only do this by (1) signing another proxy with a later date and returning it to the address on the proxy card before the meeting, (2) voting again by telephone before 10:30 a.m. on October 30, 2001, or (3) voting in person at the meeting.

### **WHAT IF I RETURN MY PROXY CARD BUT DO NOT PROVIDE VOTING INSTRUCTIONS?**

Proxies that are signed and returned but do not contain instructions will be voted by the person named in the enclosed proxy card "FOR" the election of the nominee directors.

### **HOW DO I VOTE IF I PARTICIPATE IN THE CLAYTON HOMES, INC. 401(K) RETIREMENT PLAN FOR CLAYTON HOMES, INC. TEAM MEMBERS?**

Shares credited to your Clayton Homes, Inc. 401(k) Retirement Plan are on your proxy card. You may vote your shares by mail or by telephone as described on the enclosed proxy card. If you also own stock in your name or through a broker, you will receive another card for those shares.

### **HOW DO I VOTE IF I PARTICIPATE IN THE DIVIDEND REINVESTMENT PLAN?**

The proxy card you have received includes your dividend reinvestment plan shares. You may vote your shares by mail, by telephone as described on the enclosed proxy card or at the meeting.

### **WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?**

It means that you have multiple accounts with brokers and/or our transfer agent. Please vote all of these shares. We recommend that you contact your broker and/or our transfer agent to consolidate as many accounts as possible under the same name and address. Our transfer agent is American Stock Transfer and Trust Company and may be reached by phone at 1-800-937-5449.

### **HOW CAN I ATTEND THE MEETING?**

The annual meeting is open to all holders of Clayton Homes, Inc. common stock. For directions to the meeting, please call our Investor Relations department at 865-380-3000. We look forward to having you at the meeting!

### **MAY STOCKHOLDERS ASK QUESTIONS AT THE MEETING?**

Yes. Representatives of the Company will answer stockholders' questions of general interest at the end of the meeting.



## **ABOUT THE MEETING**

### **HOW MANY VOTES MUST BE PRESENT TO HOLD THE MEETING?**

Your shares are counted as present at the meeting if you attend the meeting and vote in person or if you properly return a proxy by mail or telephone. In order for us to conduct the meeting, a majority of our outstanding shares of common stock as of August 15, 2001, must be present in person or by proxy at the meeting. This is referred to as a quorum.

### **HOW MANY VOTES ARE NEEDED TO ELECT DIRECTORS?**

The seven nominees receiving the highest number of "Yes" votes will be elected as directors. This number is called a plurality. Shares not voted, whether by marking "Abstain" on your proxy card, by broker non-vote (which is described above), or otherwise, will have no impact on the election of directors. Unless a properly executed proxy card is marked "Withhold Authority," the proxy given will be voted "FOR" the seven nominees for director.

### **ARE DISSENTERS' RIGHTS APPLICABLE TO ANY OF THE PROPOSALS?**

No, dissenters' rights do not apply to any of the proposals.

### **WILL MY SHARES BE VOTED IF I DO NOT PROVIDE MY PROXY?**

Your shares may be voted under certain circumstances if they are held in the name of a brokerage firm. Brokerage firms have the authority under the New York Stock Exchange rules to vote customers' unvoted shares, which are referred to as "broker non-votes," on certain "routine" matters, including the election of directors. Shares represented by broker non-votes are counted for purposes of establishing a quorum. At the meeting, shares represented by broker non-votes will be counted by the brokerage firm in the election of directors, but will not be counted on any other matters that are voted on because these other matters are not considered "routine" under the applicable rules. If you hold your shares directly in your own name, they will not be voted if you do not provide a proxy or attend the meeting and vote the shares yourself.

### **CAN MY SHARES BE VOTED ON MATTERS OTHER THAN THOSE DESCRIBED IN THIS PROXY?**

Yes. The Company has not received proper notice of, and is not aware of, any business to be transacted at the meeting other than as indicated in this proxy statement. If any other item or proposal properly comes before the meeting, the proxies received will be voted in accordance with the discretion of the proxy holders.

**PROPOSAL ONE:  
ELECTION OF DIRECTORS AND DIRECTOR BIOGRAPHIES**

**WHO ARE THIS YEAR'S NOMINEES?**

JAMES L. CLAYTON, 67, Director since 1967

- Founder and Chairman of the Board of Clayton Homes, Inc. since its inception in 1967
- Retired as Chief Executive Officer of Clayton Homes, Inc. in 1999
- Member of the Board of:
- Dollar General Corporation
- Chateau Communities, Inc.

B. JOE CLAYTON, 65, Director since 1967

- Chief Executive Officer of Clayton Automotive Group since its inception in 1961
- Member of the Regional Board of First Tennessee Bank

KEVIN T. CLAYTON, 38, Director since 1998

- Chief Executive Officer of Clayton Homes, Inc. since 1999
- President of Clayton Homes, Inc. since 1997
- President of Clayton Homes, Inc., Financial Services from 1995
- Other Clayton Homes, Inc. management positions from 1986 to 1995 (1)

DAN W. EVINS, 65, Director since 1991

- Co-founder and Chairman of the Board, CBRL Group, Inc. since its inception in 1970

WILMA H. JORDAN, 53, Director since 1994

- Co-founder and Chief Executive Officer, JEGI Capital since its inception in 1988

THOMAS N. MCADAMS, 48, Director since 1997

- Partner, Bernstein, Stair & McAdams LLP since 1982
- Member of the Board of Rafferty's, Inc.

C. WARREN NEEL, 64, Director since 1993

- Commissioner, Finance and Administration, State of Tennessee since 2000
- Dean of the College of Business Administration of the University of Tennessee from 1977 to 2000
- Member of the Board of:
- Sak's, Inc.
- American Healthways, Inc.

(1) Son of James L. Clayton and nephew of B. Joe Clayton.

**WE RECOMMEND THAT YOU VOTE FOR THE ELECTION OF THE DIRECTORS LISTED ABOVE.**



## **BOARD OF DIRECTORS INFORMATION**

### **WHAT IS THE MAKEUP OF THE BOARD OF DIRECTORS?**

The Company's bylaws allow for a maximum of eight directors. In the event that a nominee is unable to serve, the person designated as proxyholder for the Company will vote for the remaining nominees and for such other person as the Board of Directors may nominate.

### **HOW LONG WILL THIS YEAR'S NOMINEES SERVE?**

Each nominee will hold office until the 2002 annual meeting of stockholders and until their successors have been duly elected and qualified. All nominees are currently directors and have consented to serve if elected.

### **HOW ARE THE DIRECTORS COMPENSATED?**

Each director not employed by the Company receives an annual retainer of \$15,000; \$2,000 for each Board meeting and \$1,000 for each committee meeting attended; \$500 for each telephonic meeting; reimbursement for travel expenses to meetings; and may receive options to purchase common stock. In addition, the Chair of a Board committee receives an additional \$1,000 per year, per committee.

### **HOW OFTEN DID THE BOARD MEET IN FISCAL 2001?**

The Board of Directors met four times during the last fiscal year. Each of the directors attended at least 75% of the meetings of the Board.

### **WHAT ARE THE COMMITTEES OF THE BOARD?**

#### **AUDIT:**

Number of Meetings in Fiscal Year 2001: 2 Members:

- Dr. Warren Neel
- John J. Kalec
- Dan W. Evins Responsibilities:
  - Reviews and recommends to the Board of Directors the firm to be engaged as independent auditors.
  - Reviews with the selected accounting firm the prospective audit scope, external audit fees, and such other matters pertaining to such audit as the Committee may deem appropriate.
  - Inquires as to the adequacy of the Company's internal control procedures and makes recommendations to the Board.
  - Reviews with management and outside auditors the annual and quarterly financial statements prior to filing with the Securities and Exchange Commission.
  - Reviews the non-audit services performed by the independent auditors.
  - Reviews the scope and results of the Company's procedures for internal auditing.

#### **COMPENSATION:**

Number of Meetings in Fiscal 2001: 2 Members (all members are non-management directors):

- Dr. Warren Neel
- Wilma H. Jordan
- Thomas N. McAdams Responsibilities:
  - Reviews and recommends grants of stock awards pursuant to stock incentive plans
  - Reviews and recommends compensation of Directors and executive officers
  - Emphasizes the relationship between pay and performance by placing a significant portion of executive compensation at risk and subject to achievement of financial goals and other critical objectives.

## EXECUTIVE COMPENSATION

The following tables set forth the compensation earned by our Chief Executive Officer and other executive officers during the fiscal years 2001, 2000, and 1999:

NAME AND POSITION	FISCAL YEAR	COMPENSATION OF MANAGEMENT			
		ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS	
		SALARY	BONUS	OPTIONS (# OF SHARES) (1)	OTHER ANNUAL COMPENSATION (2)
Kevin T. Clayton Chief Executive Officer and President	2001	\$300,000	\$325,000	50,000	\$8,339
	2000	\$260,000	\$250,000	50,000	\$7,531
	1999	\$250,000	\$758,000	107,500	\$7,671
David M. Booth Executive Vice President President, Retail	2001	\$275,000	\$325,000	50,000	\$8,424
	2000	\$260,000	\$250,000	50,000	\$7,498
	1999	\$250,000	\$758,000	107,500	\$9,996
Richard D. Strachan Executive Vice President President, Manufacturing	2001	\$275,000	\$325,000	50,000	\$8,364
	2000	\$260,000	\$225,000	50,000	\$5,889
	1999	\$250,000	\$683,000	107,500	\$7,205
Allen Morgan Vice President and General Manager, Communities	2001	\$150,000	\$ 25,000	15,000	\$6,921
	2000	\$135,000	\$ 15,000	15,000	\$5,122
	1999	\$100,962	\$ 19,615	12,500	\$1,074
James L. Clayton Chairman of the Board Chief Legal Officer	2001	\$100,000	\$150,000	10,000	\$7,226
	2000	\$100,000	\$150,000	---	\$5,064
	1999	\$275,000	\$833,000	120,000	\$7,800

(1) Adjusted for applicable stock split.

(2) Represents Company contributions and reallocated forfeitures in the Company's 401(k) Plan, health, life and disability insurance premiums.

### OPTION GRANTS IN LAST FISCAL YEAR

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (10 YEARS)*	
					5% (\$)	10% (\$)
Kevin T. Clayton	50,000	5.70%	\$9.31	11/1/10	\$814,811	\$1,573,181
David M. Booth	50,000	5.70%	\$9.31	11/1/10	\$814,811	\$1,573,181
Richard D. Strachan	50,000	5.70%	\$9.31	11/1/10	\$814,811	\$1,573,181
Allen Morgan	15,000	1.71%	\$9.31	11/1/10	\$244,443	\$ 471,954
James L. Clayton	10,000	1.14%	\$9.31	11/1/10	\$162,962	\$ 314,636

\* All such options were granted on November 1, 2000. These amounts represent assumed rates of appreciation only. Actual gains, if any, on stock option exercises are dependent on future performance of our stock. There can be no assurance that the amounts reflected in these columns will be achieved or, if achieved, will exist at the time of any option exercise. We believe that placing a current value on outstanding options is highly speculative and may not represent the true benefit, if any that may be realized by the grantee.

### AGGREGATED OPTION EXERCISES IN THE LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END (1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Kevin T. Clayton	---	---	176,022	328,750	\$ 964,840	\$---
David M. Booth	---	---	254,217	328,750	\$1,607,028	\$---
Richard D. Strachan	---	---	75,233	327,188	\$ 307,204	\$---
Allen Morgan	---	---	8,000	34,500	\$ 38,135	\$---
James L. Clayton	---	---	192,634	137,813	\$ 962,253	\$---

(1) Market value of underlying securities at June 29, 2001 minus exercise price.



## **COMPENSATION COMMITTEE REPORT**

### **WHAT IS THE PHILOSOPHY OF EXECUTIVE COMPENSATION?**

To structure and administer executive compensation in a way that individual compensation is largely dependent on the Company's performance. The compensation plan for executives incorporates three elements:

- Annual Base Salary
  - Performance based annual bonus
  - Long-term stock incentive compensation
- The variable components of the compensation programs are designed to attract and motivate results-oriented people to achieve higher levels of performance while focusing on the goals of the Company and its shareholders.

### **HOW ARE THE BASE SALARY AMOUNTS DECIDED?**

Company executives, including the Chief Executive Officer, receive base salaries, which are intended to support minimal managerial lifestyles.

### **HOW ARE STOCK OPTIONS GRANTED?**

Stock options are granted to executive officers and other employees at the fair market value of the Common Stock on the date of grant and become vested over a specified period of employment. The number of shares granted is based upon the Company's performance based on the overall industry and economic environment, the achievement of Earnings Per Share (EPS) growth targets and individual performance in the previous year.

### **HOW ARE THE BONUS AMOUNTS DECIDED?**

The key components in determining bonus amounts include the financial performance of the Company based on the overall industry and economic environment, and the percentage increase in EPS over the prior year. Adjustments to the bonus program to reflect individual performance are made annually. The fact that a significant portion of the compensation paid to the Company's executive officers is based upon increases in EPS helps ensure that the Chief Executive Officer and other members of management are sensitized to the needs and desires of stockholders. The members are Dr. Warren Neel, Wilma Jordan and Tom McAdams.

## **AUDIT COMMITTEE REPORT AND AUDIT FEES**

### **WHO SERVES ON THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS?**

The members of the committee were Dr. Warren Neel, Dan W. Evins, and John J. Kalec. Dr. Warren Neel and Dan W. Evins are independent under the rules of the New York Stock Exchange. John J. Kalec who served as the Company's CFO from August 1996 until August 1998, received a waiver from the Board to serve on the committee due to his financial expertise and the best interests of the Company. Wilma H. Jordan replaced John J. Kalec on July 24, 2001.

### **WHAT DOCUMENT GOVERNS THE ACTIVITY OF THE AUDIT COMMITTEE?**

The Audit Committee acts under a written charter, which sets forth its responsibilities and duties, as well as requirements for the committees' composition and meetings. A copy of the Audit Committee Charter is attached as Appendix I.

### **WHAT ACTION HAS THE AUDIT COMMITTEE TAKEN?**

The Audit Committee has:

- Reviewed and discussed the audited financial statements with the Company's management.
- Discussed with PricewaterhouseCoopers LLP (PwC), independent accountants for the Company, the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended.
- Received from PwC the written disclosures and the letter required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and the committee has discussed with PwC that firm's independence.
- Recommended to the Board of Directors of the Company that the audited consolidated financial statements for the Company be included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, for filing with the SEC.
- Reviewed the programs and results of the Company's internal audit department.

## AUDIT COMMITTEE REPORT AND AUDIT FEES CONTINUED . . .

### WHO HAS PREPARED THIS REPORT?

This report has been furnished by the members of the Audit Committee:

- Dr. Warren Neel
- Dan W. Evins
- John J. Kalec

### AUDIT FEES

Fees for the fiscal year 2001 audit, including reviews of financial statements included in Forms 10-Q, totaled approximately \$182,000. There were no fees incurred related to financial information systems design and implementation. All other fees, principally securitization, tax planning and other services, totaled approximately \$73,000. The Company's Audit Committee determined that PwC's provision of services for all non-audit fees in 2001 was compatible with maintaining PwC's independence.

### STOCK OWNERSHIP

These tables depict how much of the Company's common stock is owned by directors, executive officers and owners of more than 5% of the Company's common stock as of August 15, 2001:

#### SECURITY OWNERSHIP OF DIRECTORS AND OFFICERS

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED (1)	RIGHT TO ACQUIRE (2)	PERCENT OF CLASS
-----			
James L. Clayton (3)	37,444,007	192,634	27.3%
B. Joe Clayton	133,487	14,718	*
Kevin T. Clayton (4)	701,050	176,022	*
Dan W. Evins	69,520	62,399	*
Wilma H. Jordan	13,882	29,064	*
John J. Kalec	1,256	2,700	*
Thomas N. McAdams	3,481	4,450	*
C. Warren Neel	4,587	37,607	*
David M. Booth	16,643	254,217	*
Richard D. Strachan	4,549	75,233	*
Allen Morgan	848	8,000	*
All Directors and Executive Officers as a Group (13 persons)	38,396,317	877,980	28.4%
-----			

\*Less than 1%

(1) These amounts include shares for which the named person has sole voting and investment power or shares such powers with his or her spouse. They also include shares credited to the named person's account under the 401(k) Plan, in the following amounts:

- James L. Clayton - 12,193
- Kevin T. Clayton - 6,580
- David Booth - 6,537
- Richard D. Strachan - 3,136
- Allen Morgan - 723
- All executive officers as a group (7)- 31,817

(2) These amounts reflect shares that could be purchased on exercise of stock options as of August 15, 2001 under stock incentive plans.

(3) Includes 1,230,161 shares held by the Clayton Family Foundation, a non-profit corporation, of which James L. Clayton is director and president.

(4) Includes 450,923 shares held in trust in which Kevin T. Clayton is a trustee, but not a beneficiary; includes 6,100 shares held in trust of which Kevin T. Clayton is a trustee and beneficiary; does not include 1,230,161 shares held by the Clayton Family Foundation of which Kevin T. Clayton is a director.

# PRINCIPAL STOCKHOLDERS

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
James L. Clayton P.O. Box 15169 Knoxville, TN 37901	37,636,641 (1)	27.3%
Pioneer Investment Management Corp. 60 State Street Boston, MA 02109	8,184,000 (2)	6.4%
FMR Corp. (Fidelity Management) 1 Federal St Boston, MA. 02110	7,600,200 (3)	5.5%
Citigroup Inc. 399 Park Avenue New York, NY 10043	7,002,842 (4)	5.1%

(1) See table "Security Ownership of Directors and Officers."

(2) As reported in Schedule 13F filed August 13, 2001.

(3) Holdings as of June 30, 2001 per FMR Corp.

(4) As reported in Schedule 13G filed February 20, 2001.

## STOCK PERFORMANCE GRAPH

This graph compares our total stockholder returns (assuming reinvestment of dividends) with Standard & Poor's Midcap 400 composite stock price index, and a "peer group" comprised of the following companies: Cavalier Homes, Inc., Champion Enterprises, Inc., Fleetwood Enterprises, Inc., Liberty Homes, Inc., Oakwood Homes Corporation, and Skyline Corporation.

### [GRAPHIC OMITED]

	1996	1997	1998	1999	2000	2001
	-----	-----	-----	-----	-----	-----
Clayton Homes	100.00	90.32	119.88	90.67	63.88	126.19
S&P MIDCAP 400	100.00	123.33	156.82	183.75	214.94	235.03
Peer Group	100.00	95.56	138.58	84.39	31.92	43.10

## **GENERAL**

### **COMPENSATION COMMITTEE INSIDER PARTICIPATION**

None of the members of the Compensation Committee were officers or employees of the Company or had any relationship with the Company requiring disclosure under applicable SEC regulations during fiscal year 2001.

### **INSIDER TRANSACTIONS**

The Company maintains an agreement to purchase certain installment contract receivables from a business venture in which the Company has a 50% equity interest, and Kevin T. Clayton is a director. The remaining 50% equity interest is owned by unrelated parties.

The Company's primary counsel is Bernstein, Stair & McAdams LLP, of which one of our directors, Thomas N. McAdams, is a partner. During fiscal 2001, payments to Bernstein, Stair & McAdams LLP from the Company did not exceed 5% of the gross revenues of Bernstein, Stair & McAdams LLP.

### **COMPLIANCE WITH SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING REQUIREMENTS**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers ("reporting persons") to file initial reports of ownership of common stock and reports of changes in ownership with the SEC. The Company assists its executive officers and directors in completing and filing those reports. The Company believes that during the last fiscal year all filing requirements applicable to its executive officers and directors were met.

### **INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

PwC was our auditor during fiscal 2001. Representatives from the firm will be present at our annual meeting and will be available to respond to appropriate questions.

### **AVAILABILITY OF FORM 10-K AND ANNUAL REPORT TO STOCKHOLDERS**

The Company will provide without charge, at the written request of any stockholder of record on August 15, 2001, a copy of the Company's Annual Report on Form 10-K, including the financial statements and financial statement schedules, as filed with the SEC, except exhibits thereto. The Company will provide copies of the exhibits, should they be requested by eligible shareholders, and the Company may impose a reasonable fee for providing such exhibits. Requests for copies of the Company's Annual Report on Form 10-K should be mailed to:

**CLAYTON HOMES, INC.**  
Box 15169  
Knoxville, Tennessee 37901

Attention: Investor Relations

### **STOCKHOLDER PROPOSALS**

Any stockholder proposals intended to be presented at the Company's 2002 Annual Meeting of Stockholders must be received by the Company at its corporate offices no later than May 31, 2002, in order to be considered by the Board of Directors for inclusion in the Proxy Statement and form of proxy relating to such meeting.

### **OTHER MATTERS**

The Board of Directors knows of no other matters to be brought before our annual meeting. However, if any other matter properly comes before the meeting or any adjournment thereof, it is intended that the person named in the enclosed Proxy will vote such Proxy on such matter in accordance with his best judgement.

### **SOLICITATION BY BOARD; EXPENSES OF SOLICITATION**

Our Board of Directors has sent you this proxy. Proxies may be solicited by directors, officers, or employees of the Company who will receive no additional compensation thereof. The cost of soliciting proxies, including preparation, printing, and mailing of the Proxy Statement, will be borne by the Company. The Company will reimburse brokers, custodians, and other nominees to send proxies and proxy materials to our stockholders so they can vote their shares.

## **APPENDIX I**

### **AUDIT COMMITTEE CHARTER**

#### **PURPOSE**

To assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, and the audit process. While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. This is the responsibility of management and the outside auditors.

#### **MEMBERSHIP**

The Audit Committee will consist of at least three directors all of whom in the judgment of the Board of Directors shall be independent. Each member shall in the judgment of the Board of Directors have the ability to read and understand the Company's basic financial statements or shall at the time of appointment undertake training for that purpose. At least one member shall have accounting or financial management expertise. The Board of Directors will appoint Committee members and the Committee chair.

#### **MEETINGS**

The Committee will meet at least two times annually, or more frequently as the Committee may determine.

#### **RESPONSIBILITIES**

1. Review with members of the public accounting firm selected as outside auditors for the Company, the scope of the prospective audit, the estimated fees, and such other matters pertaining to such audit as the Committee may deem appropriate. Review with management the extent of non-audit services to be provided by the outside auditors, in relation to the objectivity needed in the audit. Review with the outside auditors any questions, comments or suggestions they may have relating to the internal controls, accounting practices or procedures of the Company or its subsidiaries. Receive from the outside auditors the report required by Independence Standards Board Standard No. 1 as in effect at that time. Discuss with the outside auditors any potential impact to their objectivity and independence, and make any necessary recommendations to the board of directors.
2. Review annually the public accounting firm to be outside auditors for the Company, set their compensation, and recommend their approval by the Board of Directors. If circumstances warrant, approve any discharge of the outside auditors.
3. Review with management and the outside auditors the annual and quarterly financial statements of the Company prior to the filing of a report on Form 10-K or 10-Q with the Securities and Exchange Commission. The review is to encompass significant transactions not a normal part of the Company's operations, material changes in accounting principles or practices, and significant adjustments proposed by the outside auditors. The Audit Committee, or the chair of the Audit Committee as representative of the entire Audit Committee, shall communicate with the outside auditors quarterly, prior to the release of quarterly earnings to the public and filing of Form 10-Q, if practical, regarding the results of their interim financial review.
4. Review the audit process with management and the outside auditors, upon completion of their annual audit. Such review will include an evaluation of the cooperation received by the outside auditors; any disagreements with management which, if not satisfactorily resolved, would have caused them to modify their report on the financial statements; and management's comments regarding the audit. Review the outside auditor's required communication of any material weaknesses in internal controls, and assess the adequacy of management's corrective actions.
5. Review at least annually the programs of the Company's internal audit department, receive summaries of all audit reports issued by internal audit, and review the significant matters contained in such reports.
6. Review the effects of any important new pronouncements of the accounting profession and other regulatory bodies on the Company's accounting and reporting policies.
7. Review and assess the adequacy of the Audit Committee charter annually, submit it to the Board of Directors for approval, and have the document published in accordance with Securities and Exchange Commission regulations.

#### **REPORT**

The Audit Committee shall prepare a report to shareholders as required by the rules of the Securities & Exchange Commission to be included in the Company's annual Proxy Statement.



**CLAYTON HOMES, INC.**

BOX 15169, Knoxville, TN 37901  
TEL 865.380.3000 FAX 865.380.3750

Internet:www.clayton.net e-mail:info@clayton.net Human resources:careers@clayton.net

**Appendix A**

**CLAYTON HOMES, INC.**

**PROXY**

**THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS**

The undersigned hereby acknowledges receipt of the Notice of Annual Meeting of Shareholders on October 30, 2001, and related Proxy Statement, and appoints Rebecca Hoag the true and lawful agent and proxy of the undersigned (the "Proxy"), having full power of substitution, to represent the undersigned and to vote all shares of Clayton Homes, Inc., owned and held by the undersigned, or which the undersigned would be entitled to vote if personally present at the Annual Meeting of Shareholders of Clayton Homes, Inc., to be held at the Clayton Homes Headquarters, 5000 Clayton Road, Maryville, TN 37804 at 10:30 a.m. EST, October 30, 2001, or any adjournment thereof.

(CONTINUED AND TO BE SIGNED ON REVERSE SIDE.)

**[SEE REVERSE SIDE]**

[X] Please mark your  
votes as in this  
example

	FOR	WITHHOLD AUTHORITY			FOR	AGAINST	ABSTAIN	
(1) ELECTION OF DIRECTORS	[ ]	[ ]	NOMINEES:	James L. Clayton	(2) IN THEIR DISCRETION, THE	[ ]	[ ]	[ ]
				B. Joe Clayton	PROXY IS AUTHORIZED TO			
				Kevin T. Clayton	VOTE UPON SUCH BUSINESS			
FOR, except vote withheld from the				Dan W. Evins	AS MAY COME BEFORE THE			
following nominees				Wilma H. Jordan	MEETING.			
-----				Thomas N. McAdams				
				C. Warren Neel	PLEASE CHECK BOX IF YOU PLAN			[ ]
					TO ATTEND THE ANNUAL MEETING			
					IN PERSON.			

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER HEREIN DIRECTED BY THE UNDERSIGNED SHAREHOLDER. IF NO PROPOSAL IS MADE, THE SHARE(S) REPRESENTED BY THIS PROXY WILL BE VOTED FOR PROPOSALS 1 AND 2.

**PLEASE MARK, SIGN, DATE AND RETURN THE PROXY  
CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**

Signature(s) \_\_\_\_\_ Dated: \_\_\_\_\_, 2001 NOTE: Please sign exactly as name appears hereon.  
Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such.

**End of Filing**

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