

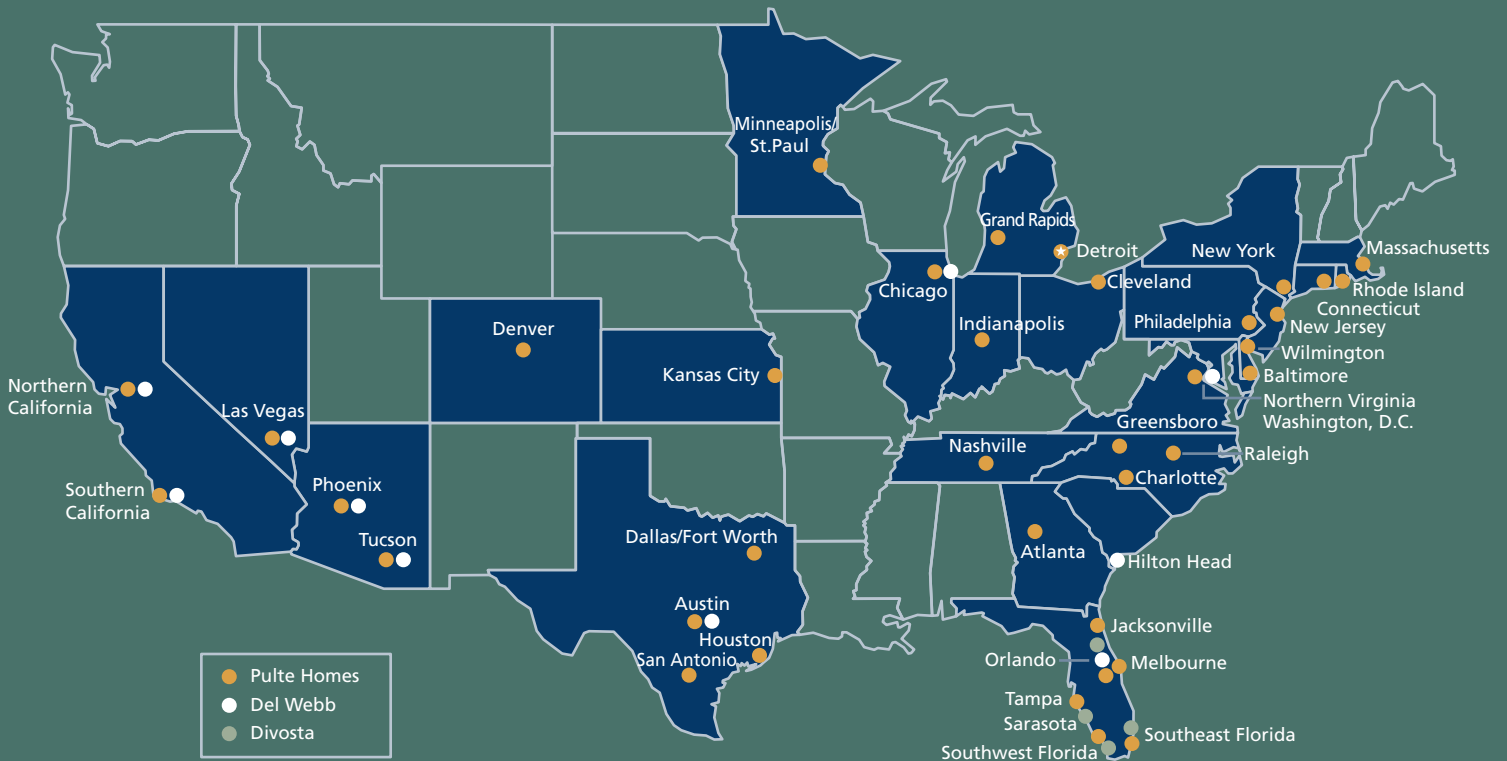


Pulte Homes

A Vision for Success



Communities by Pulte Homes



Company Profile

For more than 50 years, Pulte Homes has been helping individuals, couples and families build a better life. Today, the Company's operations span more than 40 markets throughout the United States, Argentina, Mexico and Puerto Rico. Through its merger with Del Webb, the Company is also now the country's leading builder of active adult communities. In building nearly 300,000 homes in its history, Pulte Homes has been honored as "America's Best Builder," and was named Builder of the Year 2002. Providing excellent customer service and offering a wide variety of loan products, Pulte Mortgage, Pulte Homes' national mortgage company, meets the financing needs of Pulte Homes' customers throughout the country. Whether it's a first-time buyer or a growing family, Pulte Homes' commitment to quality is reflected in the way it builds homes, is demonstrated in the way it treats customers and is evident in the 9,400 employees who provide customers with exceptional value and with a buying experience that exceeds their expectations.

Financial Highlights

(\$000's omitted, except per share data)

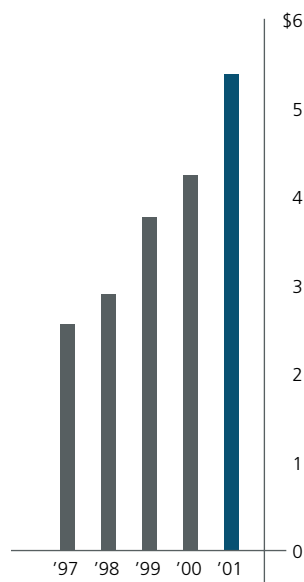
	2001	2000	1999	1998	1997
CONSOLIDATED RESULTS					
Revenues	\$5,381,920	\$4,243,751	\$3,763,817	\$2,894,080	\$2,553,327
Income from continuing operations	302,425	218,384	178,287	101,148	49,800 ^(a)
Net Income	301,393	188,513	178,165	102,183	52,761 ^(a)
Per share data:					
Earnings per share—basic:					
Continuing operations	6.16	5.29	4.12	2.35	1.14 ^(b)
Net Income	6.14	4.56	4.12	2.38	1.21 ^(b)
Earnings per share—assuming dilution:					
Continuing operations	6.01	5.18	4.07	2.30	1.13 ^(b)
Net Income	5.99	4.47	4.07	2.33	1.20 ^(b)
Cash dividends per share	.16	.16	.16	.15	.12
Total assets	\$5,714,276	\$2,886,483	\$2,487,351	\$2,262,561	\$2,060,436
Long-term debt	1,737,869	677,602	525,965	570,114	584,313
Debt-to-capital ratio	44.80%	35.19%	32.48%	38.22%	41.82%
Shareholders' equity	\$2,276,665	\$1,247,931	\$1,093,319	\$ 921,442	\$ 812,837
Return on average shareholders' equity	18.11%	16.58%	17.69%	11.78%	6.43%
Book value per share	\$ 38.43	\$ 30.02	\$ 25.27	\$ 21.35	\$ 19.10
Number of employees	9,400	5,200	5,000	4,300	4,300
DOMESTIC HOMEBUILDING RESULTS					
Revenues	\$5,274,660	\$4,168,516	\$3,689,255	\$2,825,558	\$2,491,042
Pre-tax income	523,292	389,034	311,023	178,380	109,319 ^(c)
Settlements (units)	22,915	19,799	19,569	16,051	15,068
Net new orders (units)	26,116	19,844	19,367	18,193	15,226
Backlog (units)	8,678	5,477	5,432	5,415	3,507
Total markets, at year end	43	41	41	41	40
Active communities, at year end	440	396	388	403	398
Average selling price	\$ 225	\$ 206	\$ 187	\$ 174	\$ 162
Gross profit margin	20.0%	18.8%	17.8%	16.1%	14.9%

(a) Net of a one-time, pre-tax restructuring charge of \$20,000, \$12,300 net of income taxes.

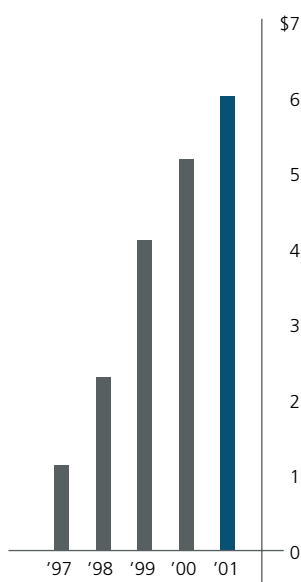
(b) Earnings per share net of \$0.28 per share attributable to a one-time restructuring charge, net of income taxes.

(c) Net of a one-time, pre-tax restructuring charge of \$14,800.

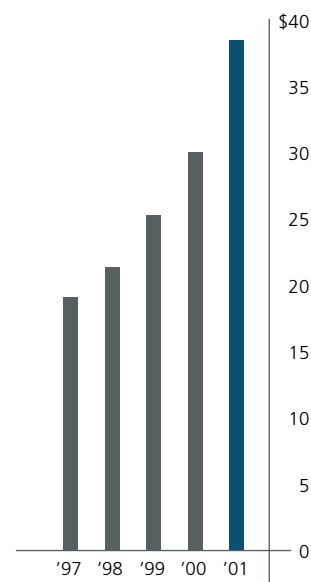
Total Revenue
(in billions)



Earnings Per Share, Assuming Dilution From Continuing Operations
(in dollars)



Book Value Per Share
(in dollars)



Letter to Pulte Homes

Shareholders,

Customers, Employees and Business Partners,



Mark J. O'Brien
President and
Chief Executive Officer

With our success in 2001, Pulte Homes completed its sixth consecutive year of record-setting financial results and its 51st year of uninterrupted profitability. As Bill and I review these results, we do so from our new roles, Bill as Chairman (a position he last held in 1998) and I as President and CEO, following the retirement of Bob Burgess in December of last year. Between the two of us, we have over 70 years of history with this Company. This fact is noteworthy only in providing some context in our making the following observations: 2001 was one of the most rewarding years in this Company's history, and Pulte Homes today is in its strongest competitive position ever.

Looking back at 2001, our \$1.7 billion merger with Del Webb Corporation clearly stands out as a bold stroke that forever changed the face of Pulte Homes. Over the past few years, we've looked at countless companies as potential acquisitions, but none offered the strategic value, competitive strengths and business synergies that we saw in Del Webb. With its unmatched position among active adult homebuyers, strong brand names, excellent land pipeline and more than 7,000 closings annually, Del Webb has given us a dominant position within the country's fastest growing demographic segment.

In the months following the merger's completion, we moved deliberately, but swiftly, to integrate the Webb operations. Duplicate functions were eliminated, management and community reporting relationships were realigned to leverage available resources, and we initiated an exhaustive review of construction and purchasing practices to uncover additional sources of cost savings. Throughout it all, the sharing of best practices between two industry leaders is making the ongoing business even stronger. Through these and other actions, we expect to realize "synergy savings" of \$50-\$75 million in the first year, while strengthening Pulte Homes' overall market position. The combination of Pulte Homes and Del Webb has created a homebuilding powerhouse with a size, geographic presence and product portfolio that is unrivaled in the homebuilding industry and, likely, cannot be duplicated.

Record Financial Results in 2001

Just as with the merger, 2001 saw success throughout the Company. Growth in all our operations, plus the benefit of five months of Del Webb's operations, resulted in record revenues of \$5.4 billion, up 27 percent over the prior year. Reflecting our initiatives to drive increased profitability, net income from continuing operations of \$302 million, or \$6.01 per share, was up 38 percent over 2000. These results are consistent with our previously stated five-year goals of generating revenue growth of 10-15 percent and earnings growth of 20-25 percent, annually.

As a result of the Company's financial success in 2001, Pulte Homes ended the year with a book value of \$38.43 per share, as return on average equity registered 18 percent.

Pulte Homes' domestic homebuilding operations, inclusive of five months of Del Webb, reported another record year. Revenues increased 27 percent to \$5.3 billion, as total domestic settlements grew 16 percent to 22,915 homes. Through a combination of initiatives to increase market prices

for our homes, to improve the mix of homes delivered and to lower construction costs, gross margins increased 120 basis points to a record 20.0 percent (20.2 percent prior to the impact of acquisition accounting). The combination of higher revenues and lower costs resulted in a 35 percent increase in pre-tax income for the group of \$523 million. With a year-end backlog of 8,678 homes, valued at \$2.1 billion, the business enters 2002 with tremendous momentum.

Benefiting from increased homebuilding volumes, a declining interest rate environment and enhanced operating efficiencies, Pulte Mortgage Corporation (PMC) also posted record financial results. In 2001, we advanced several initiatives designed to more fully integrate PMC into the home selling process in all our markets. As a result, PMC's capture rate rose to 60 percent, as compared to 56 percent in 2000. A higher capture rate, combined with a downward trend in interest rates over the year, helped drive a 49 percent jump in pre-tax income of \$28 million.

Our International operations realized important gains in 2001, but it seems that progress is measured in two-steps forward and one-step back. Our Mexico and Puerto Rico operations continued to grow as we implemented new strategies to better serve these markets. While entry into Argentina got off to an excellent start, with strong demand for our new communities, uncertainty over the Argentine economy weighed on the market and hurt our 2001 results. The overall mix of events had a negative impact as the Company's International Operations reported a pre-tax loss of \$2.4 million. We remain encouraged by gains made during the year as we drive toward realizing consistent earnings contributions.

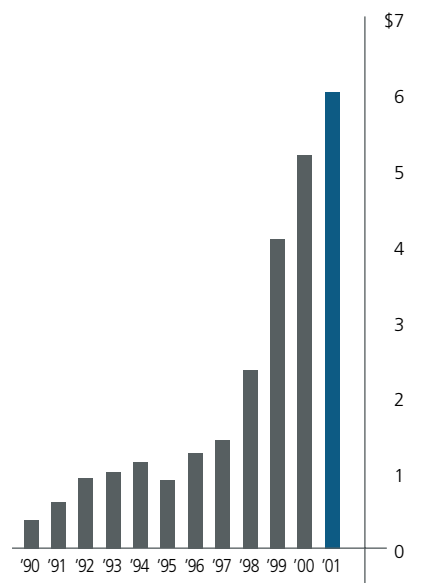
Overall, we were very pleased with Pulte Homes' operating results in 2001, and we see opportunities for even greater success in the future.

Three I's on Quality

Last year, we introduced Pulte Homes' new brand platform of Quality, Involvement, Integrity and Innovation, also known as the Three I's on Quality. The order of these strategic pillars is intentional as quality is the foundation upon which the brand and the entire Company must stand. As Pulte Homes continues to grow, we believe that our ability to deliver homes of superior and consistent quality will become a critical, sustainable competitive advantage; a vital point of differentiation from the rest of the industry. Progress to seize this advantage in the field continued on many fronts last year.

First, our internal Customer Satisfaction Measurement Survey, through which we question all new customers about their level of satisfaction, increased another four percent to its highest level ever. Second, in the JD Power and Associates 2001 New Home Builder Customer Satisfaction StudySM, Pulte Homes ranked or tied for first in four of the 10 markets surveyed (Charlotte (tied), Denver, Las Vegas and Southern California (tied)), and ranked among the top three homebuilders in seven of the 10 markets covered. And finally, *Professional Builder Magazine*, citing a variety of

Earnings Per Share
(in dollars)



Over the past decade, Pulte Homes' revenues and earnings per share have grown at a compounded annual rate of 20% and 26%, respectively.

Vision

factors including the Company's commitment to customer satisfaction and quality, named Pulte Homes its Builder of the Year.

It's been demonstrated across countless industries that having happy, satisfied customers makes good business sense. For Pulte Homes, the potential benefits are significant as higher quality can support a premium pricing position in the market and can help increase repeat/referral business. Today, 36 percent of our buyers have either previously owned a Pulte home or were referred by another Pulte homeowner. In other words, more than one-third of our business has minimal customer acquisition costs. The potential to increase sales and lower customer acquisition and warranty-service costs can have a dramatic impact on Pulte Homes' top- and bottom-line results.

What began in Pulte Homes as a simple concept called *customer delight* has grown into a business culture focused on the delivery of quality homes and unsurpassed customer satisfaction. We must acknowledge that in the past we have not always achieved the standard we expect of ourselves. This has only served as a wake-up call that we must always deliver on our promise.

Looking Ahead

Last year's letter discussed the battle waging between a slowing US economy, lower employment and reduced consumer confidence versus an aggressive Federal Reserve policy of lower interest rates. As we enter 2002, we believe the experts who forecast the worst of the economic weakness is behind us and that a rebound in the second half of 2002 is possible, if not likely.

We'll continue to monitor all the key economic metrics and trends, but we're homebuilders not economists. The best thing we can do for our shareholders is to focus on the long term and take the steps necessary to prepare for success. This means keeping our cost structure in alignment with market conditions, reaching our historical 40 percent debt-to-capital level by the end of 2002 and maintaining a well-positioned and well-balanced land portfolio. This final point is critical given that Pulte Homes must reinvest approximately \$1.7 billion in 2002 just to remain even with the land that will be charged off through cost of goods sold. Put another way, that means investing an average of almost \$5.0 million a day in land and related land development. We believe very strongly that our entire land management competency is a critical skill that will increasingly be viewed as an important competitive advantage.

As we continue transitioning to the new senior management team, you can expect that the fundamentals that have been the cornerstone of this Company will not change:

- Growth through conservative business practices emphasizing returns in excess of our cost of capital;
- Maintenance of a strong balance sheet to take advantage of market opportunities when they appear;
- Industry leadership in construction efficiency, while delivering unmatched quality and customer satisfaction;
- Hire, train and retain the best employees;
- Acquisitions where they make strategic, operating and financial sense; and
- Challenge ourselves everyday to become better.

These fundamentals will not change, but we will continue to challenge ourselves to get better and continue developing unmatched capabilities in other key areas including human resources, information systems and marketing.

These principles help form the foundation of Pulte Homes' success, and they were clearly embodied in the leadership of Bob Burgess who retired as Chairman and CEO following 19 years with the Company. Bob's focus on improving the quality of people we employ and homes we deliver were instrumental in Pulte Homes' growth from a \$900 million, mid-sized homebuilder in 1983 to the nation's largest builder with over \$5 billion in revenues. Bob's counsel will be missed, but the values he instilled will help guide this Company for years to come.

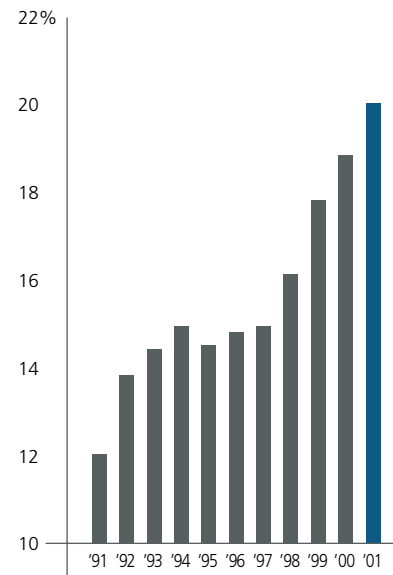
To paraphrase the opening line from *A Tale of Two Cities*, 2001 was the best of times; it was the worst of times. For Pulte Homes, it was a year of unprecedented accomplishments and record-setting successes. It was a year in which revenues grew past the \$5 billion mark, while we completed the largest merger in the history of homebuilding. Yet, it would be impossible to look back on 2001 without gazing through the smoke and tears evoked by the tragedy of September 11. We salute the thousands of heroes who stood up that day and in the many days that followed. In their spirit, we as a country and as a company must and will move forward.

We thank our customers, employees, business partners and shareholders for their continued support during this past year...a year in which having such relationships took on an even deeper meaning. Within these changing times, we at Pulte Homes see tremendous opportunities to reach new milestones, to set the bar higher and to achieve even greater successes. Our time is now to seize these opportunities, and to take a good company and make it great.



William J. Pulte
Chairman of the Board

Domestic Homebuilding
Gross Margins



Over the past 10 years, margins within Pulte Homes domestic homebuilding operations have increased better than 50% to 2001's record of 20%.

Sincerely,

Mark J. O'Brien
President and Chief Executive Officer

William J. Pulte
Chairman of the Board



Q&A

To drive increasingly profitable business will require that we **significantly expand** (concentrate) our business within the major metropolitan markets around the country resulting in greater efficiencies and operating leverage.

Quality



With more than 30 years in homebuilding, Mark O'Brien, Pulte Homes' new President and CEO, has a lot of experience to draw upon as he begins his new leadership role. In a recent interview, Mark offered his insights on the future of Pulte Homes and the industry.

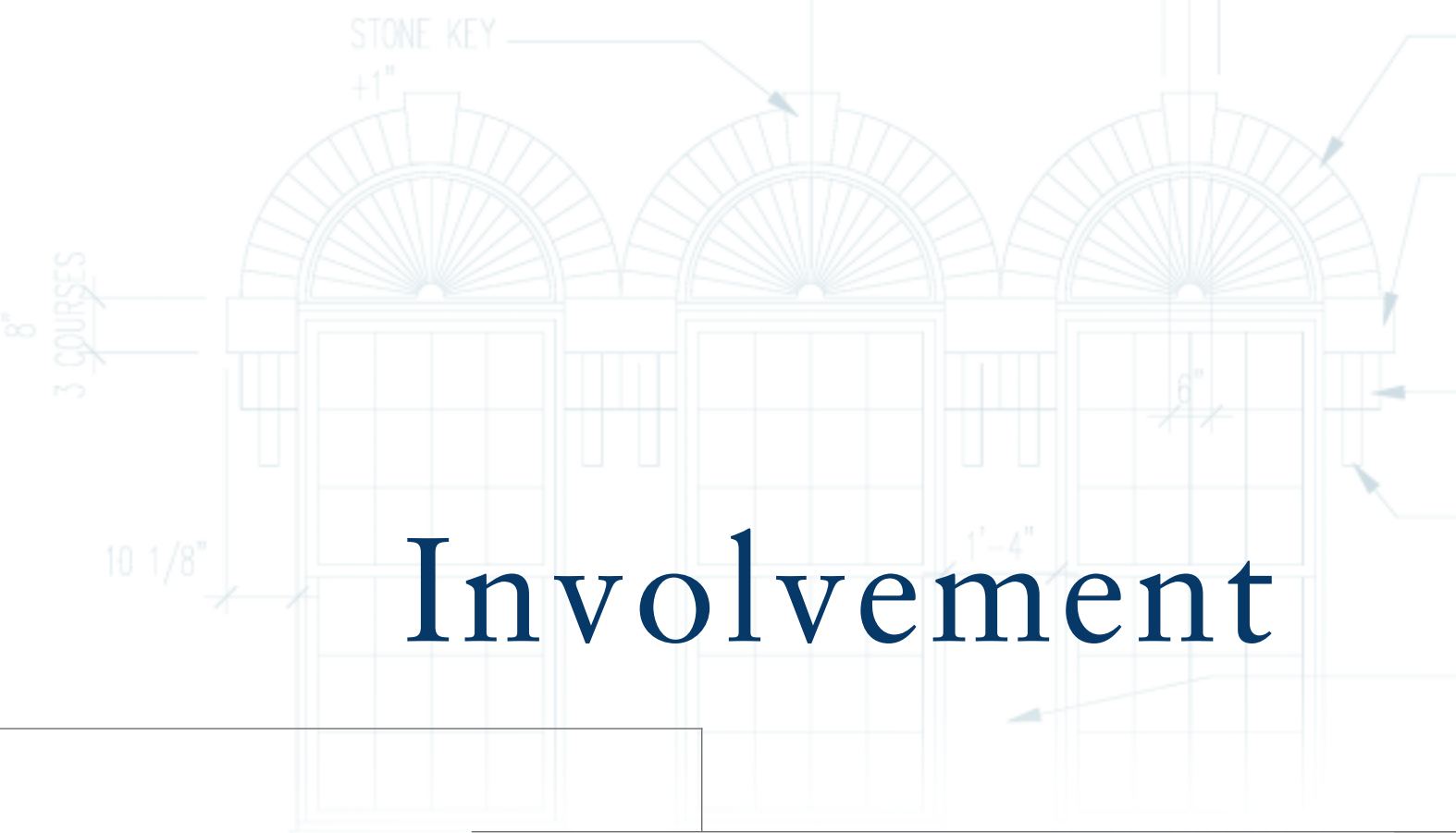
How will Pulte Homes change over the next 3-5 years?

Almost a decade ago, we completed a comprehensive review of Pulte's operations wherein we set our strategy to focus on homebuilding and exit ancillary businesses. That focus is evident in the growth of our homebuilding operations into 43 markets across the US. The next steps in this focus strategy are the interrelated ideas of *concentration* and *leverage*. To drive increasingly profitable business will require that we significantly expand (concentrate) our business within the major metropolitan markets around the country resulting in greater efficiencies and operating leverage.

Building homes for all buyer segments—first-time, trade up, second trade up and active adult—helps make this strategy possible. Unlike companies that build to a single buyer group, we can target the entire buying population within a market, rather than be limited to any single segment. As unit volumes increase, so does leverage with the suppliers and contractors, particularly at the local market level.

In the future, we'll likely apply greater resources toward searching out potential acquisitions as a way to support and accelerate internal growth. We believe that by continuing to expand the customer base, getting Pulte Homes to \$10 billion in annual sales in as little as three years is achievable, and then we'll set our sites on reaching \$15 billion toward the end of this decade.





Involvement

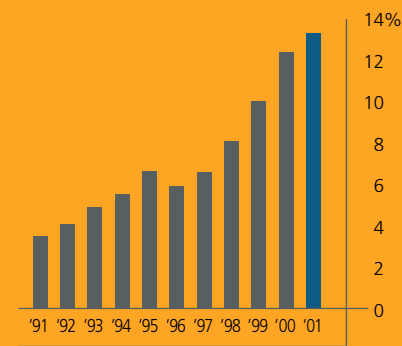


Over the past decade, Pulte Homes' revenues have grown at a compounded annual rate of 20 percent, while earnings per share have increased from \$0.60 to \$6.01. Were these gains just a result of a great economy or do you plan for such growth to continue?

The five-year plan we developed in 2000 targeted annual top-line expansion of 10–15 percent and earnings growth of 20–25 percent. Of course, good economic conditions make business easier for everyone, but Pulte Homes' success goes well beyond just having a good macroenvironment. One of the important drivers has been the ongoing expansion of Pulte Homes' share of the new home construction market. Historically, the homebuilding industry has been extremely fragmented, with more than 75,000 builders delivering new homes each year. Over the past decade, however, the industry has been undergoing a needed transformation and consolidation: Pulte Homes is on track to double its share of the market for new homes to almost four percent (it averages less than six percent across the markets in which the Company operates). This growth is coming at the expense of small- and mid-sized builders in key markets around the country. In simple terms, the big are getting bigger.

Recent research by the National Association of Homebuilders and other organizations suggest demand for new homes over the next decade should "...rival—if not exceed—1990s levels." That would equate to total demand of about 18 million units or roughly 1.8 million units annually. In a stable demand environment, unit growth for Pulte Homes requires taking market share. The potential to realize dramatic gains is very real as the advantages that come with size—greater access to capital, control of larger and better land positions, lower house construction costs, etc.—strengthen our competitive position, which, in turn, drives increased share growth. Keep in mind that across the markets we operate in, one percent market share equals roughly 5,000 new homes. This is a big number, but with roughly 450 communities in operation today, that equates to selling less than one additional home per month in each community.

Share of New Home Market Held by 5 Largest U.S. Homebuilders

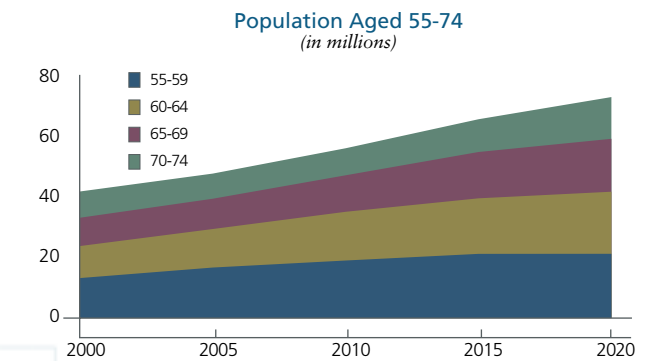


Over the past decade, however, the industry has been undergoing a needed transformation and consolidation: Pulte Homes is on track to double its share of the national market for new, single-family homes to almost four percent...





In less than 20 years, the US population of people aged 55 to 74 will increase from 42 million to almost 74 million. To successfully ride this demographic wave it's critical that the resources are in place today... playing catch up just won't work.



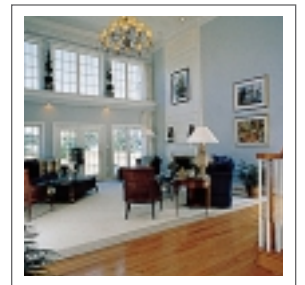
Integrity



Pulte Homes spent \$1.7 billion to acquire Del Webb. What made this acquisition so important and what are your expectations as to the future of Webb's operating model?

The strategic underpinnings of this deal went very deep. Among the critical pieces we acquired with Webb was a dominant position in the fastest growing consumer segment, the potential for significant operating synergies, the strongest brand names in the industry (Del Webb and Sun City) and excellent land positions. In less than 20 years, the US population of people aged 55 to 74 will increase from 42 million to almost 74 million. To successfully ride this demographic wave it is critical that the resources are in place today...playing catch up just won't work.

As we have demonstrated in the traditional new home market, we believe that sustained success with the active adult buyer means you must offer communities targeting different consumer preferences. Del Webb and Sun City will be our primary brands, but we plan to serve this vast market through multiple channels. In certain areas of the country, particularly in the West and Southwest, Webb's traditional destination communities with in excess of 5,000 homes and wide-ranging amenities are still appropriate. We see an opportunity, however, to accelerate expansion of the Webb name into other markets by modifying this model to serve active adults who retire within approximately 100 miles of where they live today. We see smaller communities of 500-3,000 homes, with appropriately sized and targeted amenity packages, as a way to meet the lifestyle needs of these "in-place" retirees. Examples of these new communities are already in development in California, Nevada and Virginia, with other markets already under advanced review in Colorado and Massachusetts. It should also be noted that our traditional builder continues to develop age-targeted communities for the active adult buyer looking for a low-maintenance lifestyle, but within a more traditional community. In total, we expect the active adult market will make up about 30-35 percent of Pulte Homes' sales volume each year, with the remainder coming from first-time, move-up and second-move-up buyers.



Innovation

What is Pulte Homes' international strategy?



Our strategy is to build an international homebuilding operation of sufficient scale to accelerate Pulte Homes' reported earnings growth, while further diversifying the Company's overall business. We target non-US markets that offer the potential for rapid unit growth and substantial risk-adjusted returns.

The process has been slower than we anticipated, but I think we're getting there. Effective in 2002, we adjusted the joint-venture structure in Mexico such that Pulte Homes now has controlling interest in these operations. If we look at our 2001 results assuming this new structure, International generated over \$200 million in revenues on almost 7,500 closings. Six years ago, our international business barely existed. We're getting the scale. Going forward, we need to increase profitability and returns, while also generating a more consistent earnings stream from the operations.



Pulte Homes has identified *innovation* as a key element of its brand strategy. What does innovation entail for a homebuilding company?

As defined, innovation means the introduction of something new. Businesses must innovate or they stagnate. We must continually introduce new ideas and business practices into the organization or risk being left behind. It must be new, not just for the sake of doing something different, but with the specific goals of advancing a better home buying and ownership experience for our customers and an improved business result for Pulte Homes.



Most people equate innovation with technology, and in our case they would be only partly right. Progress on an initiative started two years ago to link the sales, construction and ownership process through Internet-based technology continues. We are now developing a more robust technology infrastructure to link all of our communities and market offices in support of greatly enhanced communication and data transfer. We are also rolling out the next generation of our online scheduling software to enhance the consumers' online experience. We see new technology as holding the key to lower customer acquisition and construction costs.

It's not just about virtual innovation, as Pulte Homes is developing new building processes that can deliver enhanced home functionality and environmental efficiency, at a lower cost and with improved cycle times. Through construction innovation and a culture that embraces change, Pulte Homes continues to achieve new levels of operating and financial success, quality and customer satisfaction.

Selected Financial Data

Set forth below is selected consolidated financial data for each of the past five fiscal years. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and Notes thereto included elsewhere in this report.

	Years Ended December 31, (\$000's omitted)				
	2001 ^(a)	2000	1999	1998	1997
OPERATING DATA					
Homebuilding:					
Revenues	\$5,309,829	\$4,195,675	\$3,711,196	\$2,837,710	\$2,508,507
Income before income taxes	\$ 520,908	\$ 392,383	\$ 316,561	\$ 173,346	\$ 106,178 ^(b)
Financial services:					
Revenues	\$ 69,881	\$ 47,443	\$ 49,873	\$ 43,678	\$ 34,038
Income before income taxes	\$ 28,331	\$ 19,009	\$ 20,828	\$ 15,194	\$ 5,014 ^(c)
Corporate:					
Revenues	\$ 2,210	\$ 633	\$ 2,748	\$ 12,692	\$ 10,782
Loss before income taxes	\$ (57,452)	\$ (56,296)	\$ (50,984)	\$ (22,726)	\$ (30,217) ^(d)
Consolidated results:					
Revenues	\$5,381,920	\$4,243,751	\$3,763,817	\$2,894,080	\$2,553,327
Income from continuing operations before income taxes	\$ 491,787	\$ 355,096	\$ 286,405	\$ 165,814	\$ 80,975 ^(e)
Income taxes	189,362	136,712	108,118	64,666	31,175
Income from continuing operations	302,425	218,384	178,287	101,148	49,800
Income (loss) from discontinued operations	(1,032)	(29,871)	(122)	1,035	2,961
Net income	\$ 301,393	\$ 188,513	\$ 178,165	\$ 102,183	\$ 52,761

(a) Includes Del Webb's operations since July 31, 2001.

(b) Includes restructuring charge of \$14,800.

(c) Includes restructuring charge of \$2,100.

(d) Includes restructuring charge of \$3,100.

(e) Includes restructuring charge of \$20,000.

Selected Financial Data (continued)

	2001	Years Ended December 31,			
		2000	1999	1998	1997
PER SHARE DATA					
Earnings per share—basic:					
Income from continuing operations	\$ 6.16	\$ 5.29	\$ 4.12	\$ 2.35	\$ 1.14 ^(a)
Income (loss) from discontinued operations	(.02)	(.73)	—	.03	.07
Net income	\$ 6.14	\$ 4.56	\$ 4.12	\$ 2.38	\$ 1.21 ^(a)
Weighted-average common shares outstanding (000's omitted)	49,098	41,310	43,246	42,984	43,510
Earnings per share—assuming dilution:					
Income from continuing operations	\$ 6.01	\$ 5.18	\$ 4.07	\$ 2.30	\$ 1.13 ^(a)
Income (loss) from discontinued operations	(.02)	(.71)	—	.03	.07
Net income	\$ 5.99	\$ 4.47	\$ 4.07	\$ 2.33	\$ 1.20 ^(a)
Weighted-average common shares outstanding and effect of dilutive securities (000's omitted)	50,323	42,146	43,823	43,884	43,908
Shareholders' equity	\$ 38.43	\$ 30.32	\$ 25.27	\$ 21.35	\$ 19.10
Cash dividends declared	\$.16	\$.16	\$.16	\$.15	\$.12

(a) Earnings per share amounts include \$.28 per share attributable to one-time restructuring charge, net of income taxes.

	2001	December 31, (\$000's omitted)			
		2000	1999	1998	1997
BALANCE SHEET DATA					
House and land inventories	\$3,833,763	\$1,896,856	\$1,822,060	\$1,462,235	\$1,141,952
Total assets	5,714,276	2,886,483	2,487,351	2,262,561	2,060,436
Total long-term indebtedness	1,737,869	677,602	525,965	570,114	584,313
Shareholders' equity	2,276,665	1,247,931	1,093,319	921,442	812,837

	2001	Years Ended December 31,			
		2000	1999	1998	1997
OTHER DATA					
Domestic Homebuilding operations:					
Total markets, at year-end	43	41	41	41	40
Total active communities, at year-end	440	396	388	403	398
Total settlements—units	22,915	19,799	19,569	16,051	15,068
Total net new orders—units	26,116	19,844	19,367	18,193	15,226
Backlog units, at year-end	8,678	5,477	5,432	5,415	3,507
Average unit selling price	\$ 225,000	\$ 206,000	\$ 187,000	\$ 174,000	\$ 162,000
Gross profit margin %	20.0%	18.8%	17.8%	16.1%	14.9%
Pulte and Pulte-affiliate settlements—units:					
Domestic	22,915	19,799	19,848	16,511	15,068
International	7,479	7,982	6,774	3,848	1,905
Total Pulte and Pulte-affiliate settlements—units	30,394	27,781	26,622	20,359	16,973

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

A summary of our operating results by business segment for the years ended December 31, 2001, 2000 and 1999 is as follows (\$000's omitted, except per share data):

	Years Ended December 31,		
	2001	2000	1999
Pre-tax income (loss):			
Homebuilding operations	\$520,908	\$392,383	\$316,561
Financial Services operations	28,331	19,009	20,828
Corporate	(57,452)	(56,296)	(50,984)
Income from continuing operations before income taxes	491,787	355,096	286,405
Income taxes	189,362	136,712	108,118
Income from continuing operations	302,425	218,384	178,287
Loss from discontinued operations	(1,032)	(29,871)	(122)
Net income	\$301,393	\$188,513	\$178,165
Per share data—assuming dilution:			
Income from continuing operations	\$ 6.01	\$ 5.18	\$ 4.07
Loss from discontinued operations	(.02)	(.71)	—
Net income	\$ 5.99	\$ 4.47	\$ 4.07

A comparison of pre-tax income (loss), for the years ended December 31, 2001, 2000 and 1999 is as follows:

- Pre-tax income of our homebuilding business segment increased 33% in 2001 and 24% in 2000. Results in 2001 reflect a 9% increase in average selling price to \$225,000 and a 120 basis point improvement in gross margin to 20%. Our 2001 results also reflect five months of the acquired operations of Del Webb Corporation as this merger was completed on July 31, 2001 (please see Note 3 of Notes to Consolidated Financial Statements). Compared to 1999, our 2000 results primarily reflect a 10% increase in domestic average selling price to \$206,000 and a 100 basis point improvement in gross margins.

- Pre-tax income of \$28,331,000 for our financial services business segment represents an increase of 49% over 2000 due to increased loan originations and secondary marketing gains resulting from a favorable interest rate environment. Del Webb's mortgage operations also contributed to this increase. Pre-tax income decreased 9% in 2000 from 1999 to \$19,009,000. Pre-tax income for 2000 was impacted by competitive market conditions due to higher interest rates early in the year, which reduced profitability. Results for 1999 also reflect a net gain of approximately \$1,700,000 in connection with the sale of the mortgage-backed securities by Pulte Financial Companies, Inc., one of our subsidiaries.

- Pre-tax loss of our corporate business segment increased \$1,156,000 in 2001 from \$56,296,000 in 2000 as an increase in net interest expense, primarily due to the inclusion of Del Webb's debt, was partially offset by lower Corporate expenditures. In 2000, our pre-tax loss increased \$5,312,000 from \$50,984,000 in 1999 reflecting an increase in net interest expense.

HOMEBUILDING OPERATIONS

Our homebuilding operations are organized into two distinct business units: Domestic and International.

- Domestic Homebuilding operations are conducted in 43 markets, located throughout 25 states. Domestic Homebuilding offers a broad product line to meet the needs of the first-time, first and second move-up, and active adult homebuyers.

- International Homebuilding operations are conducted through subsidiaries of Pulte International Corporation in Mexico, Puerto Rico and Argentina. International Homebuilding product offerings focus on the demand of first-time buyers, and social interest housing in Mexico and Puerto Rico. Housing for middle-to-upper income consumer groups is also available in Puerto Rico and Argentina. We have agreements in place with multi-national corporations to provide social interest housing in Mexico.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Certain operating data relating to our homebuilding operations and our joint ventures are as follows (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Pulte/Pulte-affiliate homebuilding settlement revenues:			
Domestic	\$5,145,526	\$4,083,816	\$3,713,332
International	215,790	175,957	127,310
Total Homebuilding	\$5,361,316	\$4,259,773	\$3,840,642
Pulte/Pulte-affiliate settlements—units:			
Domestic:			
Pulte	22,915	19,799	19,569
Pulte-affiliated entity	—	—	279
Total Domestic	22,915	19,799	19,848
International:			
Pulte	221	264	262
Pulte-affiliated entities	7,258	7,718	6,512
Total International	7,479	7,982	6,774
Total Pulte/Pulte-affiliate settlements—units	30,394	27,781	26,622

Domestic Homebuilding

The Domestic Homebuilding business unit represents our core business. Operations are conducted in 43 markets, located throughout 25 states, and are organized into five groups as follows:

Northeast: Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia

Southeast: Florida, Georgia, North Carolina, South Carolina, Tennessee

Midwest: Illinois, Indiana, Kansas, Michigan, Minnesota, Ohio

Central: Colorado, Texas

West: Arizona, California, Nevada

The metropolitan Atlanta market accounted for 10% of the total unit settlements in 2000. No other individual market represented more than 10% of total Domestic Homebuilding net new orders, unit settlements or revenues during the three years ended December 31, 2001.

The following table presents selected unit information for our Domestic Homebuilding operations:

	Years Ended December 31,		
	2001	2000	1999
Unit settlements:			
Northeast	2,014	2,000	2,486
Southeast	8,126	7,820	7,607
Midwest	3,288	2,903	3,044
Central	3,982	3,622	3,337
West	5,505	3,454	3,095
	22,915	19,799	19,569
Net new orders—units:			
Northeast	2,035	1,970	2,511
Southeast	8,544	7,815	7,920
Midwest	3,756	2,818	3,166
Central	4,071	3,644	2,956
West	7,710	3,597	2,814
	26,116	19,844	19,367
Net new orders—dollars (\$000's omitted)	\$5,926,000	\$4,211,000	\$3,784,000
Backlog at December 31—units:			
Northeast	831	810	840
Southeast	2,559	2,141	2,146
Midwest	1,375	907	992
Central	903	814	792
West	3,010	805	662
	8,678	5,477	5,432
Backlog at December 31—dollars (\$000's omitted)	\$2,118,000	\$1,307,000	\$1,180,000

Net new orders increased for the thirteenth consecutive year to an all-time record of 26,116 units in 2001, a 32% increase over 2000 order levels. This increase is primarily due to the inclusion of Del Webb's operations, which contributed 5,968 units, including an acquired backlog of 3,823 units. Order growth in the Central and West groups offset by softer performance in the Northeast and Midwest groups contributed to a 2% increase in 2000 orders over 1999 levels.

Unit settlements in 2001 also hit a record-setting high, to 22,915 units with the majority of the increase due to the inclusion of Del Webb's operations, which contributed 2,797 units. Unit settlement activity in 2000 increased 1% over 1999 levels reflecting strong performance in the Southeast, Central and West groups offset by a decline in the Northeast. The average home sales price increased from \$187,000 in 1999 to \$206,000 in 2000 and to \$225,000 in the current year.

Changes in average selling price reflect a number of factors, including price increases, the mix of product closed during a period and the number of options purchased by customers. 2001 benefited from increased product prices, improved product mix and the inclusion of Del Webb product offerings, which had an average selling price of \$264,000.

Ending backlog, which represents orders for homes that have not yet closed, jumped 58% to 8,678 homes, including 3,171 Del Webb units, while the dollar value was up 62% to \$2.1 billion at December 31, 2001. Unit backlog at December 31, 2000, was slightly higher than that noted at the end of 1999 while the dollar value was up 11%. Overall, strong demand supported by a favorable interest rate environment and the addition of Del Webb's operations drove increased order activity and record levels of backlog.

The following table presents a summary of pre-tax income for our Domestic Homebuilding operations (\$000's omitted):

Years Ended December 31,			
	2001	2000	1999
Home sale revenue (settlements)	\$ 5,145,526	\$ 4,083,816	\$ 3,655,775
Land sale revenue	129,134	84,700	33,480
Home cost of sales	(4,118,442)	(3,315,106)	(3,003,504)
Land cost of sales	(97,941)	(56,250)	(25,697)
Selling, general and administrative expenses	(482,128)	(365,704)	(314,463)
Interest ^(a)	(36,006)	(28,019)	(25,187)
Other expense, net	(16,851)	(14,403)	(9,381)
	\$ 523,292	\$ 389,034	\$ 311,023
Average sales price	\$ 225	\$ 206	\$ 187

(a) We capitalize interest cost into homebuilding inventories and charge the interest to homebuilding interest expense over a period that approximates the average life cycle of our communities.

Gross profit margins in 2001 increased 120 basis points over 2000 to 20.0%, including the effect of purchase accounting associated with the Del Webb merger. Excluding the effect of purchase accounting, gross margins in 2001 would have been 20.2%. Gross profit margins in 2000 increased to 18.8%, up 100 basis points over 1999. Factors that contributed to this

favorable trend include strong customer demand, positive home pricing, the benefits of leverage-buy purchasing activities and effective production and inventory management.

Land sales increased over each of the prior three years representing our land development core competency which includes development and entitlement of certain land positions for sale primarily to other homebuilders, as well as to retail and commercial establishments. Revenues and their related gains/losses may vary significantly between periods, depending on the timing of future land sales. We continue to rationalize certain existing land positions to ensure the most effective use of invested capital.

For the year ended December 31, 2001, selling, general and administrative expenses (SG&A), as a percentage of home settlement revenues, increased 42 basis points to 9.37% after increasing 35 basis points to 8.95% in 2000. Higher start-up costs for new communities, increased compensation related costs, local market advertising expenses and the inclusion of Del Webb's operations are the primary reasons for the increase in 2001. The increase in 2000 reflects higher sales and marketing expenses, and start-up costs associated with the opening of new communities.

Other expense, net increased to \$16,851,000 in 2001 as a result of increased land inventory valuation reserves for certain land positions and amortization of tradenames and trademarks acquired in the merger with Del Webb. The increase from 1999 to 2000 represents an increase in various market level non-operational expenditures.

Our Domestic Homebuilding operations controlled approximately 116,000 and 74,900 lots, of which approximately 81,200 and 40,800 lots were owned, and approximately 34,800 and 34,100 lots were controlled through option agreements at December 31, 2001 and 2000, respectively. Domestic Homebuilding inventory at December 31, 2001, was approximately \$3.7 billion of which \$2.8 billion is related to land and land development. At December 31, 2000, inventory was approximately \$1.8 billion of which \$1.3 billion was related to land and land development. Included in other assets is approximately \$223.5 million in land held for disposition as of December 31, 2001, as compared to \$88.3 million in the prior year.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

International Homebuilding

International Homebuilding operations are primarily conducted through subsidiaries of Pulte International Corporation (International) in Mexico, Puerto Rico and Argentina.

Mexico International's 100%-owned subsidiary, Pulte International-Mexico, Inc., conducts its operations primarily through five joint ventures located throughout Mexico. Its net investment in these joint ventures approximated \$47.7 million at December 31, 2001. The largest of these ventures, Condak-Pulte S. De R.L. De C.V. (Condak-Pulte), is based in Ciudad Juarez. Condak-Pulte is currently developing communities in Juarez, Chihuahua, Nuevo Laredo, Monterrey, Reynosa, Saltillo and Matamoros, under agreements with Delphi Automotive Systems, Gigante, S.A. de C.V. and Centro Comerciales Soriana, S.A. De C. V. As of December 31, 2001, International's net investment in Condak-Pulte approximated \$38.9 million.

Desarrollos Residenciales Turisticos, S.A. de C.V., another of its joint ventures in Mexico, is constructing primarily social interest housing in Central Mexico. Current development plans for this venture include housing projects in the Bajio region surrounding Mexico City, targeting the cities of Celaya, Leon, Puebla, Queretaro, San Jose du Iturbide and San Juan del Rio. At December 31, 2001, International's net investment in this joint venture approximated \$7.2 million.

Effective January 1, 2002, Pulte International reorganized its structure within Mexico to create a single company, Pulte Mexico, which ranks as one of the largest builders in the country. The new operating structure will facilitate growth, enable operating leverage and improve efficiencies through standardized systems and procedures. The new company, which combines several entities, including Condak-Pulte and DRT, will be consolidated into our financial statements.

Puerto Rico Operations in Puerto Rico are primarily conducted through International's 100%-owned subsidiary, Pulte International Caribbean Corporation. Desarrolladores Urbanos (Canovanas), S.E., its Puerto Rican joint venture, is developing 121 acres located in Metropolitan San Juan. At December 31, 2001, its net investment in this joint venture approximated \$3.8 million.

Argentina Operations in Argentina are conducted through Pulte SRL, International's 100%-owned Argentine subsidiary which recorded its first closings during the second quarter of 2001.

The following table presents selected financial data for Pulte's International Homebuilding operations for the years ended December 31, 2001, 2000 and 1999 (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Revenues	\$ 35,169	\$ 27,159	\$ 21,941
Cost of sales	(30,937)	(24,611)	(20,337)
Selling, general and administrative expense	(11,820)	(5,621)	(4,588)
Other income, net	66	967	2,522
Equity in income of Mexico operations	5,138	5,455	6,000
Pre-tax income (loss)	\$ (2,384)	\$ 3,349	\$ 5,538
Unit settlements:			
Pulte	221	264	262
Pulte-affiliated entities	7,258	7,718	6,512
	7,479	7,982	6,774

Increased revenues in 2001 are due to the opening of operations in Argentina and a higher average selling price for our Puerto Rican operations. The higher average selling price in Puerto Rico, which results from concentrating more in middle-market housing than in social interest housing, was offset by a decrease in closings from 264 in 2000 to 176 in 2001. Increased revenues in 2000 from 1999 are also attributable to this shift in focus. Results in 1999 benefited from a \$2,400,000 land sale gain. SG&A expense increased \$6,199,000 in 2001 as a result of the start-up of the Argentine operations. The Argentine operations recorded a \$463,000 foreign currency transaction loss in 2001 as a result of the Argentine government's decision to de-link the valuation of the Argentine peso from the U. S. dollar. We also recorded a foreign currency translation loss of \$14,110,000, net of income taxes of \$8,833,000, as a component of other comprehensive income in 2001. It is unclear at this time how the Argentine financial and currency markets will be affected in 2002. It is also unclear how the current economic situation may affect customer homebuying attitudes and the homebuilding business in general.

In 2001, the Mexican operations were affected by changes in government lending practices, which slowed mortgage funding, resulting in lower closings than in 2000. It is anticipated that the rate of mortgage funding in Mexico will accelerate in 2002, which should increase the pace of closings over what was experienced in 2001. Our Mexican joint venture operations recorded 7,718 closings in 2000, representing a 19%

increase over comparable 1999 results. Our share of pre-tax income of \$5,455,000 for 2000 for the Mexican joint ventures was slightly lower than the \$6,000,000 recorded in 1999 as earnings in 1999 included currency gains of \$1,702,000 versus currency losses of \$78,000 for 2000. Currency losses in Mexico amounted to \$378,000 in 2001. Eliminating the impact of the currency gains and losses, operating income for our Mexican operations increased by approximately 29% in 2000.

FINANCIAL SERVICES OPERATIONS

We conduct our financial services operations principally through Pulte Mortgage Corporation (PMC), our mortgage banking subsidiary and during 1999, through Pulte Financial Companies, Inc. (PFCI). Pre-tax income of our financial services operations is as follows (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Pre-tax income:			
Mortgage banking	\$28,331	\$19,009	\$19,017
Financing activities	—	—	1,811
Pre-tax income	\$28,331	\$19,009	\$20,828

Mortgage Banking

	Years Ended December 31,		
	2001	2000	1999
Total originations:			
Loans	19,018	13,415	13,728
Principal	\$2,937,100	\$1,957,300	\$1,908,200
Originations for			
Pulte customers:			
Loans	13,786	11,109	10,858
Principal	\$2,131,000	\$1,697,600	\$1,558,400

We sell our servicing rights on a flow basis through fixed price servicing sales contracts. Due to the short period of time the servicing rights are held, usually three to four months, we do not amortize the servicing asset. Since the servicing rights are recorded at the value in the servicing sales contracts, there are no impairment issues related to these assets. We also originate mortgage loans using our own funds or borrowings made available through various credit arrangements, and then sell such mortgage loans to outside investors.

Mortgage origination principal volume for the year ended December 31, 2001, increased 50% over 2000, which benefited from an increase in the capture rate of 400 basis points

to 60%, an increased average loan size and the inclusion of Del Webb's mortgage operations, which accounted for approximately 13% of the increase. Origination unit volume increased 42% due to the same factors. Mortgage origination principal volume in 2000 increased 3% over 1999, due to increases in year-to-date unit sales and higher average selling prices realized in our Domestic Homebuilding operations. However, the number of loans for 2000 was down 2% from 1999 levels due to competitive market conditions and rising mortgage interest rates during the last six months of 1999 and first three quarters of 2000. Our home buying customers continue to account for the majority of total loan production, representing 79% of total PMC unit production for 2001, compared with 83% in 2000 and 79% in 1999. Refinancings represented 10% of total loan production in 2001, compared with 2% in 2000 and 4% during 1999. At December 31, 2001, loan application backlog increased 54% to \$827 million as compared to \$536 million and \$499 million at December 31, 2000 and 1999, respectively.

Pre-tax income for the year ended December 31, 2001, increased 49% to \$28.3 million, due to increases in volume, capture rate and secondary marketing gains. The addition of Del Webb's mortgage operations for the last five months of 2001 contributed approximately 8% of this increase. Pricing and marketing gains increased \$17.4 million, or 71%, from the same period in 2000, primarily due to a consistent drop in interest rates throughout 2001. As compared with 2000, net interest income increased \$3.1 million to \$5.0 million during 2001 due to increased production and a steeper yield curve as a result of the drop in interest rates during 2001. Offsetting these gains was an increase in SG&A expenses of \$10 million as a result of increased headcount and other related costs due to the increase in volume during 2001.

Pre-tax income for the year ended December 31, 2000, was unchanged from 1999, as increases in origination fees and other income were offset by decreases in pricing and marketing gains and net interest income. During 2000, origination fees increased \$1.6 million, or 23%, over the prior year due primarily to an increase in brokered loans. Pricing and marketing gains decreased \$3.6 million, or 13%, from the same period in 1999, primarily due to competitive market conditions for much of 2000. As compared with 1999, net interest income decreased 17% to \$1.8 million during 2000 as a result of a drop in funded production and a higher cost of funds due to a new warehouse line that became effective March 31, 2000. During 2000, we recognized increased equity income from our minority interest in a Mexican mortgage banking company, and also recognized income from mortgage reinsurance operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Financial Accounting Standards Board Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge.

We hedge portions of our forecasted cash flow from sales of closed mortgage loans with derivative financial instruments. For the year ended December 31, 2001, we did not recognize any net gains or losses related to the ineffective portion of the hedging instrument excluded from the assessment of hedge effectiveness. We also did not recognize any gains or losses during 2001, for cash flow hedges that were discontinued because it is probable that the original forecasted transaction will not occur. At December 31, 2001, we expect to reclassify \$592,000, net of taxes, of net losses on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months from sales of closed mortgage loans.

Financing Activities

Our secured financing operations, which were conducted by a limited-purpose subsidiary of PFCI, ceased operations during 1999. During the first quarter of 1999, we recognized a net gain of approximately \$1.7 million in connection with the sale of its remaining mortgage-backed securities portfolio.

CORPORATE

Corporate is a non-operating business segment whose primary purpose is to support the operations of our subsidiaries as the internal source of financing, to develop and implement strategic initiatives centered on new business development and operating efficiencies, and to provide the administrative support associated with being a publicly traded entity. As a result, the corporate segment's operating results will vary from year to year as these strategic initiatives evolve.

The following table presents this segment's results of operations (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Net interest expense	\$34,261	\$28,987	\$22,824
Other corporate expenses, net	23,191	27,309	28,160
Loss before income taxes	\$57,452	\$56,296	\$50,984

An increase in net interest expense offset by a decrease in other corporate expenses, net, resulted in a 2% increase in the net loss for the Corporate segment. The increase in the corporate net interest spread, which is net of interest capitalized into inventory, is attributable to a higher debt balance as a result of the Del Webb merger and the issuance in February 2001 of \$200 million and in August 2001 of \$500 million in Senior Notes, primarily for use in repaying certain indebtedness acquired from Del Webb (see "Del Webb Merger"). The decrease in other corporate expenses, net in 2001 is primarily due to the effect of the write-down of a commercial land position in 2000. The increase in 2000 of the pre-tax loss to \$56.3 million was primarily a result of an increase in net interest expense. Increases in net interest expense were attributed to higher average use of our unsecured revolving credit facility in addition to the April 2000 issuance of \$175 million Senior Notes. Interest incurred for the years ended December 31, 2001, 2000, and 1999, excluding interest incurred by our financial services operations, was approximately \$116.9, \$62.8 and \$49.5 million, respectively.

Corporate net interest expense is net of amounts capitalized into homebuilding inventories. Interest is amortized to homebuilding interest expense over a period that approximates the average life cycle of our communities. Interest in inventory at December 31, 2001, increased primarily as a result of higher levels of indebtedness and the addition of the Del Webb properties, which have a longer life cycle. Information related to Corporate interest capitalized into inventory is as follows (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Interest in inventory at beginning of year	\$ 24,202	\$ 19,092	\$ 16,356
Interest capitalized	80,399	33,129	27,923
Interest expensed	(36,006)	(28,019)	(25,187)
Interest in inventory at end of year	\$ 68,595	\$ 24,202	\$ 19,092

LIQUIDITY AND CAPITAL RESOURCES

Continuing Operations

Our net cash used in operating activities for the year ended December 31, 2001, was \$418,796,000 as higher net income was offset by increases in inventory and residential mortgage loans available-for-sale over 2000 and the resolution of the First Heights litigation. Net cash provided by investing activities in 2001 increased primarily due to the net cash acquired from Del Webb. Net cash provided by financing activities in 2001 was \$297,131,000 as proceeds from the issuance of Senior Notes of \$200 million and \$500 million, and increased borrowings under the revolving credit arrangements, were offset by the repayment of debt acquired from Del Webb (see "Del Webb Merger").

Net cash provided by operating activities for the year ended December 31, 2000, amounted to \$23,322,000. Increases in inventory, other assets, accounts payable and accrued liabilities during 2000 were less than during 1999, and were offset by a larger increase in residential mortgage loans available-for-sale. Net cash used in investing activities was \$5,185,000 for 2000. The effects of PFCI's sale of the underlying collateral of its mortgage-backed securities portfolio and the purchase of BRE's interest in the net assets of our active adult joint venture are reflected in 1999. Net cash provided by financing activities for the year ended December 31, 2000, was \$114,051,000, as compared to a use of cash of \$87,642,000 in 1999. These increased cash flows primarily reflect our issuance of \$175 million Senior Notes in April 2000 and issuance of common stock pursuant to our employee stock option plans, offset by stock repurchases.

We finance homebuilding land acquisition, development and construction activities from internally generated funds and existing credit agreements. We had \$110 million outstanding under our \$560 million unsecured revolving credit facilities at December 31, 2001. PMC provides mortgage financing for

many of our home sales and uses its own funds and borrowings made available through various committed and uncommitted credit arrangements which, at December 31, 2001, amounted to \$450 million, an amount deemed adequate to cover foreseeable needs. There were approximately \$410 million of borrowings outstanding under the PMC arrangements at December 31, 2001. Mortgage loans originated by PMC are subsequently sold. We anticipate that there will be adequate mortgage financing available for purchasers of our homes.

In February 2001, we sold \$200 million of 8 $\frac{1}{8}$ % Senior Notes, due 2011 from an active \$500 million shelf registration. The net proceeds from the sale of the Senior Notes were used to repay short-term borrowings under our revolving bank credit arrangements and for general corporate purposes.

In August 2001, we sold in a private placement, \$500 million of 7 $\frac{1}{8}$ % Senior Notes due in 2011 and subsequently filed an S-4 Registration Statement with the Securities and Exchange Commission, in December 2001. Net proceeds received from the sale were used to repay certain indebtedness acquired in the Del Webb transaction, to pay certain expenses associated with that transaction and for general corporate purposes.

Our income tax liabilities are affected by a number of factors. In 2001, our effective tax rate was 38.50% compared to 38.50% in 2000 and 37.75% in 1999. Our lower effective income tax rate in 1999 resulted from a lower effective state tax rate and the favorable resolution of various state income tax matters. We anticipate that our effective tax rate for 2002 will be approximately 39%.

At December 31, 2001, we had cash and equivalents of \$72.1 million and total long-term indebtedness of \$1.7 billion. Our total long-term indebtedness includes \$1.4 billion of unsecured Senior Notes, \$368.6 million of unsecured Senior Subordinated Notes, other limited recourse debt of \$15 million and other non-recourse short-term notes payable of \$60.7 million.

The following table summarizes our payments under contractual obligations as of December 31, 2001:

	Payments Due by Period (\$000's omitted)				
	Total	2002	2003-2004	2005-2006	After 2006
Contractual obligations:					
Guarantor short-term borrowings	\$ 110,000	\$110,000	\$ —	\$ —	\$ —
Non-guarantor short-term borrowings	413,675	413,675	—	—	—
Long-term indebtedness	1,737,869	3,147	395,606	198,339	1,140,777
Operating leases	102,423	30,505	33,618	17,673	20,627
Total contractual obligations	\$2,363,967	\$557,327	\$429,224	\$216,012	\$1,161,404

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

The following table summarizes our other commercial commitments as of December 31, 2001:

	Amount of Commitment Expiration by Period (\$000's omitted)				
	Total	2002	2003–2004	2005–2006	After 2006
Other commercial commitments:					
Guarantor revolving credit facilities	\$ 560,000	\$ —	\$ —	\$560,000	\$ —
Non-guarantor revolving credit facilities	450,000	225,000	225,000	—	—
Standby letters of credit	125,617	107,841	16,825	951	—
Total commercial commitments	\$1,135,617	\$332,841	\$241,825	\$560,951	\$ —

Standby letters of credit and performance bonds are used to guarantee our performance under various contracts, principally in connection with the development of our projects. The expiration dates of the letter of credit contracts coincide with the expected completion date of the related project. If the obligations related to the project are ongoing, annual extensions are granted on a year-to-year basis. Performance bonds do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. These bonds, which approximated \$775 million at December 31, 2001, are typically outstanding over a period that approximates 3–5 years.

In the normal course of business, we acquire rights under options or option-type agreements to purchase land to be used in homebuilding operations at future dates. These rights, which may be cancelled at our discretion, may extend over several years and are typically secured by small deposits. Further, these rights are frequently extended or renegotiated to better match the needs of our homebuilding operations. The total purchase price applicable to approved land under option for use by our homebuilding operations at future dates approximated \$1.1 billion at December 31, 2001, which represented approximately 35,000 lots. In addition, there were approximately 25,000 lots valued at \$644 million under option at December 31, 2001, pending approval, that are under review and evaluation for future use by our homebuilding operations.

Sources of our working capital at December 31, 2001, include our cash and equivalents, our \$560 million committed unsecured revolving credit facilities and PMC's \$450 million revolving credit facilities. Our debt-to-total capitalization, excluding our non-guarantor asset secured borrowings, was 44.8% as of December 31, 2001. We expect to manage our debt-to-total capitalization to the 40% level by the end of 2002. It is our intent to exercise, over time, the early call provisions of the Senior Subordinated Notes issued by Del Webb, as allowed

under these notes. We routinely monitor current operational requirements and financial market conditions to evaluate the use of available financial sources, including securities offerings.

Del Webb Merger

On July 31, 2001, we merged with Del Webb Corporation as discussed in Note 3 of the Notes to Consolidated Financial Statements. At closing, we paid off and cancelled Del Webb's revolving credit facility, which had a balance outstanding of approximately \$300 million at closing. Under the terms of Del Webb's \$100 million, 9¾%, due 2003, Senior Subordinated Notes, we exercised our option to redeem the entire bond issuance at par during the third quarter of 2001. Under the terms of Del Webb's other Senior Subordinated Notes, we were required, as a result of the change in control, to offer to purchase four series of its Senior Subordinated Notes. As of December 31, 2001, we had repurchased, through tender offers and open-market purchases, \$127 million of these Notes. Under the terms of Del Webb's \$150 million 9¾%, due 2008, Senior Subordinated Notes, we exercised our optional right to redeem the remaining outstanding balance of \$122 million at the price stipulated in the indenture by placing with the trustee as of December 31, 2001, sufficient proceeds to satisfy a January 15, 2002, final payoff.

Inflation

We, and the homebuilding industry in general, may be adversely affected during periods of high inflation because of higher land and construction costs. Inflation also increases our financing, labor and material costs. In addition, higher mortgage interest rates significantly affect the affordability of permanent mortgage financing to prospective homebuyers. We attempt to pass our customers any increases in our costs through increased sales prices. To date, inflation has not had a material adverse effect on our results of operations. However, there is no assurance that inflation will not have a material adverse impact on our future results of operations.

CRITICAL ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or the method of its application, is generally accepted, we select the principle or method that is appropriate in our specific circumstances (see Note 1 of Notes to Consolidated Financial Statements). Application of these accounting principles requires us to make estimates about the future resolution of existing uncertainties; as a result, actual results could differ from these estimates. In preparing these financial statements, we have made our best estimates and judgments of the amounts and disclosures included in the financial statements, giving due regard to materiality.

Inventory valuation

Our finished inventories are stated at the lower of accumulated cost or net realizable value. Included in inventories are all direct development costs. We capitalize interest cost into homebuilding inventories and charge the interest to homebuilding interest expense over a period that approximates the average life cycle of our communities. This period increased in 2001 due to the addition of the Del Webb properties, which have a longer life cycle. Inventories under development or held for development are stated at accumulated cost, unless they are determined to be impaired, in which case these inventories are measured at fair value. If actual market conditions are less favorable than those projected by management, additional inventory adjustments may be required.

Sold units are expensed on a specific identification basis or on a relative sales value basis as cost of sales. Under the specific identification basis, units are assigned an average cost by project based on actual costs-to-date plus the estimated cost of completion. Units costed using the relative sales value basis are assigned cost based on the sales value of the unit in relation to the total estimated sales value of the project.

Goodwill and Intangible Assets

Goodwill and intangible assets are reviewed by management for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Goodwill and other intangible assets totaled \$467 million at the end of 2001, which represented 8% of total assets. The majority of these assets resulted from the acquisition of Del Webb in 2001. Del Webb has a long history of operating success and profitability, has well recognized brand names and holds a significant position in the active adult market which should continue in the future. The integration of Del Webb should enable the combined businesses to accelerate the pace of land absorptions, enhance the visibility of the "Del Webb" and "Sun City" brand names and obtain the synergies of enhanced purchasing leverage, complementary product offerings and combined operations in the future. Changes in strategy and/or market conditions could impact these judgments and require adjustments to recorded asset balances.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our long-term debt to the extent long-term rates decline. The following tables set forth, as of December 31, 2001 and 2000, our long-term debt obligations, principal cash flows by scheduled maturity, weighted-average interest rates and estimated fair market value (\$000's omitted).

	As of December 31, 2001 for the Years Ended December 31,							
	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
Rate sensitive liabilities								
Fixed interest rate debt:								
Pulte Homes, Inc., public debt instruments	\$ —	\$275,000	\$112,000	\$125,000	\$69,810	\$1,130,887	\$1,712,697	\$1,744,726
Average interest rate	—	8.59%	8.38%	7.30%	9.00%	8.37%	8.36%	—
Pulte Home Corporation, other non-recourse debt	\$3,147	\$ 6,100	\$ 3,000	\$ 2,758	\$ —	\$ —	\$ 15,005	\$ 15,005
Average interest rate	4.48%	7.78%	9.00%	9.00%	—	—	7.56%	—

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

As of December 31, 2000 for the Years Ended December 31,

	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
Rate sensitive liabilities								
Fixed interest rate debt:								
Pulte Homes, Inc., public debt instruments	\$ —	\$ —	\$275,000	\$112,000	\$125,000	\$150,000	\$662,000	\$635,855
Average interest rate	—	—	8.59%	8.38%	7.30%	7.63%	8.09%	—
Pulte Diversified Companies, Inc., unsecured promissory note	\$ 7,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,000	\$ 7,000
Average interest rate	8.00%	—	—	—	—	—	8.00%	—
Pulte Home Corporation, other non-recourse debt	\$10,878	\$428	\$ —	\$ —	\$ —	\$ —	\$ 11,306	\$ 11,306
Average interest rate	7.51%	3.00%	—	—	—	—	7.34%	—

PMC, operating as a mortgage banker, is also subject to interest rate risk. Interest rate risk begins when we commit to lend money to a customer at agreed upon terms (i.e., commits to lend at a certain interest rate for a certain period of time). The interest rate risk continues through the loan closing and until the loan is sold to an investor. During 2001 and 2000, this period of interest rate exposure averaged approximately 60 days. In periods of rising interest rates, the length of exposure will generally increase due to customers locking in an interest rate sooner as opposed to letting the interest rate float.

We minimize interest rate risk by (i) financing the loans via a variable rate borrowing agreement tied to the Federal Funds rate and (ii) hedging our loan commitments and closed loans through derivative financial instruments with off-balance sheet risk. These financial instruments include cash forward placement contracts on mortgage-backed securities, whole loan investor commitments, options on treasury future contracts and options on cash forward placement contracts on mortgage-backed securities. We do not use any derivative financial instruments for trading purposes.

Hypothetical changes in the fair values of our financial instruments arising from immediate parallel shifts in long-term mortgage rates of plus 50, 100 and 150 basis points would not be material to our financial results.

Our aggregate net equity investment in Mexico approximated \$61.1 million at December 31, 2001. This investment, which is exposed to foreign currency exchange risk, could devalue by as much as \$10 million in 2002, assuming a hypothetical 18% annualized devaluation of the Mexican peso against the U.S. dollar during 2002.

Our aggregate net investment in Argentina approximated \$20.1 million at December 31, 2001. This investment is exposed to foreign currency exchange risk. It is unclear at this

time how the Argentine financial and currency markets will be affected in 2002 as a result of the Argentine government's decision to de-link the valuation of the Argentine peso from the U. S. dollar. It is therefore unclear what effect this may have on the continuing value of our investment in Argentina.

SPECIAL NOTES CONCERNING FORWARD-LOOKING STATEMENTS

As a cautionary note, except for the historical information contained herein, certain matters discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk," are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such matters involve risks and uncertainties, including:

- our exposure to certain market risks, changes in economic conditions, tax and interest rates, increases in raw material and labor costs, issues and timing surrounding land entitlement and development, weather conditions, government regulations and environmental matters, as well as, general competitive factors, that may cause actual results to differ materially; and
- our ability to integrate the recently acquired business operations of Del Webb Corporation, including Del Webb's activities, management and corporate culture, with our own, and our ability to develop and manage large-scale active adult communities which differ from our historical home-building business.

Consolidated Balance Sheets

December 31, 2001 and 2000

(\$000's omitted, except share data)

	2001	2000
ASSETS		
Cash and equivalents	\$ 72,144	\$ 183,985
Unfunded settlements	69,631	83,147
House inventory	875,690	545,767
Land inventory	2,958,073	1,351,089
Residential mortgage loans available-for-sale	431,735	259,239
Goodwill	307,693	30,449
Intangible assets, net of accumulated amortization of \$3,396 in 2001	159,604	—
Other assets	772,687	376,235
Deferred income taxes	67,019	56,572
	\$5,714,276	\$2,886,483
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, including book overdrafts of \$119,229 and \$111,211 in 2001 and 2000, respectively	\$ 333,845	\$ 220,916
Accrued liabilities	806,852	487,262
Unsecured short-term borrowings	110,000	—
Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets	413,675	242,603
Income taxes	35,370	10,169
Subordinated Notes and Senior Notes	1,737,869	677,602
Total liabilities	3,437,611	1,638,552
Shareholders' Equity:		
Preferred stock, \$.01 par value; 25,000,000 shares authorized, none issued	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized, 59,249,233 and 41,566,960 shares issued and outstanding in 2001 and 2000, respectively	592	416
Additional paid-in capital	862,881	109,593
Unearned compensation	(3,859)	—
Accumulated other comprehensive income (loss), net of income taxes of \$(8,418) and \$59 in 2001 and 2000, respectively	(13,969)	185
Retained earnings	1,431,020	1,137,737
Total shareholders' equity	2,276,665	1,247,931
	\$5,714,276	\$2,886,483

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operation

For the years ended December 31, 2001, 2000 and 1999

(\$000's omitted, except per share data)

	2001	2000	1999
Revenues:			
Homebuilding	\$5,309,829	\$4,195,675	\$3,711,196
Financial services	69,881	47,443	49,873
Corporate	2,210	633	2,748
Total revenues	5,381,920	4,243,751	3,763,817
Expenses:			
Homebuilding, principally cost of sales	4,794,059	3,808,747	3,401,451
Financial services, principally interest	41,550	28,434	29,045
Corporate, net	59,662	56,929	53,732
Total expenses	4,895,271	3,894,110	3,484,228
Other income:			
Equity in income of Pulte-affiliates	5,138	5,455	6,816
Income from continuing operations before income taxes	491,787	355,096	286,405
Income taxes	189,362	136,712	108,118
Income from continuing operations	302,425	218,384	178,287
Loss from discontinued operations	(1,032)	(29,871)	(122)
Net income	\$ 301,393	\$ 188,513	\$ 178,165
Per share data:			
Basic:			
Income from continuing operations	\$ 6.16	\$ 5.29	\$ 4.12
Loss from discontinued operations	(.02)	(.73)	—
Net income	\$ 6.14	\$ 4.56	\$ 4.12
Assuming dilution:			
Income from continuing operations	\$ 6.01	\$ 5.18	\$ 4.07
Loss from discontinued operations	(.02)	(.71)	—
Net income	\$ 5.99	\$ 4.47	\$ 4.07
Cash dividends declared	\$.16	\$.16	\$.16
Number of shares used in calculation:			
Basic:			
Weighted-average common shares outstanding	49,098	41,310	43,246
Assuming dilution:			
Effect of dilutive securities—stock options	1,225	836	577
Adjusted weighted-average common shares and effect of dilutive securities	50,323	42,146	43,823

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2001, 2000 and 1999

(\$000's omitted, except per share data)

	Common Stock	Additional Paid-in Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Shareholders' Equity, December 31, 1998	\$432	\$ 75,051	\$ —	\$ 1,130	\$ 844,829	\$ 921,442
Stock option exercise, including tax benefit of \$374	1	2,019	—	—	—	2,020
Cash dividends declared—\$.16 per share	—	—	—	—	(6,919)	(6,919)
Comprehensive income:						
Net income	—	—	—	—	178,165	178,165
Change in unrealized gains on securities available-for-sale, net of income taxes of \$(722)	—	—	—	(1,130)	—	(1,130)
Foreign currency translation adjustments, net of income taxes of \$52	—	—	—	(259)	—	(259)
Total comprehensive income						176,776
Shareholders' Equity, December 31, 1999	433	77,070	—	(259)	1,016,075	1,093,319
Stock option exercise, including tax benefit of \$9,837	16	38,605	—	—	—	38,621
Cash dividends declared—\$.16 per share	—	—	—	—	(6,583)	(6,583)
Stock repurchases	(33)	(6,082)	—	—	(60,268)	(66,383)
Comprehensive income:						
Net income	—	—	—	—	188,513	188,513
Foreign currency translation adjustments, net of income taxes of \$7	—	—	—	444	—	444
Total comprehensive income						188,957
Shareholders' Equity, December 31, 2000	416	109,593	—	185	1,137,737	1,247,931
Common stock issued and stock options exchanged in merger	168	729,219	—	—	—	729,387
Stock option exercise, including tax benefit of \$4,982	7	18,512	—	—	—	18,519
Restricted stock award	1	5,557	(5,558)	—	—	—
Restricted stock award amortization	—	—	1,699	—	—	1,699
Cash dividends declared—\$.16 per share	—	—	—	—	(8,110)	(8,110)
Comprehensive income:						
Net income	—	—	—	—	301,393	301,393
Change in fair value of derivatives, net of income taxes of \$371	—	—	—	592	—	592
Foreign currency translation adjustments, net of income taxes of \$(8,445)	—	—	—	(14,746)	—	(14,746)
Total comprehensive income						287,239
Shareholders' Equity, December 31, 2001	\$592	\$862,881	\$(3,859)	\$(13,969)	\$1,431,020	\$2,276,665

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2001, 2000 and 1999

(\$000's omitted)

	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 301,393	\$ 188,513	\$ 178,165
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:			
Amortization, depreciation and other	32,876	14,230	13,497
Deferred income taxes	(8,176)	652	23,161
Gain on sale of securities	—	—	(1,664)
Increase (decrease) in cash, excluding effects of acquired entities, due to:			
Inventories	(648,266)	(210,025)	(258,196)
Residential mortgage loans available-for-sale	(157,124)	(41,177)	16,912
Other assets	10,808	(14,141)	(60,559)
Accounts payable and accrued liabilities.	5,022	77,034	101,245
Income taxes	44,671	8,236	2,552
Net cash provided by (used in) operating activities	(418,796)	23,322	15,113
Cash flows from investing activities:			
Proceeds from sale of securities available-for-sale	—	—	27,886
Principal payments on mortgage-backed securities	—	—	1,490
Increase in covered assets and FRF receivables	(2,877)	(3,862)	—
Cash paid for acquisitions, net of cash acquired	11,644	—	(24,714)
Other, net	1,057	(1,323)	(5,665)
Net cash provided by (used in) investing activities	9,824	(5,185)	(1,003)
Cash flows from financing activities:			
Payment of long-term debt and bonds	(363,391)	(19,969)	(50,480)
Proceeds from borrowings	980,507	209,930	18,717
Repayment of borrowings	(325,714)	(32,161)	(49,989)
Issuance of common stock	13,537	28,784	1,646
Stock repurchases	—	(66,383)	—
Dividends paid	(8,110)	(6,583)	(6,919)
Other, net	302	433	(617)
Net cash provided by (used in) financing activities	297,131	114,051	(87,642)
Net increase (decrease) in cash and equivalents	(111,841)	132,188	(73,532)
Cash and equivalents at beginning of year	183,985	51,797	125,329
Cash and equivalents at end of year	\$ 72,144	\$ 183,985	\$ 51,797
Supplemental Cash Flow Information:			
Non-cash investing and financing activities:			
Issuance of common stock and exchange of stock options in merger	\$ 729,387	\$ —	\$ —
Cash paid during the year for:			
Interest, net of amount capitalized	\$ 31,364	\$ 29,579	\$ 26,225
Income taxes	\$ 137,684	\$ 115,352	\$ 63,685

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements include the accounts of Pulte Homes, Inc. (the "Company" or "Pulte"), and all of its direct subsidiaries. The Company's direct subsidiaries include Pulte Diversified Companies, Inc. (PDCI), Del Webb Corporation (Del Webb) and other subsidiaries, which are engaged in the homebuilding business. PDCI's operating subsidiaries include Pulte Home Corporation (PHC), Pulte International Corporation (International) and other subsidiaries, which are engaged in the homebuilding business. PDCI's non-operating thrift subsidiary, First Heights Bank, fsb (First Heights), is classified as a discontinued operation (see Note 4). The Company also has a mortgage banking company, Pulte Mortgage Company (PMC), which is a subsidiary of PHC.

Certain amounts related to land sales previously reported in the 2000 financial statements and notes thereto were reclassified to conform to the 2001 presentation.

Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and equivalents

For purposes of the Consolidated Statements of Cash Flows, commercial paper and time deposits with a maturity of three months or less when acquired are classified as cash equivalents.

Stock-based compensation

The Company grants stock options to key employees for a fixed number of shares with an exercise price not less than the fair value of the shares at the date of grant. The Company accounts for the stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." No compensation expense is recognized because all stock options granted have exercise prices equal to the market value of the Company's stock on the date of the grant. The pro forma disclosures required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," are included in Note 7.

Foreign investments

The Company has investments in Mexico, Puerto Rico and Argentina. Gains and losses resulting from the change in foreign exchange rates are recognized in accordance with

SFAS No. 52, "Foreign Currency Translation." The Company recorded losses of \$841,000 and \$78,000 for the years ended December 31, 2001 and 2000, respectively. The Company recorded a \$1,702,000 gain on foreign currency transactions for the year ended December 31, 1999.

The Company's investments primarily include the Mexican homebuilding joint ventures of Condak-Pulte S. De R.L. De C.V. and Desarrollos Residenciales Turisticos, S.A. de C.V., the net investments of which comprise \$38.9 million and \$7.2 million, respectively, at December 31, 2001. The Company recorded equity income of \$5,138,000, \$5,455,000 and \$6,000,000 related to its Mexican homebuilding operations in 2001, 2000 and 1999, respectively. To support homebuilding activities in Mexico, the Company also has a minority ownership interest (approximately 21.9%) in a Mexican mortgage banking company, the balance of which approximated \$13.4 million at December 31, 2001. The Company's aggregate net equity investment in the Mexican joint ventures is approximately \$61.1 million as of December 31, 2001.

Income per share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares, adjusted for nonvested shares of restricted stock (the denominator) for the period. Computing diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the dilutive effects of options, warrants and convertible securities. Any options that have an exercise price greater than the average market price are excluded from the diluted income per share calculation. For the years ended December 31, 2001, 2000 and 1999, 1,795,500, 873,000 and 2,623,000, respectively, of the outstanding stock options were excluded from this calculation.

Fair values of financial instruments

The estimated fair values of financial instruments were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret the market data and develop the estimated fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and equivalents approximate their fair values due to their short-term nature.

The fair value of residential mortgage loans available-for-sale is estimated using the quoted market prices for securities backed by similar loans.

Notes to Consolidated Financial Statements (continued)

The fair values of Subordinated Debentures and Senior Notes are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of similar issues.

Disclosures about the fair value of financial instruments are based on pertinent information available to management as of December 31, 2001. Although management is not aware of any factors that would significantly affect the reasonableness of the fair value amounts, such amounts were not comprehensively revalued for purposes of these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Advertising cost

The Company expenses advertising costs as incurred. For the years ended December 31, 2001, 2000 and 1999, the Company incurred advertising costs of approximately \$56,835,000, \$40,440,000 and \$31,800,000, respectively.

Employee benefits

The Company maintains two defined contribution plans that cover substantially all of the Company's employees. Company contributions to the plans are expensed as paid. The total Company contributions pursuant to the plans were approximately \$3,800,000, \$2,300,000 and \$2,100,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Other comprehensive income

The accumulated balances related to each component of other comprehensive income are as follows (\$000's omitted):

	December 31,	
	2001	2000
Foreign currency translation adjustments, net of income taxes of \$(8,386) in 2001 and \$59 in 2000	\$(14,561)	\$185
Change in fair value of derivatives, net of income taxes of \$371 in 2001	592	—
	\$(13,969)	\$185

Intangible assets

Intangible assets, which consist of goodwill and certain trademarks and tradenames, are routinely reviewed for impairment indicators or when events and circumstances warrant. If impairment indicators exist, an assessment of undiscounted future cash flows for the assets related to these intangibles are evaluated accordingly. If the results of the analysis indicate impairment, the assets are adjusted to fair market value. Trademarks and tradenames are amortized on a straight-line basis over a 20 year life.

Derivative instruments and hedging activities

Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, requires companies to recognize all of

their derivative instruments as either assets or liabilities at fair value in the statement of financial position. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. The Company currently uses only cash flow hedge accounting.

Market risks arise from movements in interest rates and cancelled or modified commitments to lend. In order to reduce these risks, the Company uses derivative financial instruments. These financial instruments include cash forward placement contracts on mortgage-backed securities, whole loan investor commitments, options on treasury futures contracts, and options on cash forward placement contracts on mortgage-backed securities. The Company does not use any derivative financial instruments for trading purposes. When the Company commits to lend to the borrower (interest rate is locked to the borrower), the Company enters into one of the aforementioned derivative financial instruments. The change in the value of the loan commitment and the derivative financial instrument is recognized in current earnings during the period of change.

The Company hedges portions of its forecasted cash flow from sales of closed mortgage loans with derivative financial instruments. The cumulative effect recognized in adopting this statement was not material to the Company in 2001. For the year ended December 31, 2001, the Company did not recognize any net gains or losses related to the ineffective portion of the hedging instrument excluded from the assessment of hedge effectiveness. In addition, the Company did not recognize any gains or losses during 2001 for cash flow hedges that

were discontinued because it is probable that the original forecasted transaction will not occur. At December 31, 2001, the Company expects to reclassify \$592,000, net of taxes, of net losses on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months from sales of closed mortgage loans.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the SFAS No. 142. Other intangible assets will continue to be amortized over their useful lives.

Effective January 1, 2002, the Company will apply the non-amortization provisions of SFAS No. 142 related to the goodwill existing at June 30, 2001, which is expected to result in an increase in net income of approximately \$4 million (\$0.07 per diluted share) per year. As required by SFAS No. 142, the goodwill recorded as a result of the July 2001 merger with Del Webb (Note 3) has not been amortized. During 2002, the Company will perform the first of the required impairment tests of goodwill as of January 1, 2002, and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for fiscal years beginning after December 15, 2001. This standard supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 provides guidance on differentiating between assets held and used and assets to be disposed of. Assets to be disposed of would be classified as held for sale (and depreciation would cease) when management, having the authority to approve the action, commits to a plan to sell the asset(s) meeting all required criteria. The Company plans to adopt this statement on January 1, 2002, but has not yet determined what effect, if any, SFAS No. 144 will have on its earnings and financial position.

Homebuilding

Allowance for warranties

Home purchasers are provided with warranties against certain building defects. Estimated warranty cost is provided in the period in which the sale is recorded.

Start-up costs

Costs and expenses associated with entry into new homebuilding markets and opening new communities in existing markets are expensed when incurred.

Revenues

Homebuilding revenues are recorded when the sales of homes are completed and ownership has transferred to the customer. Unfunded settlements are deposits in transit on homes for which the sale was completed.

Inventories

Finished inventories are stated at the lower of accumulated cost or net realizable value. Inventories under development or held for development are stated at accumulated cost, unless certain facts indicate such cost would not be recovered from the cash flows generated by future disposition. In this instance, such inventories are measured at fair value.

Sold units are expensed on a specific identification basis or on a relative sales value basis as cost of sales. Included in inventories are all direct costs specifically identifiable to its development. The Company capitalizes interest cost into homebuilding inventories and charges the interest to homebuilding interest expense over a period that approximates the average life cycle of its communities. The Company capitalized interest in the amount of \$80,399,000, \$33,129,000 and \$27,923,000, and expensed to homebuilding interest expense \$36,006,000, \$28,019,000 and \$25,187,000 in 2001, 2000 and 1999, respectively.

Financial Services

Mortgage servicing rights

The Company sells its servicing rights on a flow basis through fixed price servicing sales contracts. Due to the short period of time the servicing rights are held, usually three to four months, the Company does not amortize the servicing asset. Since the servicing rights are recorded at the value in the servicing sales contracts, there are no impairment issues related to these assets. The Company could be required to repurchase loans found to be defective. Reserves for such future repurchases or indemnifications are reflected in accounts payable and accrued liabilities. During 2001, 2000 and 1999, total servicing rights recognized were \$41,614,000, \$33,048,000 and \$38,290,000, respectively.

Residential mortgage loans available-for-sale

Residential mortgage loans available-for-sale are stated at the lower of aggregate cost or market value. Unamortized net mortgage discounts totaled \$1,827,000 and \$1,119,000 at December 31, 2001 and 2000, respectively.

Gains and losses from sales of mortgage loans are recognized when the loans are sold. The Company hedges its residential mortgage loans available-for-sale (see Note 11). Gains and losses from closed commitments and futures contracts are matched against the related gains and losses on the sale of mortgage loans.

Notes to Consolidated Financial Statements (continued)

Mortgage servicing, origination and commitment fees

Mortgage servicing fees represent fees earned for servicing loans for various investors. Servicing fees are based on a contractual percentage of the outstanding principal balance and are credited to income when the related mortgage payments are received. Loan origination fees, commitment fees and certain direct loan origination costs are deferred as an adjustment to the cost of the related mortgage loan until such loan is sold.

2. SEGMENT INFORMATION

The Company's operations are classified into three reportable segments: Homebuilding, Financial Services and Corporate.

The Company's Homebuilding segment consists of the following two business units:

- Domestic Homebuilding, the Company's core business, is engaged in the acquisition and development of land primarily for residential purposes within the continental United States

and the construction of housing on such land targeted for the first-time, first and second move-up, and active adult home buyers.

- International Homebuilding is primarily engaged in the acquisition and development of land principally for residential purposes, and the construction of housing on such land in Mexico, Puerto Rico and Argentina.

The Company's Financial Services segment consists principally of mortgage banking operations conducted through PMC and its subsidiaries.

Corporate is a non-operating business segment whose primary purpose is to support the operations of the Company's subsidiaries as the internal source of financing, to develop and implement strategic initiatives centered on new business development and operating efficiencies, and to provide the necessary administrative functions to support the Company as a publicly traded entity.

Operating Data by Segment (\$000's omitted)

	Years Ended December 31,		
	2001	2000	1999
Revenues:			
Homebuilding	\$5,309,829	\$4,195,675	\$3,711,196
Financial Services	69,881	47,443	49,873
Corporate	2,210	633	2,748
Total revenues	5,381,920	4,243,751	3,763,817
Cost of sales:			
Homebuilding	4,247,320	3,395,967	3,049,538
Selling, general and administrative:			
Homebuilding	493,948	371,325	319,051
Financial Services	32,471	20,906	21,391
Corporate	15,443	12,372	12,682
Total selling, general and administrative	541,862	404,603	353,124
Interest:			
Homebuilding	36,006	28,019	25,187
Financial Services	9,079	7,478	7,404
Corporate	36,471	29,620	24,224
Total interest	81,556	65,117	56,815
Other expense, net:			
Homebuilding	16,785	13,436	7,675
Financial Services	—	50	250
Corporate	7,748	14,937	16,826
Total other expense, net	24,533	28,423	24,751
Total costs and expenses	4,895,271	3,894,110	3,484,228
Equity in income of joint ventures:			
Homebuilding	5,138	5,455	6,816
Income before income taxes:			
Homebuilding	520,908	392,383	316,561
Financial Services	28,331	19,009	20,828
Corporate	(57,452)	(56,296)	(50,984)
Total income before income taxes	\$ 491,787	\$ 355,096	\$ 286,405

Supplemental Operating Data by Geographic Region (\$000's omitted)

	Years Ended December 31,		
	2001	2000	1999
Revenues:			
Domestic United States	\$5,346,751	\$4,216,592	\$3,740,528
International	35,169	27,159	23,289
Total revenues	5,381,920	4,243,751	3,763,817
Cost of sales:			
Domestic United States	4,216,383	3,371,356	3,029,201
International	30,937	24,611	20,337
Total cost of sales	4,247,320	3,395,967	3,049,538
Selling, general and administrative:			
Domestic United States	531,319	399,323	349,633
International	10,543	5,280	3,491
Total selling, general and administrative	541,862	404,603	353,124
Interest:			
Domestic United States	81,556	65,117	56,815
Other (income) expense, net:			
Domestic United States	24,553	30,116	27,273
International	(20)	(1,693)	(2,522)
Total other expense, net	24,533	28,423	24,751
Total costs and expenses	4,895,271	3,894,110	3,484,228
Equity in income of joint ventures	5,138	5,455	6,816
Income before income taxes	\$ 491,787	\$ 355,096	\$ 286,405

Asset Data by Segment (\$000's omitted)

	Homebuilding	Financial Services	Corporate	Total
At December 31, 2001:				
Inventory	\$3,833,763	\$ —	\$ —	\$3,833,763
Identifiable assets	5,060,583	485,297	168,396	\$5,714,276
At December 31, 2000:				
Inventory	\$1,896,856	\$ —	\$ —	\$1,896,856
Identifiable assets	2,443,540	283,265	159,678	\$2,886,483

Supplemental Asset Data by Geographic Region (\$000's omitted)

	Domestic United States	International	Total
At December 31, 2001:			
Inventory	\$3,796,092	\$37,671	\$3,833,763
Identifiable assets	5,617,063	97,213	\$5,714,276
At December 31, 2000:			
Inventory	\$1,869,127	\$27,729	\$1,896,856
Identifiable assets	2,821,490	64,993	\$2,886,483

Notes to Consolidated Financial Statements (continued)

3. DEL WEBB MERGER

On July 31, 2001, the Company merged with Del Webb Corporation in a tax-free stock-for-stock transaction. Under the terms of the merger agreement, each outstanding share of Del Webb common stock was exchanged for approximately 0.894 shares of newly issued Company stock. Approximately 16,800,000 shares were issued to Del Webb shareholders. Del Webb is primarily a homebuilder with operations in six states. For the fiscal year ended June 30, 2001, Del Webb reported net income of \$91.2 million on revenues of \$1.9 billion and 7,038 unit settlements. Backlog reported at June 30, 2001 was 3,682 units valued at approximately \$994 million.

This merger expands and supports the Company's leadership position. In particular, the Company believes the merger will strengthen its position among active adult homebuyers, enhance its overall land position, provide operational savings from economies of scale while enhancing purchasing leverage, and enhance the Company's overall competitive position.

The merger was accounted for using the purchase method of accounting. Approximately 16,800,000 shares were issued and assigned an approximate accounting value of \$42.74 per share based on the average closing price of the Company's stock for the five trading days ended July 26, 2001. The components of the purchase price and allocation are as follows (\$000's omitted):

Consideration and merger costs:	
Stock issued to Del Webb stockholders	\$720,111
Cash paid to Del Webb stock option and restricted stock holders	29,498
Fair value of stock options exchanged	9,276
Cash paid for certain change-in-control and consulting arrangements	52,709
Other transaction costs	22,389
Total purchase price	\$833,983
Purchase price allocation:	
Inventory	1,522,797
Other assets	387,301
Trademarks and tradenames	163,000
Accounts payable and other	(494,029)
Unsecured short-term borrowings	(300,000)
Subordinated Notes	(729,096)
	549,973
Goodwill	\$284,010

This goodwill, which is not deductible for tax purposes, was allocated solely to the Homebuilding segment. Trademarks and tradenames are being amortized on a straight-line basis over a period of 20 years. Independent appraisers and advisors

utilizing proven valuation procedures allocated portions of the purchase price, including inventory, intangible assets and various other assets. The final determination of purchase accounting is subject to the resolution of certain issues related to assumed liabilities.

Del Webb's operations have been included in the consolidated results since August 1, 2001. The following table presents a summary of the unaudited pro forma operating results for the Company assuming that the merger with Del Webb occurred on January 1, 2001 and 2000.

	Years Ended December 31, (Unaudited)	
	2001	2000
Revenues (\$000's omitted)	\$6,494,795	\$6,251,844
Income from continuing operations (\$000's omitted)	\$ 336,856	\$ 285,129
Basic earnings per share	\$ 5.73	\$ 4.90
Diluted earnings per share	\$ 5.62	\$ 4.84

The pro forma information presented does not purport to be indicative of the results of operations that would have actually been reported had the merger occurred on January 1, 2001 and 2000. For the purposes of the above pro forma information presented and in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized for transactions occurring subsequent to June 30, 2001. As such, operations for all periods presented do not include amortization of the goodwill recognized in the Del Webb merger.

4. DISCONTINUED OPERATIONS

In September 1988, substantially all of the assets, business operations and certain liabilities of five Texas-based insolvent thrifts were acquired by First Heights. Assistance with each acquisition was provided by the Federal Savings and Loan Insurance Corporation (FSLIC) pursuant to an Assistance Agreement. The FSLIC issued promissory notes representing the estimated negative net worth of the acquired associations at the date of acquisition, the balances of which, including accrued interest, were \$0 and \$81,035,000 at December 31, 2001 and 2000, respectively. The notes had a weighted-average interest rate of 5.6% at December 31, 2000. The FSLIC Resolution Fund (FRF) is entitled to payments of up to 25% of certain tax benefits which may be derived as a result of the assistance transactions.

During the first quarter of 1994, the Company adopted a plan of disposal for First Heights and announced its strategy to exit the thrift industry and increase its focus on housing and related mortgage banking. First Heights sold all but one of its 32 bank branches and related deposits to two unrelated purchasers. The sale was substantially completed during the fourth quarter of 1994, although the Company held brokered deposits which were not liquidated until 1998.

Although the Company in 1994, expected to complete the plan of disposal within a reasonable period of time, contractual disputes with the Federal Deposit Insurance Corporation (FDIC) prevented the prepayment of the FRF notes, thereby precluding the Company from completing the disposal in accordance with its original plan. To provide liquidity for the sale, First Heights liquidated its investment portfolios and its single-family residential loan portfolio and, as provided in the Assistance Agreement, entered into a Liquidity Assistance Note (LAN) with the FDIC acting in its capacity as manager of the FRF. The LAN was collateralized by the FRF notes. The LAN and FRF notes matured in September 1998; however, payment of these obligations was withheld by both parties pending resolution of all open matters with the FDIC. As discussed in Note 10, the Company settled its litigation with the FDIC in October 2001, and, as part of the settlement, all obligations under the LAN and the FRF notes have been extinguished.

First Heights no longer holds any deposits, nor does it maintain an investment portfolio. First Heights' day-to-day activities have been principally devoted to supporting residual regulatory compliance matters and the litigation with the United States government, and are not reflective of the active operations of the former thrift, such as maintaining traditional transaction accounts (e.g., checking and savings accounts) or making loans. Accordingly, such operations are being presented as discontinued.

Included in accrued liabilities are litigation-related accruals recorded by the Company, offset by accounts and notes receivable due from the FRF, of \$0 and \$30,250,000 as of December 31, 2001 and 2000, respectively.

Revenues of discontinued operations were \$29,000, \$3,685,000 and \$3,677,000 for the years ended December 31, 2001, 2000 and 1999, respectively. For the years ended December 31, 2001, 2000 and 1999, discontinued thrift operations resulted in losses of \$1,032,000, \$29,871,000 and \$122,000, respectively. The after-tax loss in 2000 includes a \$30 million charge for related litigation as discussed in Note 10.

The Company had previously recognized, as part of discontinued thrift operations, after-tax income of approximately \$110 million. Such income related to tax benefits associated with net operating losses (NOLs), all of which have now been utilized. Although the Company has computed its NOLs and reported them to the Internal Revenue Service in a manner that it believes will comply with applicable law, there is no assurance that the IRS will agree with the Company's determination of the amount of NOLs, in which case, if the IRS were to prevail, the use of a portion or all of the Company's NOLs could be disallowed.

5. SHORT-TERM CREDIT ARRANGEMENTS

Short-term financing for the Company on an operating segment basis is as follows:

Corporate/Homebuilding

In July 2001, the Company expanded its revolving credit facilities to a total of \$560 million as allowed under the credit agreements, in contemplation of its acquisition of Del Webb. This facility, which includes an option to expand the facility size to \$600 million, expires August 31, 2005. The bank credit agreements contain restrictive covenants. The following is aggregate borrowing information (\$000's omitted):

	2001	2000	1999
Available credit lines at year-end	\$560,000	\$415,000	\$375,000
Unused credit lines at year-end	\$450,000	\$415,000	\$368,000
Maximum amount outstanding at the end of any month	\$334,000	\$245,000	\$200,000
Average monthly indebtedness	\$ 72,000	\$137,000	\$107,000
Range of interest rates during the year	2.65 to 6.81%	5.19 to 9.50%	4.87 to 9.25%
Weighted-average rate at year-end	3.79%	6.86%	6.26%

Financial Services

Notes payable to banks (collateralized short-term debt) are secured by residential mortgage loans available-for-sale. The carrying amounts of such borrowings approximate fair values.

Notes to Consolidated Financial Statements (continued)

At December 31, 2001, PMC had a committed bank credit line of \$225 million. The bank credit agreements require PMC to pay a fee for the committed credit line. The committed line expires March 31, 2003. PMC also has a \$225 million annual asset-backed commercial paper program, which expires September 22, 2002. During the three years ended December 31, 2001, PMC provided compensating balances, in the form of escrows and other custodial funds, in order to further reduce interest rates. The bank credit agreements each contain certain restrictions, including the maintenance of levels of equity. Under the most restrictive of the agreements, PMC is required to maintain a minimum tangible net worth of \$15 million.

The following is aggregate borrowing information (\$000's omitted):

	2001	2000	1999
Available credit lines at year-end	\$450,000	\$325,000	\$345,000
Unused credit lines at year-end	\$ 40,000	\$ 91,000	\$147,000
Maximum amount outstanding at the end of any month	\$410,000	\$234,000	\$198,000
Average monthly indebtedness	\$219,000	\$117,000	\$122,000
Range of interest rates during the year	0.45 to 9.18%	0.45 to 8.15%	0.60 to 8.15%
Weighted-average rate at year-end	2.35%	7.31%	7.11%

6. LONG-TERM DEBT

Long-term debt is summarized as follows (\$000's omitted):

	At December 31,	
	2001	2000
Corporate		
9.5% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2003, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	\$ 174,672	\$174,409
7% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2003, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	99,920	99,880
8.375% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2004, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	111,914	111,880
7.3% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2005, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	124,960	124,949
8.125% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2011, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	198,883	—
7.875% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2011, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	495,654	—
7.625% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2017, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	148,287	148,178
9% Senior Subordinated Notes, issued by Del Webb Corporation, due 2006, callable prior to maturity, guaranteed by certain wholly-owned subsidiaries of Pulte. See Note 12	70,621	—
9.375% Senior Subordinated Notes, issued by Del Webb Corporation, due 2009, callable prior to maturity, guaranteed by certain wholly-owned subsidiaries of Pulte. See Note 12	175,083	—
10.25% Senior Subordinated Notes, issued by Del Webb Corporation, due 2010, callable prior to maturity, guaranteed by certain wholly-owned subsidiaries of Pulte. See Note 12	122,870	—
8% unsecured promissory note, issued by Pulte Diversified Companies, Inc., due 2001, unconditionally guaranteed by Pulte.	—	7,000
Homebuilding		
Other non-recourse debt, minimum annual principal payments required, maturing at various times through 2005, interest rates ranging from 0% to 9%	15,005	11,306
	\$1,737,869	\$677,602
Estimated fair value	\$1,759,731	\$654,161

Total Corporate and Homebuilding long-term debt maturities and mandatory annual sinking fund payments during the five years after 2001 are as follows: 2002 – \$3,147,000; 2003 – \$280,692,000; 2004 – \$114,914,000; 2005 – \$127,718,000; 2006 – \$70,621,000; and thereafter \$1,140,777,000.

7. STOCK COMPENSATION PLANS AND MANAGEMENT INCENTIVE COMPENSATION

The Company has fixed stock option plans for both employees (the "Employee Plans") and for nonemployee directors (the "Director Plans"); information related to the Plans is as follows:

Plan Name	Shares Authorized
Employee plans	
Pulte Corporation 2000 Stock Incentive Plan for Key Employees	2,500,000
Pulte Corporation 1995 Stock Incentive Plan for Key Employees	4,000,000
Pulte Corporation 1994 Stock Incentive Plan for Key Employees	2,000,000
Pulte Corporation 1990 Stock Incentive Plan for Key Employees	1,600,000
Nonemployee director plans	
2000 Stock Plan for Nonemployee Directors	250,000
1997 Stock Plan for Nonemployee Directors	133,400

As of December 31, 2001, 801,000 stock options remain available for grant under the Employee Plans and 201,000 stock options remain available for grant under the Director Plans.

The Employee Plans provide for the grant of options (both non-qualified options and incentive stock options as defined in each respective plan), stock appreciation rights and restricted stock to key employees of the Company or its subsidiaries (as determined by the Compensation Committee of the Board of Directors) for periods not exceeding 10 years. Options granted under the Employee Plans vest incrementally in periods ranging from six months to five years. Under the Director Plans, each new nonemployee director will receive 900 shares of common stock and options to purchase an additional 4,000 shares. Nonemployee directors are also entitled to an annual distribution of 900 shares of common stock and options to purchase an additional 4,000 shares. All options granted are non-qualified, vest immediately and are exercisable on the date of grant. Options granted under the Director Plans are exercisable for 10 years from the grant date.

As a result of the Del Webb merger, the Company assumed Del Webb's employee stock plans and their director stock plans. No stock options remain available for grant under the Del Webb plans.

A summary of the status of the Company's stock option plans as of December 31, 2001, 2000 and 1999 and changes during the years ending on those dates is presented below (000's omitted):

	2001		2000		1999	
	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price
Outstanding, beginning of year	5,358	\$23	5,589	\$19	4,400	\$18
Granted	1,933	37	1,439	33	1,427	23
Exercised	(678)	19	(1,631)	17	(93)	15
Forfeited	(74)	25	(39)	24	(145)	20
Outstanding, end of year	6,539	\$28	5,358	\$23	5,589	\$19
Options exercisable at year-end	3,338	\$21	1,939	\$18	2,028	\$17
Weighted-average per share fair value of options granted during the year	\$23.26		\$15.20		\$10.45	

The following table summarizes information about fixed stock options outstanding at December 31, 2001.

Range of Per Share Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31 (000's omitted)	Weighted-Average Remaining Contract Life	Weighted-Average Per Share Exercise Price	Number Exercisable at December 31 (000's omitted)	Weighted-Average Per Share Exercise Price
\$13 to 19.99	1,951	4.3	\$17	1,665	\$17
\$20 to 30.99	2,139	6.0	\$23	1,487	\$23
\$31 to 44	2,449	9.2	\$41	186	\$37

Notes to Consolidated Financial Statements (continued)

Under SFAS No. 123, compensation cost for the Company's stock-based compensation plans is determined based on the fair value at the grant dates for awards under those plans. Additional stock option awards are anticipated in future years. For the years ended December 31, 2001, 2000 and 1999, the Company's income from continuing operations, net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2001	2000	1999
Income from continuing operations (\$000's omitted):			
As reported	\$302,425	\$218,384	\$178,287
Pro forma	\$288,101	\$212,796	\$174,685
Net income (\$000's omitted):			
As reported	\$301,393	\$188,513	\$178,165
Pro forma	\$287,069	\$182,925	\$174,563
Per share data:			
Basic:			
Income from continuing operations:			
As reported	\$ 6.16	\$ 5.29	\$ 4.12
Pro forma	\$ 5.87	\$ 5.15	\$ 4.04
Net income:			
As reported	\$ 6.14	\$ 4.56	\$ 4.12
Pro forma	\$ 5.85	\$ 4.43	\$ 4.04
Assuming dilution:			
Income from continuing operations:			
As reported	\$ 6.01	\$ 5.18	\$ 4.07
Pro forma	\$ 5.73	\$ 5.05	\$ 3.98
Net income:			
As reported	\$ 5.99	\$ 4.47	\$ 4.07
Pro forma	\$ 5.70	\$ 4.34	\$ 3.98

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2001, 2000 and 1999, respectively: weighted-average dividend yields of .39%, .57% and .67%, expected volatility 34.8%, 34.5% and

30.5%, weighted-average risk-free interest rates of 4.94%, 5.54% and 5.48%, and weighted-average expected lives of 6.97 years, 7.33 years and 7.27 years.

Homebuilding operating management personnel are paid current cash incentive compensation based on operating performance. Mortgage banking management personnel are paid current cash incentive compensation substantially based on the performance of the applicable subsidiary. The Company's corporate management personnel are paid current cash incentive compensation based on overall performance of the Company. For the years ended December 31, 2001, 2000 and 1999, the Company's total current cash incentive compensation expense was \$70,605,000, \$51,300,000 and \$45,300,000, respectively. The Company also utilizes a long-term cash incentive plan as a means of compensating key operating employees for long-term performance and contributions to the growth of the Company. For the years ended December 31, 2001, 2000 and 1999 the Company expensed \$5,325,000, \$2,300,000 and \$10,087,000, respectively, relating to this plan.

8. INCOME TAXES

The Company's net deferred tax asset is as follows (\$000's omitted):

	At December 31,	
	2001	2000
Deferred tax liabilities:		
Capitalized items, principally real estate basis differences, deducted for tax, net	\$ (59,050)	\$(13,229)
Trademarks and tradenames	(62,755)	—
	(121,805)	(13,229)
Deferred tax assets:		
Non-deductible reserves and other	134,637	67,544
Adjustments to the fair value of acquired Senior Subordinated Notes	16,509	—
Net operating loss carryforwards	27,320	2,257
State and other credit carryforwards	11,610	—
	190,076	69,801
Asset valuation allowance	(1,252)	—
Net deferred tax asset	\$ 67,019	\$ 56,572

The federal net operating loss (NOL) of \$67,749,000 is subject to certain limitations but is expected to be utilized fully by 2003. The state NOLs of \$72,190,000 expire in years 2006

through 2022 and are generally available to offset the Company's taxable income in future years. Realization of the net deferred tax asset is dependent on future reversals of existing taxable temporary differences and adequate future taxable income. Although realization is not assured, management believes that, except for the valuation allowance stated, it is more likely than not that the net deferred tax asset will be realized.

Components of current and deferred income tax expense (benefit) of continuing operations are as follows (\$000's omitted):

	Current	Deferred	Total
Year ended December 31, 2001			
Federal	\$179,428	\$ (7,879)	\$171,549
State and other	18,110	(297)	17,813
	\$197,538	\$ (8,176)	\$189,362
Year ended December 31, 2000			
Federal	\$123,381	\$ 1,594	\$124,975
State and other	12,679	(942)	11,737
	\$136,060	\$ 652	\$136,712
Year ended December 31, 1999			
Federal	\$ 78,351	\$22,980	\$101,331
State and other	6,606	181	6,787
	\$ 84,957	\$23,161	\$108,118

The following table reconciles the statutory federal income tax rate to the effective income tax rate for continuing operations:

	2001	2000	1999
Income taxes at federal statutory rate	35.00%	35.00%	35.00%
Effect of state and local income taxes, net of federal tax	3.09	2.91	2.23
Settlement of state tax issues and other	.41	.59	.52
Effective rate	38.50%	38.50%	37.75%

9. LEASES

The Company leases certain property and equipment under non-cancelable leases. Office and equipment leases are generally for terms of three to five years and generally provide renewal options for terms of up to an additional three years. Model home leases are generally for shorter terms approximating one year with renewal options on a month-to-month basis. In most cases, management expects that in the normal

course of business, leases that expire will be renewed or replaced by other leases. The future minimum lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year are as follows (\$000's omitted):

Years Ending December 31,	
2002	\$ 30,505
2003	20,139
2004	13,479
2005	9,648
2006	8,025
After 2006	20,627
Total minimum lease payments	\$102,423

Net rental expense for the years ended December 31, 2001, 2000 and 1999 was \$36,463,000, \$25,513,000 and \$22,122,000, respectively. Certain leases contain purchase options and generally provide that the Company shall pay for insurance, taxes and maintenance.

10. COMMITMENTS AND CONTINGENCIES

In the normal course of business, Pulte acquires rights under options or option-type agreements to purchase land to be used in homebuilding operations at future dates. The total purchase price applicable to land under option approximated \$1.1 billion at December 31, 2001 and 2000.

At December 31, 2001, Pulte, in the normal course of business, had outstanding letters of credit and performance bonds of \$126 million and \$775 million, respectively.

The Company is involved in various litigation incidental to its continuing business operations. Management does not believe that this litigation will have a material adverse impact on the results of operations, financial position or cash flows of the Company.

First Heights-related litigation

The Company was a party to three lawsuits relating to First Heights' 1988 acquisition from the Federal Savings and Loan Insurance Corporation (FSLIC) and First Heights' ownership of five failed Texas thrifts. The first lawsuit (the "District Court Case") was filed on July 7, 1995, in the United States District Court, Eastern District of Michigan, by the Federal Deposit Insurance Corporation (FDIC) against the Company, PDCI and First Heights (collectively, the "Pulte Parties"). The second lawsuit (the "Court of Federal Claims Case") was filed on

Notes to Consolidated Financial Statements (continued)

December 26, 1996, in the United States Court of Federal Claims (Washington, D.C.) by the Pulte Parties against the United States. The third lawsuit was filed by First Heights on January 10, 2000, in the United States District Court, Eastern District of Michigan against the FDIC regarding the amounts, including interest, the FDIC was obligated to pay First Heights on two promissory notes which had been executed by the FDIC's predecessor, the FSLIC.

In the District Court Case, the FDIC, as successor to the FSLIC, sought a declaration of rights and other relief related to the Assistance Agreement entered into between First Heights and the FSLIC. The FDIC and the Pulte Parties disagreed about the proper interpretation of provisions in the Assistance Agreement which provide for sharing of certain tax benefits achieved in connection with First Heights' 1988 acquisition and ownership of the five failed Texas thrifts. The District Court Case also included certain other claims relating to the foregoing, including claims resulting from the Company's and First Heights' amendment of a tax sharing and allocation agreement between the Company and First Heights. The Pulte Parties disputed the FDIC's claims and filed an answer and a counterclaim, seeking, among other things, a declaration that the FDIC had breached the Assistance Agreement in numerous respects. On December 24, 1996, the Pulte Parties voluntarily dismissed without prejudice certain of their claims in the District Court Case and, on December 26, 1996, initiated the Court of Federal Claims Case.

On March 5, 1999, the United States District Court (the Court), entered a "Final Judgment" against First Heights and PDCI resolving by summary judgment in favor of the FDIC most of the FDIC's claims against the Pulte Parties. The Final Judgment required PDCI and First Heights to pay the FDIC monetary damages totaling approximately \$221.3 million, including interest but excluding costs (such as attorneys fees) to be determined in the future by the District Court and post-judgment interest. However, the FDIC acknowledged that it had already paid itself or withheld from assistance its obligation to pay to First Heights approximately \$105 million, excluding interest thereon. The Company believed that it was entitled to a credit or actual payment of such amount plus interest. The Final Judgment did not address this issue. The Company disagreed with the District Court's rulings and appealed the decision to the Sixth Circuit Court of Appeals.

On October 12, 2000, the Sixth Circuit Court of Appeals rendered its opinion in which it affirmed in part, reversed in part and remanded the case to the District Court for further proceedings. The Sixth Circuit affirmed most of the District Court's adverse liability rulings, including as to the sharing of

certain tax benefits achieved in connection with First Heights' 1988 acquisition and ownership of the five failed Texas thrifts and regarding the Company's and First Heights' amendment of a tax sharing and allocation agreement and rescission of a warrant assumption agreement between PDCI and First Heights. The Sixth Circuit, however, vacated the District Court's damage calculations as to a number of issues, vacated the District Court's pre-judgment interest award, and remanded to the District Court for a proper recalculation of all such amounts. Although the Sixth Circuit opinion left certain significant issues to be resolved through further Court proceedings, based upon its reading of the Sixth Circuit opinion, the Company determined that an after-tax charge of \$30 million to Discontinued Operations was appropriate in 2000.

In October 2001, the FDIC and the Pulte Parties settled the District Court Case, the related appeal to the Sixth Circuit Court of Appeals and the third lawsuit. As part of this settlement (the "Settlement"), the Pulte Parties paid the FDIC \$41.5 million, and the FDIC retained all amounts previously withheld from First Heights including the FRF notes (see Note 4). In addition, the First Heights Assistance Agreement was terminated, except certain tax benefit sharing provisions will continue in effect, and the warrants issued by First Heights to the FDIC were extinguished. The Company does not believe that the claims in the Court of Federal Claims Case are in any way prejudiced by the Settlement.

In the Court of Federal Claims Case, the Pulte Parties assert breaches of contract on the part of the United States in connection with the enactment of Section 13224 of the Omnibus Budget Reconciliation Act of 1993 ("OBRA"). That provision repealed portions of the tax benefits that the Pulte Parties claim they were entitled to under the contract to acquire the failed Texas thrifts. The Pulte Parties also assert another claim concerning the contract that the United States (through the FDIC as receiver) improperly attempted to amend the failed thrifts' pre-acquisition tax returns and that this attempt was made in an effort to deprive the Pulte Parties of tax benefits for which they had contracted.

On August 17, 2001, the United States Court of Federal Claims ruled that the United States government is liable to the Company for breach of contract by enacting Section 13224 of OBRA. The Court will now proceed to determine the amount of damages to which the Pulte Parties are entitled. While it is unclear at this time what amount the Court will award, the Pulte Parties are currently seeking approximately \$80 million in after-tax damages for the United States government's breach of contract.

11. FINANCIAL INSTRUMENTS, INCLUDING THOSE WITH OFF-BALANCE SHEET RISK

Market risks arise from movements in interest rates and canceled or modified commitments to lend. To reduce these risks, the Company uses derivative financial instruments with off-balance sheet risk. These financial instruments include cash forward placement contracts on mortgage-backed securities, whole loan investor commitments, options on treasury futures contracts and options on cash forward placement contracts on mortgage-backed securities. The Company does not use any derivative financial instruments for trading purposes.

Cash forward placement contracts on mortgage-backed securities are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price and may be settled in cash by offsetting the position, or through the delivery of the financial instrument. Whole loan investor commitments are obligations of the investor to buy loans at a specified price within a specified time period. Options on treasury future contracts and options on mortgage-backed securities grant the purchaser, for a premium payment, the right to either purchase or sell a specified treasury futures contract or a specified mortgage-backed

security, respectively, for a specified price within a specified period of time or on a specified date from or to the writer of the option.

Mandatory cash forward contracts on mortgage-backed securities are the predominant derivative financial instruments used to minimize the market risk during the period from when the Company extends an interest rate lock to a loan applicant until the time the loan is sold to an investor. Options on cash forward contracts on mortgage-backed securities are used in the same manner as mandatory cash forward contracts, but provide protection from interest rates rising, while still allowing an opportunity for profit if interest rates fall. Options on the treasury futures contracts are used as cross hedges on various loan product types and to protect the Company in a volatile interest rate environment from unexpected increases, cancellations or modifications in lending commitments.

Since PMC can terminate a loan commitment if the borrower does not comply with the terms of the contract, and some loan commitments may expire without being drawn upon, these commitments do not necessarily represent future cash requirements of PMC. PMC evaluates the creditworthiness of these transactions through its normal credit policies.

The following are PMC's loan commitments (\$000's omitted):

	Commitment Amount	Fair Market Value	Interest Rates	Expiration Dates
At December 31, 2001:				
Loan commitments to borrowers	\$66,163	\$66,407	5.00 to 9.88%	January 2002–April 2002
At December 31, 2000:				
Loan commitments to borrowers	\$28,823	\$28,421	6.49 to 13.80%	January 2001–June 2001

PMC has credit risk to the extent that the counterparties to the derivative financial instruments do not perform their obligation under the agreements. If one of the counterparties does not perform, PMC would not receive the cash to which it is entitled under the conditions of the agreement. PMC manages credit risk by entering into agreements with large national investment bankers or financial institutions, all of whom meet PMC's established credit underwriting standards. Options on futures are traded on organized exchanges with the exchange clearinghouse serving as the counterparty in the trade, reducing the risk of non-performance. Management does not anticipate any material losses as a result of its agreements and does not consider them to represent an undue level of credit, interest or liquidity risk for PMC.

The table below summarizes, by class, the contractual amounts of PMC's derivative financial instruments (\$000's omitted).

	Commitment Amount	Fair Market Value	Interest Rates	Expiration Dates
At December 31, 2001:				
Sell Securities	\$421,269	\$423,422	4.38 to 10.00%	January 2002–March 2002
At December 31, 2000:				
Sell Securities	\$267,534	\$265,816	5.88 to 13.80%	January 2001–February 2001

Notes to Consolidated Financial Statements (continued)

12. SUPPLEMENTAL GUARANTOR INFORMATION (\$000'S OMITTED)

The Company has the following outstanding Senior Note obligations: (1) \$175,000, 9.5%, due 2003, (2) \$100,000, 7%, due 2003, (3) \$112,000, 8.375%, due 2004, (4) \$125,000, 7.3%, due 2005, (5) \$200,000, 8.125%, due 2011, (6) \$500,000, 7.875%, due 2011, and (7) \$150,000, 7.625%, due 2017. Such obligations to pay principal, premium, if any, and interest are guaranteed jointly and severally on a senior basis by the Company's wholly-owned Domestic Homebuilding subsidiaries (collectively, the Guarantors). The Company has the following outstanding Senior Subordinated Note obligations: (1) \$69,810, 9%, due 2006, (2) \$166,418, 9.375%, due 2009, and (3) \$114,469, 10.25%, due 2010. Such obligations to pay principal, premium, (if any) and interest are guaranteed jointly and severally on a senior subordinated basis by the Guarantors. Such guarantees are full and unconditional. The principal non-Guarantors include PDCI, Pulte International Corporation, PMC and First Heights.

Supplemental consolidating financial information of the Company, specifically including such information for the Guarantors, is presented below. Investments in subsidiaries are presented using the equity method of accounting. Separate financial statements of the Guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by and the operations of the combined groups.

SELECTED BALANCE SHEET DATA

December 31, 2001 and 2000

	2001	2000
Assets		
Cash and equivalents	\$ 33,643	\$ 133,860
House and land inventories	3,796,092	1,869,127
Other	2,158,013	443,321
	\$5,987,748	\$2,446,308
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	\$ 935,481	\$ 565,611
Other liabilities	2,833,577	384,477
	3,769,058	950,088
Shareholders' equity	2,218,690	1,496,220
	\$5,987,748	\$2,446,308

SELECTED STATEMENT OF OPERATIONS DATA

For the years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Revenues	\$5,276,681	\$4,168,832	\$3,689,974
Expenses	4,759,052	3,794,797	3,389,618
Equity in income of Pulte-affiliates	—	—	816
Income before income taxes and equity in net income of subsidiaries	517,629	374,035	301,172
Income taxes	199,369	144,508	118,796
Income before equity in net income of subsidiaries	318,260	229,527	182,376
Equity in net income of subsidiaries	16,599	11,750	11,727
Net Income	\$ 334,859	\$ 241,277	\$ 194,103

SELECTED STATEMENT OF CASH FLOWS DATA

For the years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Net cash provided by (used in) operating activities	\$ (167,875)	\$ 157,908	\$ 76,446
Net cash provided by (used in) investing activities	(893,350)	2,171	(21,401)
Net cash provided by (used in) financing activities	961,008	(70,425)	(56,948)
Net (decrease) increase cash and equivalents	(100,217)	89,654	(1,903)
Cash and equivalents at beginning of year	133,860	44,206	46,109
Cash and equivalents at end of year	\$ 33,643	\$ 133,860	\$ 44,206

Expanded supplemental financial information of the Company, specifically including combining statements for the parent company, Guarantor subsidiaries, and non-Guarantor subsidiaries, is included in the Company's Form 10-K as filed with the Securities and Exchange Commission.


Report of Management

The management of Pulte Homes, Inc. is responsible for the integrity and objectivity of the accompanying financial statements and related information. The statements were prepared in accordance with accounting principles generally accepted in the United States, and include amounts that are based on our best judgments and estimates.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions and events are recorded properly. While the Company is organized on the principle of decentralized management, appropriate control measures are also evidenced by well-defined organizational responsibilities, management selection, development and evaluation processes, communication techniques, financial planning and reporting systems and formalized procedures. In addition, internal auditors monitor the operation of the internal control system and report findings and recommendations to management and the audit committee, and corrective actions are taken to remedy deficiencies if and when they are identified.

Ernst & Young LLP, independent auditors, is engaged to audit our financial statements. Ernst & Young LLP maintains an understanding of our internal controls and conducts such tests and other auditing procedures considered necessary in the circumstances to express their opinion in the report that follows.

The Audit Committee, composed entirely of nonemployee directors, meets periodically with the independent auditors, management and internal auditors to review their work and confirm they are properly performing their duties. Both the internal and independent auditors have unrestricted access to the Committee, without the presence of management, to discuss any appropriate matters.



Roger A. Clegg
Senior Vice President and
Chief Financial Officer

Vincent J. Frees
Vice President and
Controller

Report of Independent Auditors

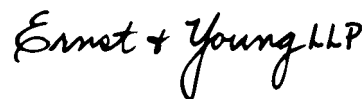
The Board of Directors and Shareholders
Pulte Homes, Inc.

We have audited the accompanying consolidated balance sheets of Pulte Homes, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. 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 in accordance with auditing standards generally accepted in the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pulte Homes, Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, the Company has not amortized goodwill acquired in a business combination consummated subsequent to June 30, 2001, in accordance with Statement of Financial Accounting Standards No. 142.



Detroit, Michigan
January 24, 2002

Unaudited Quarterly Information

(\$000's omitted, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter ^(a)	4th Quarter ^(a)	Total
2001					
Homebuilding operations:					
Revenues	\$825,047	\$1,040,685	\$1,463,427	\$1,980,670	\$5,309,829
Income before income taxes	67,698	106,221	144,542	202,447	520,908
Financial services operations:					
Revenues	\$ 14,075	\$ 16,436	\$ 18,014	\$ 21,356	\$ 69,881
Income before income taxes	5,452	5,763	6,977	10,139	28,331
Corporate:					
Revenues	\$ 717	\$ 905	\$ 494	\$ 94	\$ 2,210
Loss before income taxes	(9,542)	(13,417)	(16,296)	(18,197)	(57,452)
Consolidated results:					
Revenues	\$839,839	\$1,058,026	\$1,481,935	\$2,002,120	\$5,381,920
Income from continuing operations before income taxes	63,608	98,567	135,223	194,389	491,787
Income taxes	24,489	37,948	52,072	74,853	189,362
Income from continuing operations	39,119	60,619	83,151	119,536	302,425
Income (loss) from discontinued operations	252	(825)	(364)	(95)	(1,032)
Net income	\$ 39,371	\$ 59,794	\$ 82,787	\$ 119,441	\$ 301,393
Per share data:					
Basic:					
Income from continuing operations	\$.94	\$ 1.44	\$ 1.56	\$ 2.03	\$ 6.16
Income (loss) from discontinued operations	.01	(.02)	(.01)	—	(.02)
Net income	\$.95	\$ 1.42	\$ 1.55	\$ 2.03	\$ 6.14
Weighted-average common shares outstanding	41,795	41,987	53,421	58,951	49,098
Assuming dilution:					
Income from continuing operations	\$.91	\$ 1.40	\$ 1.53	\$ 1.99	\$ 6.01
Income (loss) from discontinued operations	.01	(.02)	(.01)	(.01)	(.02)
Net income	\$.92	\$ 1.38	\$ 1.52	\$ 1.98	\$ 5.99
Adjusted weighted-average common shares and effect of dilutive securities	42,999	43,365	54,518	60,187	50,323

(a) Included in the 3rd and 4th quarter information are the operations of Del Webb Corporation, which was acquired on July 31, 2001 as discussed in Note 3 of Notes to Consolidated Financial Statements.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2000					
Homebuilding operations:					
Revenues	\$772,262	\$ 983,603	\$1,060,964	\$1,378,846	\$4,195,675
Income before income taxes	45,910	87,272	106,585	152,616	392,383
Financial services operations:					
Revenues	\$ 10,165	\$ 10,535	\$ 12,135	\$ 14,608	\$ 47,443
Income before income taxes	3,467	3,437	5,215	6,890	19,009
Corporate:					
Revenues	\$ 66	\$ 56	\$ 286	\$ 225	\$ 633
Loss before income taxes	(9,915)	(13,219)	(12,850)	(20,312)	(56,296)
Consolidated results:					
Revenues	\$782,493	\$ 994,194	\$1,073,385	\$1,393,679	\$4,243,751
Income from continuing operations before income taxes	39,462	77,490	98,950	139,194	355,096
Income taxes	15,193	29,830	38,091	53,598	136,712
Income from continuing operations	24,269	47,660	60,859	85,596	218,384
Income (loss) from discontinued operations	67	32	(29,967)	(3)	(29,871)
Net income	\$ 24,336	\$ 47,692	\$ 30,892	\$ 85,593	\$ 188,513
Per share data:					
Basic:					
Income from continuing operations	\$.57	\$ 1.16	\$ 1.50	\$ 2.09	\$ 5.29
Loss from discontinued operations	—	—	(.74)	—	(.73)
Net income	\$.57	\$ 1.16	\$.76	\$ 2.09	\$ 4.56
Weighted-average common shares outstanding	42,696	41,053	40,476	41,027	41,310
Assuming dilution:					
Income from continuing operations	\$.57	\$ 1.15	\$ 1.47	\$ 2.01	\$ 5.18
Loss from discontinued operations	—	—	(.73)	—	(.71)
Net income	\$.57	\$ 1.15	\$.74	\$ 2.01	\$ 4.47
Adjusted weighted-average common shares and effect of dilutive securities	42,871	41,569	41,527	42,527	42,146

Price Range of Common Shares Traded on the New York Stock Exchange

Our common stock is listed on the New York Stock Exchange (Symbol: PHM). The table below sets forth, for the quarterly periods indicated, the range of high and low closing prices and cash dividends declared per share.

	2001			2000		
	High	Low	Declared Dividends	High	Low	Declared Dividends
1st Quarter	\$42.63	\$32.62	\$.04	\$21.13	\$15.69	\$.04
2nd Quarter	49.57	37.56	.04	23.38	20.44	.04
3rd Quarter	48.01	27.00	.04	34.25	20.31	.04
4th Quarter	45.94	30.28	.04	43.75	28.06	.04

At December 31, 2001, there were 1,684 shareholders of record.

Management Team

CORPORATE MANAGEMENT

William J. Pulte
Chairman of the Board

Mark J. O'Brien
President and Chief Executive Officer

Roger A. Cregg
Senior Vice President and Chief Financial Officer

Michael A. O'Brien
Senior Vice President—Corporate Development

Mary S. Alexander
Vice President, Legal

Larry Beckner
Vice President, CIO

Vincent J. Frees
Vice President and Controller

Elaine A. Kramer
Vice President, H.R. Development and Training

Alan E. Laing
Vice President, E-Business, Supply Chain and Customer Satisfaction

James P. Lesinski
Vice President, Marketing

Norma J. Machado
Vice President, H.R. Employee Services

Gregory M. Nelson
Vice President and Assistant Secretary

Bruce E. Robinson
Vice President and Treasurer

Robert P. Schafer
Vice President Finance and Homebuilding Operations

John R. Stoller
Senior Vice President, General Counsel and Secretary

Leo Taylor
Vice President H.R./Sales Development

Maureen E. Thomas
Vice President, Legal

James P. Zeumer
Vice President of Investor and Corporate Communications

OPERATING DIVISIONS

Central Group

Richard L. Strom

NORTH CENTRAL REGION

Denver

C. Dean Amann II

Colorado Springs

C. Dean Amann II

SOUTH CENTRAL REGION

Austin

Donald R. Evans

Dallas

Donald J. Dykstra

Houston

Kyle S. Davison

San Antonio

Donald R. Evans

West Group

John S. Gallagher

CALIFORNIA REGION

Matthew W. Koart

Sacramento

Christopher B. Cady

Northern California

Matthew W. Koart

Southern California

L.J. Edgcomb

SOUTHWEST REGION

Steven C. Petruska

Las Vegas

Steven C. Petruska

Phoenix

Randall M. Bury

Tucson

Steven S. Atchison

Midwest Group

Robert J. Halso

HEARTLAND REGION

Patrick J. Beirne

Illinois

Patrick J. Beirne

Minneapolis

Thomas J. Standke

GREAT LAKES REGION

Jeffery K. Parsigian

Cleveland

Greg C. Williams

Kansas City

Tamara S. Gross

Michigan

Jeffery K. Parsigian

Grand Rapids

Jeffrey D. Chamberlain

Indianapolis

Mark A. Thomas

Del Webb

Anne L. Mariucci

Arizona

Scott J. Peterson

California & Texas

John H. Gleason

Florida, Illinois, Nevada & South Carolina

Frank D. Pankratz

DiVosta and Company

Thomas H. Harvey

DiVosta and Company

Charles W. Hathaway

Northeast Group

Jeffrey A. Croft

MID-ATLANTIC REGION

Richard D. DiBella

Maryland

George Baker

Washington

Richard D. DiBella

NORTHEAST REGION

Central New Jersey

William E. Weber

Delaware Valley

William E. Reiser, Jr.

New England

James R. McCabe

International

Wayne B. Williams

Pulte Caribbean

Francisco J. Arrivi

Pulte Mexico, Inc.

William J. Crombie

Pulte Argentina

Arthur W. Broslat

Southeast Group

Norman B. White

COASTAL REGION

Richard J. Dugas

Charlotte

Thomas W. Bruce

Georgia

Richard J. Dugas

Raleigh

Larry E. Lippincott

Tennessee

Jeff J. Logsdon

NORTH FLORIDA REGION

Central Florida

James C. Leiferman

Northeast Florida

John D. Molyneaux

SOUTH FLORIDA REGION

Gregory G. Wolpert

Fort Myers

Gregory G. Wolpert

South Florida

Louis E. Steffens

West Florida

James D. Brown

Corporate Information

SENIOR CORPORATE OFFICERS

William J. Pulte

Chairman of the Board

Mark J. O'Brien

President and Chief Executive Officer

Roger A. Cregg

Senior Vice President and Chief Financial Officer

Michael A. O'Brien

Senior Vice President—Corporate Development

John R. Stoller

Senior Vice President, General Counsel and Secretary

DIRECTORS

D. Kent Anderson⁽²⁾

Chairman

Beacon Management Corporation

Debra Kelly-Ennis⁽¹⁾⁽³⁾

General Manager Oldsmobile Division

General Motors Corporation

David N. McCammon⁽¹⁾⁽³⁾

Retired Vice President of Finance

Ford Motor Company

Mark J. O'Brien

President and Chief Executive Officer

Patrick J. O'Meara⁽¹⁾

Chairman

Ann Arbor Acquisition Corporation

William J. Pulte

Chairman of the Board and Founder

Michael E. Rossi⁽¹⁾

Retired Chairman, Bank of America

Glenn W. Schaeffer

President, Chief Financial Officer

Mandalay Resort Group

Alan E. Schwartz

Partner

Honigman, Miller, Schwartz and Cohn, Attorneys

Counsel to the Company

Francis J. Sehn⁽²⁾⁽³⁾

Chief Executive Officer

The Fran Sehn Company, Inc.

John J. Shea⁽²⁾

Retired Vice Chairman, President and

Chief Executive Officer

Speigel, Inc.

William B. Smith⁽²⁾

Advisory Director

Morgan Stanley Dean Witter & Co.

(1) Audit Committee Member

(2) Compensation Committee Member

(3) Nominating Committee Member

OPERATING SUBSIDIARIES

Pulte Homes, Inc.

33 Bloomfield Hills Parkway

Suite 200

Bloomfield Hills, Michigan 48304

Pulte Mortgage Corporation

7475 South Joliet Street

Englewood, Colorado 80112

Roger C. Pastore, President

INVESTOR INFORMATION

Information Requests

The Company's annual report to stockholders and proxy statement together contain substantially all the information presented in the Form 10-K report filed with the Securities and Exchange Commission. Individuals interested in receiving the annual report, Form 10-K, Form 10-Qs or other printed corporate literature should check the Company's website at www.pulte.com, write to the Investor Relations Department at the corporate office or call (248) 647-2750.

Investor inquiries

Shareholders, securities analysts, portfolio managers and others with inquiries about the company should contact James P. Zeumer, Vice President of Investor and Corporate Communications, at the corporate office or call (248) 433-4597. Shareholders with inquiries relating to shareholder records, stock transfers, change of ownership, change of address and dividend payments should contact:

State Street Bank and Trust Company

c/o EquiServe

150 Royall Street

Canton, MA 02021

(877) 282-1168

www.equiserve.com

INTERNET ADDRESS

Additional information about Pulte Homes may be obtained by visiting our website at <http://www.pulte.com>.

ANNUAL MEETING OF THE SHAREHOLDERS

The annual meeting of shareholders of Pulte Homes, Inc. will be held at 10 a.m. (EDT), Wednesday, May 15, 2002, at the Michigan State University Management Education Center, Troy, Michigan.

COMMON STOCK INFORMATION

Ticker Symbol: PHM

Pulte Homes, Inc. is a component of the S&P 500 Composite Stock Price Index. Common stock of Pulte Homes, Inc. is listed and traded on the New York Stock Exchange, which is the principal market for the common stock, and is also traded on the Boston, Cincinnati, Midwest, Pacific and Philadelphia stock exchanges. Option trading in Pulte is conducted on the Chicago Board of Exchange.

Pulte Homes, Inc.
33 Bloomfield Hills Parkway
Suite 200
Bloomfield Hills, Michigan
48304
www.pulte.com



PHM
LISTED
NYSE

Professional
Builder.
Builder
OF THE
Year