

AT A GLANCE

BUSINESS: Homebuilding/industrial conglomerate

FOUNDED: 1946

HEADQUARTERS: Tampa, Fla.

CHAIRMAN, PRESIDENT, CEO: Don DeFosset

2001 REVENUES: \$1.9 billion

2001 NET INCOME: \$43.2 million
(\$0.95/share), up 67% from previous year

**2001 FREE CASH FLOW
FROM OPERATIONS:** \$108 million

EMPLOYEES: 6,450*

STOCK: WLT, New York Stock Exchange

SHARES OUTSTANDING: 44.2 million*

MARKET CAPITALIZATION: \$561 million*

DEBT/CAPITALIZATION: 41%*

**as of 3/12/02*

OPERATING SEGMENTS

HOMEBUILDING

Jim Walter Homes, includes Dream Homes,
Neatherlin Homes and Crestline Homes

FINANCING

Mid-State Homes
Walter Mortgage Company
Best Insurors
Cardem Insurance

INDUSTRIAL PRODUCTS

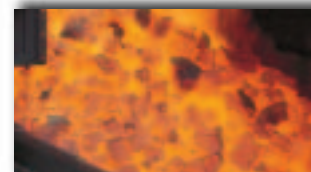
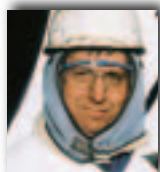
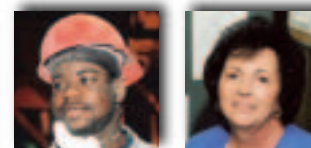
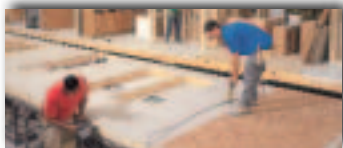
U.S. Pipe
JW Aluminum

CARBON AND METALS

Applied Industrial Materials Corporation (AIMCOR)
Sloss Industries

NATURAL RESOURCES

Jim Walter Resources



Consolidated Financial Highlights

CONSOLIDATED RESULTS

(\$ in thousands, except share and employee amounts)

FOR THE YEARS ENDED

	December 2001	(7 months) December 2000	May 2000	May 1999	May 1998
Net sales and revenues	\$ 1,921,942	\$ 1,187,915	\$ 1,904,908	\$ 1,900,107	\$ 1,830,272
EBITDA (a)	225,512	104,251	201,951	237,349	253,181
Segment operating income (loss)	143,812	62,128	(57,773)	94,012	140,013
Income (loss) before extraordinary item	43,250	3,186	(111,003)	22,224	50,318
Extraordinary items, net of tax	—	—	—	—	(2,663)
Net income (loss)	43,250	3,186	(111,003)	22,224	47,655
Diluted EPS before extraordinary items	0.95	0.07	(2.28)	0.43	0.93
Extraordinary items, net of tax	—	—	—	—	(0.05)
Diluted EPS	0.95	0.07	(2.28)	0.43	0.88
Average shares outstanding	45,293,000	46,454,000	48,744,000	51,745,000	54,383,000
BALANCE SHEET					
Total assets	\$ 3,317,879	\$ 3,340,193	\$ 3,448,334	\$ 3,655,205	\$ 3,861,966
Total recourse debt	308,500	411,500	495,400	555,200	595,250
Stockholders' equity	440,651	425,451	436,627	578,953	608,495
CASH FLOWS					
Cash flows from operations	\$ 149,349	\$ 144,485	\$ 140,256	\$ 319,220	\$ 181,904
Cash flows used in investing	(82,916)	(47,261)	(80,262)	(89,123)	(492,477)
Cash flows used in financing	(66,309)	(113,018)	(72,800)	(243,676)	329,111
OTHER					
Capital expenditures	\$ 76,874	\$ 49,555	\$ 81,995	\$ 83,057	\$ 107,553
Employees (all operations)	6,535	6,960	7,261	7,683	8,067
Book value per share	\$ 9.73	\$ 9.16	\$ 8.96	\$ 11.19	\$ 11.19

(a) Earnings before interest, taxes, depreciation, amortization, non-cash OPEB and non-cash impairment charges.



ABOUT THE COVER:

The cover illustration, which depicts employees working in each of Walter Industries' operating segments, was created by Russ Kramer, a nationally recognized illustrator based in Tampa, Florida. Russ drew inspiration for the art from public murals commissioned by the U.S. Works Progress (later Work Projects) Administration, known as the WPA, during the 1930s.

Quarterly Highlights

FISCAL YEAR 2001

(in thousands, except per share amounts)	Quarter ended			
	Mar. 31	June 30	Aug. 30	Dec. 31
Net sales and revenues	\$ 464,438	\$ 517,688	\$ 495,449	\$ 444,367
Gross profit	79,955	87,653	83,440	82,671
Net income	<u>5,427</u>	<u>14,331</u>	<u>11,193</u>	<u>12,299</u>
Diluted earnings per share*	<u>\$ 0.12</u>	<u>\$ 0.32</u>	<u>\$ 0.25</u>	<u>\$ 0.26</u>

7 MONTHS – DECEMBER 2000

(in thousands, except per share amounts)	Three Months Ended	Four Months Ended
	Aug. 31	Dec. 31
Net sales and revenues	\$ 514,347	\$ 673,568
Gross profit	81,235	115,471
Net income (loss)	<u>(599)</u>	<u>3,785</u>
Diluted earnings per share**	<u>\$ (0.01)</u>	<u>\$ 0.08</u>

FISCAL YEAR 2000

(in thousands, except per share amounts)	Quarter ended			
	Aug. 31	Nov. 30	Feb. 29	May 31
Net sales and revenues	\$ 457,322	\$ 486,921	\$ 449,590	\$ 511,075
Gross profit	87,023	84,565	79,140	78,369
Net income (loss)	<u>9,722</u>	<u>7,501</u>	<u>2,158</u>	<u>(130,384)</u>
Diluted earnings per share**	<u>\$ 0.19</u>	<u>\$ 0.15</u>	<u>\$ 0.04</u>	<u>\$ (2.67)</u>

FISCAL YEAR 1999

(in thousands, except per share amounts)	Quarter ended			
	Aug. 31	Nov. 30	Feb. 28	May 31
Net sales and revenues	\$ 486,252	\$ 513,080	\$ 414,419	\$ 486,356
Gross profit	73,739	83,692	65,797	98,241
Net income (loss)	<u>3,423</u>	<u>17,255</u>	<u>(12,900)</u>	<u>14,444</u>
Diluted earnings per share**	<u>\$ 0.06</u>	<u>\$ 0.34</u>	<u>\$ (0.25)</u>	<u>\$ 0.28</u>

* Basic EPS was \$0.96 for 2001.

** Basic EPS is equivalent to diluted earnings per share in stated reporting period.

SAFE HARBOR STATEMENT

Except for historical information contained herein, the statements in this annual report are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to differ materially from forecasted results. Those risks include, among others, the ability to restore operations in the mine affected by the third-quarter 2001 mining accident, the ultimate outcome with respect to recovery of related insurance proceeds, changes in customers' demand for the Company's products, changes in raw material and equipment costs and availability, changes in customer orders, pricing actions by the Company's competitors, and general changes in economic conditions. Risks associated with forward-looking statements are more fully described in the Company's filings with the Securities and Exchange Commission.



At Walter Industries, Inc., we have made a Commitment to Excellence. Our goals are to keep building a foundation for growth as we increase productivity, empower employees at all levels of the Company, and aggressively seek out new markets for our products.

VISION STATEMENT

WALTER INDUSTRIES, INC.'S BUSINESSES ARE GLOBAL AND DIVERSIFIED, YET UNIFIED IN THEIR GOALS OF PROVIDING QUALITY PRODUCTS AND SERVICES THAT EXCEED THEIR CUSTOMERS' EXPECTATIONS, INCREASING SHAREHOLDER VALUE AND CREATING AN ENVIRONMENT WHERE EMPLOYEES THRIVE AND GROW.

CORE VALUES

CUSTOMER COMMITMENT
 HIGH-PERFORMANCE CULTURE
 FLEET OF FOOT
 INNOVATION
 ACCOUNTABILITY
 INTEGRITY
 RESPECT FOR OTHERS
 TEAMWORK





WALTER INDUSTRIES' SENIOR MANAGEMENT TEAM

Front row, left to right: **Bill Ohrt**, Executive VP and Chief Financial Officer; **Don DeFosset**, Chairman, President and Chief Executive Officer; **Tony Hines**, Senior VP, Operations and interim President of U.S. Pipe.

Second row, left to right: **Red Fifield**, Executive VP; **Joe Troy**, Senior VP, Treasurer; **Bonnie VanOverbeke**, Chief Information Officer; **George Richmond**, President and Chief Operating Officer of Jim Walter Resources.

Back row, left to right: **Ed Porter**, Senior VP, General Counsel and Secretary; **Mike Roberts**, President of Jim Walter Homes; **Gerry Sweeney**, President and Chief Executive Officer of AIMCOR; **Charles Cauthen**, Senior VP, Controller; **Larry Williams**, Senior VP, Human Resources.

TO OUR SHAREHOLDERS:

Last year's annual report unveiled a number of goals we established for Walter Industries to unlock shareholder value. So how did we do on those goals in 2001? By most counts, very well.

▲ We **reduced operating costs** and **improved productivity**, posting \$49 million of productivity improvements for the year.

▲ Despite the recession, we dramatically **grew earnings** — EPS of \$0.95 per share in 2001 was up 67 percent from the previous year's \$0.57 per share.

▲ We **maximized cash flow**, driving \$108 million in free cash during 2001.

▲ As for **simplifying the Company's business mix**, we fell short of our goals. With the economic downturn, it was not a good environment for divestitures. And with our strong balance sheet and healthy cash flow, we decided early on that we would not give businesses away. Still, simplifying the Company's business mix remains a priority.

While 2001 was a good start, we still have a long way to go, and there are major opportunities ahead to further unlock value for

our shareholders. Now, we're ready to take the next major steps, and we remain confident that the Company will continue to progress.

Our 2002 plans call for accelerating our growth. One example: our Homebuilding business has a goal of doubling its business in the next three to five years. We will keep working

to simplify our business mix. And we'll build on the efforts we started in 2001, continuing to make productivity gains and increasing our earnings as we meet our financial projections.



The "Commitment to Excellence" program is taking hold throughout Walter Industries.

Commitment to Excellence

A year ago, I conducted a series of meetings with employees around the Company to hear their concerns first-hand. Again and again, I heard the same comment: "We don't have a sense of where the Company is going, and there are no clear expectations set for my own performance."

That has changed.

In 2001, we drew a road map for the future called "Commitment to Excellence," consisting of

vision, values, strategy and operational excellence.

Commitment to Excellence is not the “flavor of the month” with happy talk and no action. It’s an ongoing process to bring about lasting change in our behaviors that focuses on improving performance. This initiative is already showing results.

The program draws from our vision — to provide quality products and services that exceed our customers’ expectations, while increasing shareholder value and providing an environment where our employees can thrive.

From there, we draw on our core values and expected leadership behaviors, which describe a Company with a high-performance culture where employees are team players who exemplify innovation and accountability.

Over the past year, we completely revamped our strategic planning process, performance appraisals and incentive compensation programs by setting tangible, aggressive goals and rewarding people for meeting those goals. The in-depth strategic plans prepared by our subsidiaries are driven by the strategic issues for each business, as well as by candid assessments

SEGMENT PROFILE: HOMEBUILDING



Main businesses: Jim Walter Homes, Dream Homes, Neatherlin Homes, Crestline Homes

Revenues: \$237.6 million
(12.4% of Walter Industries’ total)

EBITDA: \$17.2 million
(7.8% of Walter Industries’ total)

Homes built in 2001: 4,021

Average price: \$59,103

What we do: Jim Walter Homes, including its affiliated builders Dream and Neatherlin, is the nation’s largest builder of on-your-lot single-family homes, with more than 100 display parks throughout the South. Crestline Homes, based in Laurinburg, North Carolina, produces modular homes for a five-state area.

Where we’re going: Expanding Neatherlin and Dream Homes, and moving into spec homes and subdivisions in 2002; using new land/home financing program through Walter Mortgage Company to grow the business.

of our markets and competitive positions.

The third part of the program is operational excellence. In 2001, we successfully battled the recession by reducing inventory, trimming our workforce and being more productive. The result was \$49 million in productivity improvements at Walter Industries during the year.

A key factor in our ongoing productivity improvement is our Six Sigma program. So far, we have trained 70 “black belts” and “green belts” who analyze ways to improve our processes, both transactional and operational.

There are many examples of Six Sigma

successes throughout Walter Industries. Here are just a few:

▲ At Jim Walter Resources, we are saving an estimated \$600,000 a year by reducing the time our longwall coal mining machines are down for maintenance by 50%.

▲ In our Homebuilding group, we analyzed what the optimum number of homes should be in our display home parks. We found that it takes no more than four models in a park to produce a peak level of sales. By reducing the number of models in many of our parks, we will save \$200,000 a year.

SEGMENT PROFILE: FINANCING

Main businesses: Mid-State Homes, Walter Mortgage Company, Best Insurors, Cardem Insurance

Revenues: \$240.1 million
(12.5% of Walter Industries' total)

EBITDA: \$56.4 million
(25.5% of Walter Industries' total)

Number of accounts: 57,000

Portfolio size: \$1.7 billion

What we do: Mid-State, based in Tampa, provides servicing for the Homebuilding segment's buyers. Walter Mortgage Company, a Fort Worth, Texas-based division launched in 2001, is offering new types of mortgage lending to our homebuyers.

Where we're going: Walter Mortgage Company is offering land/home financing and also offers refinancing for existing Mid-State Homes customers. The new types of financing will help the Homebuilding group drive sales, and improve overall customer retention.



▲ And at U.S. Pipe, we were producing pipe that was often above standard weight, resulting in waste. Six Sigma projects that are addressing that issue by reducing the amount of molten iron we use are already saving us more than \$300,000 a year.

Going forward, the Six Sigma program will help us reach our annual goal of a 5% gain in productivity within each business. And just as important, it reinforces our values and leadership behaviors — challenging the ways of the past and creating innovative ways to improve our performance.

Outlook for 2002

Without the major improvements in productivity we achieved in 2001, the Company would not have met its financial objectives. We face similar challenges in 2002, but we are well positioned to meet our projections and take advantage of our lower cost base as the economy rebounds.

A look at our prospects by business segment:

▲ Two of our core businesses, **Homebuilding** and **Financing**, offer our greatest organic growth opportunities. We established Walter Mortgage

SEGMENT PROFILE: INDUSTRIAL PRODUCTS



Main businesses: U.S. Pipe, JW Aluminum

Revenues: \$716.4 million
(37.3% of Walter Industries' total)

EBITDA: \$99.0 million
(44.8% of Walter Industries' total)

What we do: U.S. Pipe, based in Birmingham, Alabama, is one of the nation's largest domestic producers of ductile iron pipe, selling to municipalities and contractors. JW Aluminum, based in Mount Holly, South Carolina, manufactures specialty aluminum products, including "fin stock" for the heating and cooling industry.

Where we're going: U.S. Pipe has good growth potential as the nation replaces aging water infrastructure, and is pursuing new markets for its products. At JW Aluminum, we are also widening our scope and continuing to expand into more value-added products and new markets.

Company last year to offer land/home financing, allowing us to move beyond our tradition of only selling to customers who own their lots free and clear. We plan to maintain our strong position in the “on your lot” business, but this year we are also launching a major new initiative in the affordable housing sector — building subdivisions and starting a limited program of selling spec homes.

Subdivisions offer significant ways for us to cut costs in our homebuilding operations. Instead of having spread-out job sites where construction managers and contractors are

driving miles from one site to another, we can supervise work in one consolidated area and more efficiently deliver supplies. Our new subdivisions, which largely will be built on land we already own, also provide the opportunity for highly effective marketing programs.

▲ The national recession is posing a significant challenge to our **Industrial Products** segment, where both U.S. Pipe and JW Aluminum have seen sharp declines in demand. For the coming year, we expect markets to be slightly down for both U.S. Pipe and JW Aluminum, but expect profitability to be in 2001’s range as we continue

SEGMENT PROFILE: CARBON AND METALS

Main businesses: Applied Industrial Materials Corporation (AIMCOR), Sloss Industries

Revenues: \$486.3 million
(25.3% of Walter Industries’ total)

EBITDA: \$34.0 million
(15.4% of Walter Industries’ total)

Petroleum coke sold in 2001: 4.9 million tons

What we do: Stamford, Connecticut-based AIMCOR markets and distributes petroleum coke and related carbon products and services, and also supplies ferroalloys and other related steel and foundry products. Sloss, based in Birmingham, Alabama, manufactures foundry and furnace coke, slag wool products and specialty chemicals.

Where we’re going: AIMCOR, which has won several significant contracts in the past year, is working to grow its business by offering more services to the global oil refining industry. Sloss is increasing productivity and finding new markets for its products.



to enhance productivity and pursue new markets for our products.

▲ In the **Carbon and Metals** segment, we expect volumes at AIMCOR to be consistent with 2001, but due to renegotiated contracts with refineries, our margins will decline. AIMCOR is working to increase volume, particularly by offering more services such as in-refinery handling of petroleum coke. Sloss, meanwhile, continues to be hurt by the downturn in the U.S. steel blast furnace industry, the principal market for coke.

▲ Our **Natural Resources** segment should

continue its trend of cost-per-ton productivity gains, which will help improve coal-mining margins. Coal prices, which increased by 35% to 55% for JWR in 2001, should remain steady in 2002. The higher coal prices should offset the impact of lower natural gas prices, which have decreased from 2001's record levels.

Wrapup

In many ways, 2001 was a challenge. The nation's economy declined further after the September 11 attacks on our country, and just 12 days later, a tragedy struck our Jim Walter

SEGMENT PROFILE: NATURAL RESOURCES

Main business: Jim Walter Resources

Revenues: \$253.7 million
(13.2% of Walter Industries' total)

EBITDA: \$44.8 million
(20.3% of Walter Industries' total)

Coal sold in 2001: 5.9 million tons

Natural gas sold in 2001: 9.7 billion cubic feet (BCF)

What we do: Jim Walter Resources operates three deep-shaft mines in Brookwood, Alabama, which produce steam and metallurgical coal. Its de-gas division extracts and sells natural gas.

Where we're going: JWR continues to dramatically increase productivity, which has helped it take advantage of strong pricing for coal. As demand for electricity continues to grow, electric utilities continue to see coal as a desirable fuel for power plants.



Resources subsidiary in Brookwood, Alabama. Thirteen coal miners died at Mine No. 5, the result of an explosion that occurred as 12 men heroically attempted to rescue an injured co-worker.

We salute the brave men who died in the accident; the tireless mine rescue workers who completed the recovery efforts, and the perseverance of all of the employees at Jim Walter Resources in the face of this adversity. We expect the mine to resume normal operations during the first half of 2002.

As for the year ahead, we expect to see improved results in 2002, as our continued productivity improvements and aggressive efforts to find new markets for our products and services position us well for an economic rebound.

CORPORATE DIRECTORY

and Stockholder Information

OFFICERS

Don DeFosset
Chairman, President
and Chief Executive Officer

Ralph E. Fifield
Executive Vice President

William F. Ohrt
Executive Vice President
and Chief Financial Officer

Charles E. Cauthen
Senior Vice President, Controller

Anthony L. Hines
Senior Vice President, Operations
Interim President, U.S. Pipe

Edward A. Porter
Senior Vice President,
General Counsel and Secretary

Joseph J. Troy
Senior Vice President, Treasurer

Larry E. Williams
Senior Vice President, Human Resources

Kimberly A. Perez
Vice President, Corporate Accounting

Michael J. Blackburn
Vice President, Benefits

Cynthia B. Eisch
Assistant Controller; Tax Director

Kathy H. Love
Assistant Controller;
Director of Operations Audit

Mary C. Snow
Assistant General Counsel;
Assistant Secretary

Miles C. Dearden
Assistant Treasurer

Joseph W. Spransy
Assistant Secretary

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
101 E. Kennedy Blvd.
Suite 1500
Tampa, Florida 33602

BOARD OF DIRECTORS

Don DeFosset
Chairman, President and Chief Executive
Officer, Walter Industries, Inc. (7)

Robert F. Amter
Chief Executive Officer, Amter &
Associates (1,2,4)

Donald N. Boyce
Retired Chairman and CEO, IDEX
Corporation (3,5,6,7)

Howard L. Clark, Jr.
Vice Chairman, Lehman Brothers, Inc.
(2,5,6,7)

Perry Golkin
Member, Kohlberg Kravis Roberts
& Co., LLC (3,4,6)

James L. Johnson
Chairman Emeritus, GTE Corporation
(1,3,5,7)

Scott C. Nuttall
Principal, Kohlberg Kravis Roberts
& Co., LLC (2,4)

Bernard G. Rethore
Chairman Emeritus, Flowserve
Corporation

Wayne W. Robinson
Chief Executive Officer,
Evenflo Company, Inc. (3,4)

Neil A. Springer
Managing Partner, Springer
& Associates, LLC (1,3,5)

Michael T. Tokarz
Member, Tokarz Group, LLC (2,4,6,7)

(1) Audit Committee, (2) Finance Committee,
(3) Compensation Committee, (4) Environmental, Health
and Safety Committee, (5) Special Tax Oversight Committee,
(6) Nominating Committee, (7) Executive Committee

ANNUAL MEETING

The annual meeting of stockholders of
Walter Industries, Inc. will be held April
25, 2002, at 10 a.m. at the Marriott
Tampa Waterside, 700 S. Florida Ave.,
Tampa, Florida, 33602.

CORPORATE OFFICES

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4211 W. Boy Scout Blvd.
Tampa, Florida 33607
(813) 871-4811

CORPORATE WEB SITE

The Walter Industries Web site,
www.walterind.com, offers access to
information on Walter Industries, Inc. and
its operating subsidiaries, news releases,
financial statements, stock information
and links to a number of our subsidiaries.
The site also offers financial and investor
relations data, an e-mail link to the
Walter Industries investor relations
department, and an electronic mailing list
where users can register to receive
corporate news and information via
E-mail as it is released.

INVESTOR/MEDIA CONTACT

For further information about Walter
Industries, Inc. and its subsidiaries,
please contact:
Investor Relations
Walter Industries, Inc.
P.O. Box 31601
Tampa, Florida 33631-3601
(813) 871-4132
Fax (813) 871-4399

FORM 10-K

Additional copies of the Company's
annual report to the Securities and
Exchange Commission on Form 10-K for
the fiscal year ended December 31, 2001
are available upon written request to:
Walter Industries, Inc.
Investor Relations
P.O. Box 31601
Tampa, Florida 33631-3601

COMMON STOCK

Trading Symbol: WLT
New York Stock Exchange

TRANSFER AGENT AND REGISTRAR

The Bank of New York
101 Barclay Street
New York, NY 10286

QUARTERLY STOCK

PRICE RANGE (Calendar 2001)

	1Q	2Q	3Q	4Q
High	9.53	13.08	14.30	11.80
Low	7.06	8.75	7.70	9.45



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