

~ BUILT ON A ~

# Foundation *of* Excellence



Pulte Homes, Inc.  
2004 Annual Report



Over the past five years, our stock has increased over 467%

---

▲467%

# Financial Highlights

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

	2004	2003	2002	2001(a)	2000
<b>Consolidated Results (b)</b>					
Revenues	\$11,711,216	\$9,011,914	\$7,445,940	\$5,379,605	\$4,246,977
Income from continuing operations	998,008	619,243	444,785	306,666	218,719
Net income	986,541	624,634	453,645	301,393	188,513
Per share data:					
Earnings per share—basic:					
Continuing operations	7.90	5.07	3.68	3.12	2.65
Net income	7.81	5.11	3.75	3.07	2.28
Earnings per share—assuming dilution:					
Continuing operations	7.67	4.93	3.60	3.05	2.59
Net income	7.58	4.97	3.67	2.99	2.24
Cash dividends per share	.20	.11	.08	.08	.08
Total assets	\$10,406,897	\$8,072,151	\$6,872,087	\$5,710,893	\$2,886,483
Senior notes and subordinated notes	2,861,550	2,150,972	1,913,268	1,722,864	666,296
Debt-to-capital ratio	38.75%	38.42%	40.94%	44.80%	35.19%
Shareholders' equity	\$ 4,522,274	\$3,448,123	\$2,760,426	\$2,276,665	\$1,247,931
Return on average shareholders' equity	25.28%	20.58%	18.18%	18.05%	16.58%
Book value per share	\$ 35.37	\$ 27.55	\$ 22.58	\$ 19.22	\$ 15.01
Number of employees	13,000	10,800	9,200	9,400	5,200
<b>Domestic Homebuilding Results</b>					
Revenues	\$11,400,008	\$8,701,661	\$7,167,915	\$5,274,660	\$4,168,516
Pre-tax income	1,633,415	998,822	719,010	514,675	383,255
Settlements (units)	38,612	32,693	28,903	22,915	19,799
Net new orders (units) (c)	40,576	34,989	30,830	22,163	19,844
Backlog (units)	15,916	13,952	10,605	8,678	5,477
Total markets, at year end	45	44	44	43	41
Active communities, at year end	626	535	460	440	396
Average selling price	\$ 287	\$ 259	\$ 242	\$ 225	\$ 206
Gross profit margin from home sales (d)	22.6%	20.6%	19.4%	19.1%	18.0%

(a) Del Webb operations were merged effective July 31, 2001.

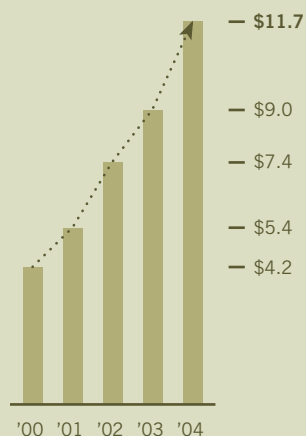
(b) In January 2005, the company sold all of its Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements. All prior periods have been reclassified to conform to the 2004 presentation.

(c) Total net new orders for the years ended December 31, 2003 and 2001 do not include 1,051 units and 3,953 units, respectively, of acquired backlog.

(d) Domestic Homebuilding interest expense, which represents the amortization of capitalized interest, is included as part of homebuilding cost of sales.

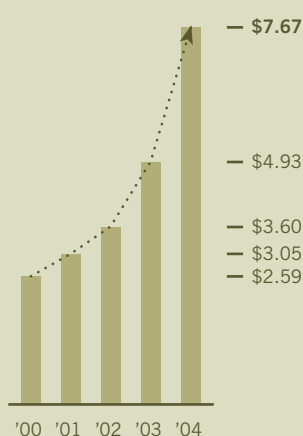
## Revenues

(dollars in billions)



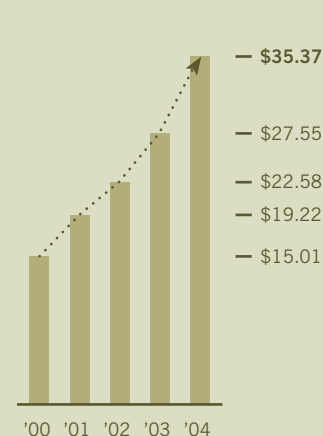
## Earnings Per Share

Assuming Dilution, from Continuing Operations  
(in dollars)

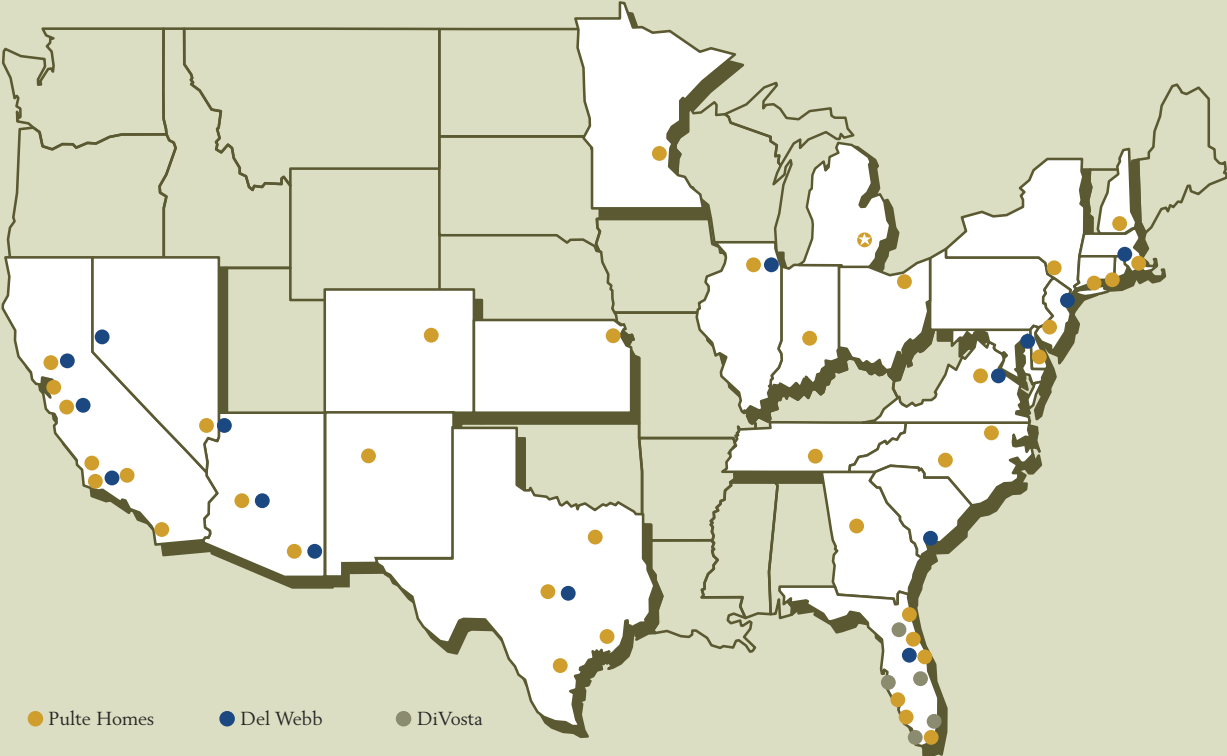


## Book Value Per Share

(in dollars)



# Our Markets and Brands



Arizona

California

Colorado

Connecticut

Delaware

Florida

Georgia

Illinois

Indiana

Kansas

Maryland

Massachusetts

Michigan

Minnesota

Nevada

New Hampshire

New Jersey

New Mexico

New York

North Carolina

Ohio

Pennsylvania

Rhode Island

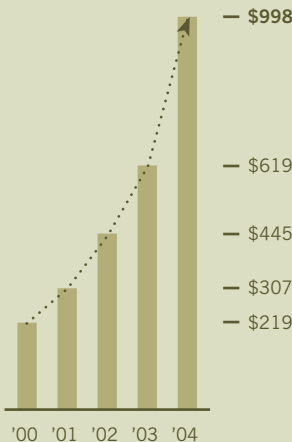
South Carolina

Tennessee

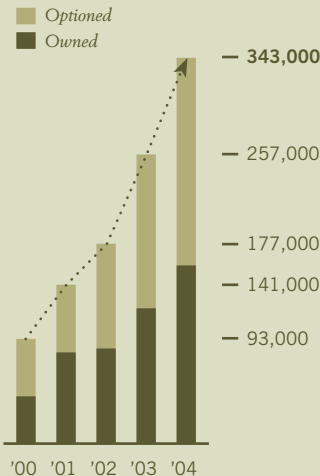
Texas

Virginia

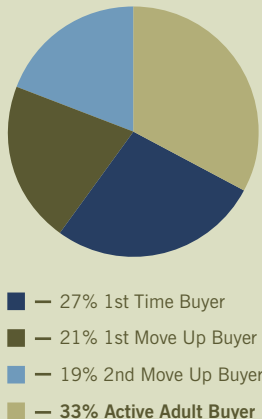
**Income from Continuing Operations**  
(dollars in millions)



**Lots Under Control**



**Closings by Customer Segment**  
(in percent)





# Welcome Home.



## Company Profile

For more than 50 years, the employees of Pulte Homes have been helping individuals, couples and families build a better life. Today, our operations span 45 markets throughout the United States and operate under the Pulte Homes, Del Webb and DiVosta Homes brands. Through our Del Webb brand, we are the country's leading builder of Active Adult communities offering an unmatched lifestyle to buyers age 55 and better. Along with building more than 400,000 homes in its history, Pulte Homes has built a reputation for industry-leading quality and customer satisfaction. In 2004, Pulte Homes was named the inaugural recipient of the J.D. Power and Associates Platinum Award for customer satisfaction among America's largest home building companies. Providing superior customer service and offering a variety of loan products, Pulte Mortgage, LLC, our national mortgage company, meets the financing needs of our customers throughout the country. Whether it's a first-time buyer or a growing family, our commitment to quality is reflected in the way we build homes, demonstrated in the way we treat our customers, and is evident in the 13,000-plus employees who provide customers with exceptional value and a buying experience that exceeds their expectations.



~ *Shareholder Letter* ~

## Building Shareholder Value

### Letter to Pulte Homes Shareholders, Customers, Associates and Business Partners:

Record revenues. Record earnings. Record returns on equity and invested capital. Two thousand and four was a year of phenomenal financial success for Pulte Homes. The following paragraphs provide the details, along with the appropriate annual-report superlatives. Read, enjoy and then forget about them. We're asking you to look past it. Look deeper. Down into the core of what is Pulte Homes; its strategies, its tactics, its culture, its focus, because this is where long-term success will ultimately be achieved.

Prior annual reports have discussed our efforts to drive big changes by focusing on a small number of strategic business initiatives: market share expansion through segmentation, operational excellence, people development and financial discipline. Our operating and financial results are showing the positive benefits of this focus:

- Consolidated revenues for the year increased 30% to a record \$11.7 billion
- Income from continuing operations jumped 61% to \$998 million
- Earnings from continuing operations were \$7.67 per diluted share, an increase of 56% over 2003
- At the end of 2004, Pulte Homes' book value was \$35.37 per share, compared with \$27.55 per share in 2003
- Our 2004 returns on average equity and invested capital were 25.3% and 16.6%, respectively; comparable 2003 returns were 20.6% and 13.5%, respectively
- Year end backlog of homes to be built grew in value by 24% to \$5.2 billion, representing 15,916 new homes

The dramatic gains in our results were driven by continued market expansion of our domestic homebuilding operations, as settlement revenues increased 31% to a record \$11.1 billion. Higher revenues resulted from an 18% increase in settlements to 38,612 homes, combined with an 11% increase in our average selling price. Over the past five years, home closings increased at an average annual rate of 19%, while single-family home sales in this country increased at an average annual rate of approximately 9%. We are clearly outperforming the market and capturing share as our rate of growth has dramatically exceeded that of overall U.S. housing sales.

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Above: [Richard J. Dugas, Jr.](#) and [William J. Pulte](#)

*We are clearly outperforming the market and capturing share  
as our rate of growth has dramatically exceeded that of overall U.S. housing sales.*

Critical to our growth has been continued success in opening exciting new communities geared toward active adult buyers aged 55 and better. Sold primarily under the Del Webb brand, these communities offer a lifestyle that is unmatched in the industry. At an estimated 66 million and expected to grow roughly 15% in the next five years, the over-55 buyer population represents the largest and fastest growing customer segment in the industry. With the opening of seven new Del Webb communities in 2004, closings within the segment increased to almost 13,000 homes. Plans call for continued rapid expansion of the Del Webb brand, as upwards of 15 new communities are in position to open in 2005. These communities are in traditional Sun Belt locations, as well as in new markets throughout the country including the greater metro markets of Denver, Detroit, Jacksonville, Raleigh, Charlotte and Tampa.

One final comment about our homebuilding operations, as it would be unforgivable to review 2004 without highlighting our success in delivering the industry's highest levels of quality and customer satisfaction. Pulte Homes is not a company that brags, but "highlighting" doesn't quite describe how proud we are about last year's results. Maybe trumpeting or shouting from the highest rooftop would better capture our feelings.

Once again, Pulte Homes dominated the J.D. Power and Associates results, as we ranked first in 14 of 24 markets where we were surveyed and ranked among the top three builders in 23 of 24 markets. J.D. Power and Associates also awarded Pulte Homes the first-ever Platinum Award for customer satisfaction nationwide among the largest home builder corporations. Pulte Homes was also named winner of the first-ever National Housing Quality Gold Award from the National Association of Home Builders Research Center. When we said at the outset of this letter to look past the numbers, quality and customer satisfaction are two of the core principles on which our future success will be built.

We accomplished much of what we set out to do in 2004 as our operations jumped to an entirely new level of performance. We are proud of the results and the effort put forth to achieve them, but now they are in the past. Looking to the future, we continue to believe that success will be more and more about company-specific strategies, tactics and execution. The remainder of this letter deals with some of Pulte Homes' key programs that can differentiate our Company and deliver long-term shareholder value.

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*When we control land, we control our destiny—ensuring that we have land to build on tomorrow and that we put other builders at a competitive disadvantage.*

### **Intelligently Managing Our Most Critical Asset**

It can take years to acquire and permit the land needed to build a new community, followed by months to develop that land and to physically construct new homes. At the shorter end, we may be looking at only nine to 12 months, but in some of the more difficult markets the time frame is three to five years or more...and each market is getting tougher every day.

The long lead times associated with high-production homebuilding require that, in order to be successful, we must always be planning ahead. Not just months or quarters, but literally years into the future. The success with which Pulte Homes performs two, three, or four years down the road will be a direct reflection of the strategies and tactics we implement today. Given these constraints, our land strategy emphasizes expanding the land we control throughout our U.S. markets. Entering 2005, we had 343,000 lots in our land pipeline, of which 46% were owned and 54% were controlled via option. When we control land, we control our destiny—ensuring that we have land to build on tomorrow and that we put other builders at a competitive disadvantage.

Let's expand further on our land strategy. Through our construction activities over the past three years, Pulte Homes used just over 100,000 lots. Over this same period, we invested sufficient capital to control 302,000 replacement lots. Why the big difference? Growth. Our plans call for us to significantly increase the number of homes we deliver in the coming years. Land is a critical raw material without which we cease to operate. To have any chance of achieving this growth, we must have the land in place today.

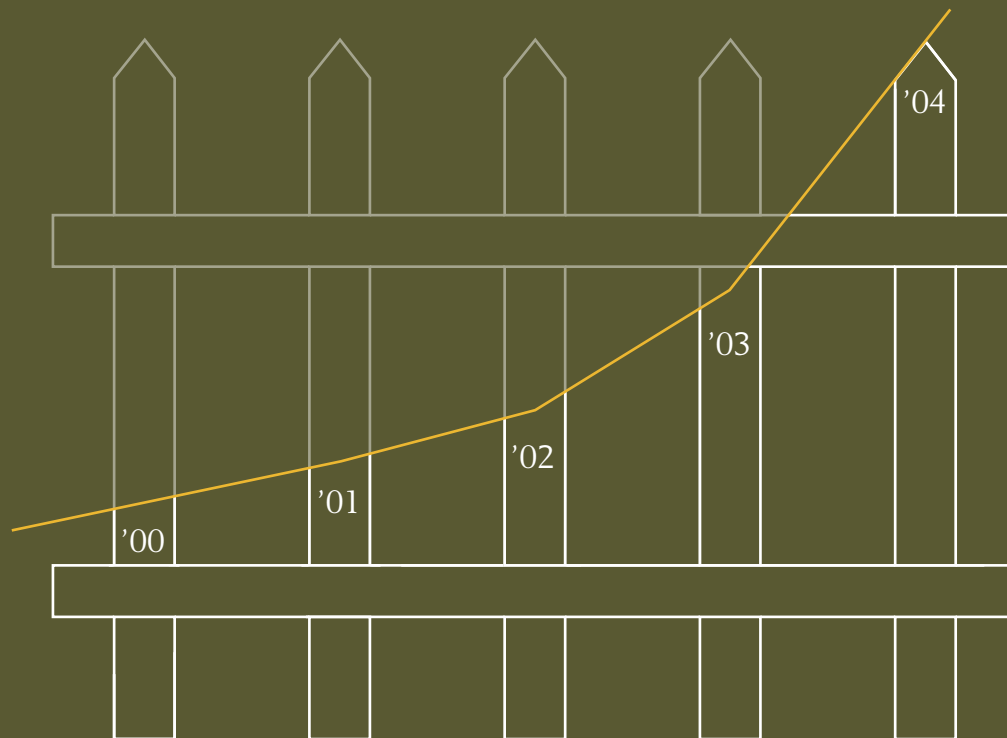
We view "buildable" land as a key resource that becomes more scarce every year. Over the long term, we believe that our strategy of maintaining a large land pipeline is the right one...but what if we're wrong? Given the conservative way in which we operate our business, the downside risks are limited.

First, when appropriate, we use options to control land while we're taking it through the lengthy entitlement process. If the land fails to get entitled or if conditions change, we are not obligated to complete the purchase. Through the intelligent use of options, we had tied up about 185,000 lots at the end of 2004. In other words, we controlled about \$6.5 billion worth of land with less than \$400 million of option deposits and other costs...a percentage of which is refundable. Intelligently using options to control land and mitigate risk is a critical part of our land strategy.

Second, while expansion into a wider array of customer segments is creating the need for (and opportunity to use) additional land resources, we are committed to maintaining a 40% debt-to-total-capital ratio. The discipline we enforce upon ourselves through this 40% debt-to-cap ratio ensures that we don't stress our balance sheet, nor do we get ahead of ourselves and acquire too much land. With 54 years of uninterrupted profitability, this discipline has served us well.



## Earnings Per Diluted Share: 2000–2004



We finished 2004 with earnings from continuing operations of \$7.67 per diluted share, up 56% over 2003.

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▲ 56%









# 38,612

*Homes Delivered*



Ask yourself a simple question. In Chicago, Denver, Jacksonville, Orlando, Philadelphia, Phoenix, San Francisco or any of the other major metro markets throughout the country, would you expect land to be easier and less expensive to acquire five years from today? We don't either, so we operate accordingly; albeit, prudently. In a strong demand environment, our land strategy enables Pulte Homes to accelerate its growth rate, expand market share and drive greater volume efficiencies. If demand softens, we can walk away or renegotiate the transaction and slow down our business, as we certainly have the balance sheet to ride out any weakness. While our short-term returns would suffer as we held our "owned" land positions longer, clearly this scenario would be manageable. This is why a prudent land strategy and a solid balance sheet are cornerstones of our Company.

## A "Simple" Approach to Operational Excellence

The growth Pulte Homes experienced in 2004, and throughout the past several years, benefited from the favorable macro trends that have, and we believe will continue to, positively influence demand for housing in this country. Foremost among these are an expanding population that is now expected to add 94 million people by the year 2030; strong immigration which is supporting increased demand at all buyer levels; and favorable demographics as the number of individuals reaching their peak income and homebuying years continues to increase.

While the rising tide of housing demand is benefiting all involved with the industry, some builders are moving faster and higher than the rest and are using this period of favorable market conditions to improve their operations. As we said earlier, our market and financial gains have been enhanced by our focus on a handful of initiatives that we believe are the key drivers for sustained success. These initiatives include expanding market share through segmentation; operational excellence; people development; financial discipline; and advancing our lead in product quality and customer satisfaction. It's not flashy, but we believe that achieving our long-term goals can be reached only by implementing programs designed to advance in these areas.

While each of these focus areas are important, the remainder of this letter details our initiatives around operational excellence. Why? Take a couple of minutes to review the income statement for our domestic homebuilding operations in the financial section of this annual report. What you will see is that in 2004, Pulte Homes' costs of goods sold totaled \$8.6 billion, of which approximately \$5.3 billion, or almost 62%, related to the cost of materials and labor that went into the roughly 39,000 homes we built. This equates to an average of roughly \$136,000 in material and labor costs per house. Using this example, if we could drive these costs down by just 3% it would result in a savings of approximately \$158 million or almost \$.75 per share. These are huge numbers, but we can't get there by doing the same things we have always done. We have to alter our processes and, we believe, simplify our business.



**\$11.7**

*Billion in Revenues*



Building a new house is an extremely complex task. It requires coordinating the actions of hundreds of contractors, who are assembling thousands of different parts, into a final product of which no two are ever the same. Now apply this level of complexity to building tens of thousands of houses; over 2,500 different floor plans that can vary from small condos to large single-family homes; in 45 markets; and operating in more than 600 different communities across the country. Looking to the future, the level of complexity will only increase as our local operations capture greater market share and expand into serving different consumer groups, each with a different set of housing needs. Since the task of simplifying our business only gets tougher as we get bigger, we are already hard at work on a variety of initiatives focused on driving greater efficiency, reducing our operating costs and delivering greater value to our customers.

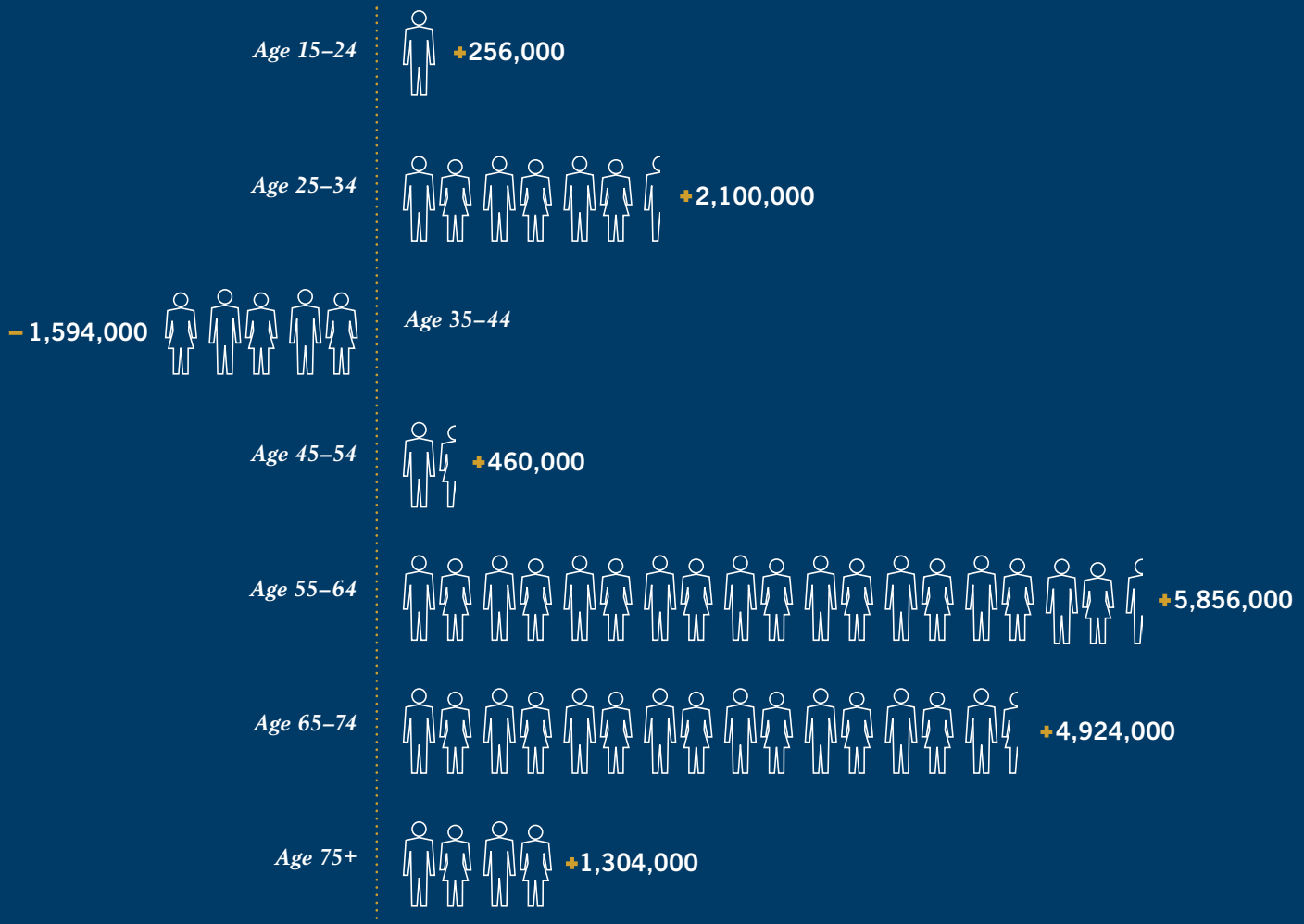
Our first step is to create a library of our best selling floor plans and then value engineer these plans to maximize building efficiencies. The opportunity exists to drop the slow selling plans and, over time, end up with an All-Star line up of proven winners. Using this approach, we have already reduced our plan library by about 50% to approximately 1,200 floor plans. We see opportunities to reduce this even further, maybe by another 50%.

Having identified our most successful homes, we have moved on to the process of value engineering each of the house plans. Through this process, we can ensure that the plans are efficient in terms of the use of construction materials and how easily they are constructed in the field. In some of our larger homes, we have been able to reduce hard material and labor costs by as much as 20%. This can translate into thousands of dollars in cost savings simply by eliminating the waste. By the end of 2005, we expect that we will have completed value engineering on a large percentage of our house plans.

With the house “shells” optimized, we are beginning the process of aligning the interior specifications to match our different buyer groups. Pulte Homes is the only builder that serves all major buyer groups: first time, first and second move up and active adult. We have actually identified 11 different target consumer groups (TCGs) that we serve. Our experience with the different buyer segments indicates that while the needs for the affordable family buyer (a TCG 4 in our world) is very different from an empty-nester (a TCG 8), what the first time buyer needs from their house is fairly consistent across the country. In other words, what a TCG 4 homebuyer needs in their house in Dallas is consistent with what this buyer needs in Detroit, Denver or any other city in the U.S.



Total Household Growth: 2005–2015



Reprinted from the 2004 State of the Nation's Housing with permission from the Joint Center for Housing Studies of Harvard University.

13.3 million new households projected through 2015

**+13.3 million**



8134





\$5.2

*Billion Backlog Value*



The consistency of “buyer needs” means that we can design these features into our basic product offering as standard, instead of requiring customers to select them as options or upgrades. By specifying the most desired cabinets, countertops, flooring, etc., as standard items, we can offer unmatched value to our customers. At the same time, by reducing unnecessary variation, we make ourselves, our contractors and manufacturers more efficient, thus reducing our cost of operations. Today, we might order a few thousand different window “styles” from 15 different manufacturers. How much more efficient could we make ourselves and our business partners if we ordered only a few hundred styles from our two best manufacturers? Now apply this same principle across the myriad of building materials we purchase. It is by no means a stretch to say we could reduce costs by thousands of dollars per home.

Our DiVosta Homes operation in Florida has been implementing this business model very successfully for decades. DiVosta Homes has built a tremendous brand following in its markets and is recognized for offering great quality and unmatched value. Their simplified approach on options and upgrades also enables them to build a house in 47 days. DiVosta Homes consistently ranks among our highest performing operations in terms of margin, profitability and returns, so it is clear that a high specification/low variation approach can be very successful with customers and also benefit Pulte Homes financially at the same time.

By the end of 2005, we expect to have completed many of the activities surrounding reduced floor plans, value engineering and aligning home specifications by TCG. We will also have been working with our manufacturers and contractor base to capture the financial benefits associated with our expected higher volumes and reduced variation strategy. We also see opportunities to reduce costs by streamlining the supply chain and logistics associated with getting materials from manufacturers to our job sites. However, the logistics piece is further down the road and can only be addressed after we have simplified all the other parts of our business.

The strategy to simplify our business has the potential to reduce our construction costs, improve our construction cycle times and increase the quality of homes we deliver. There are a lot of changes we need to implement to realize this potential, so while we know our teams are working hard, there is no guarantee we will achieve every goal. What we know is that we can't be afraid to try. The opportunity to drive significant gains is too great to ignore. More importantly, ignoring the need to alter our processes is likely no longer an option. Reaching our long-term goals in terms of annual deliveries may not be possible without simplifying our business. The increased complexity and costs associated with unnecessary variation multiplied by 100,000 homes could easily overwhelm our contractor base. Driving change within these programs today allows us to respond from a position of strength rather than having to scramble in the future.

As we have said on many occasions, we believe that in the next three to five years, one builder will break out and separate itself from the pack. We are working hard to make sure Pulte Homes is that builder.



*The strategy to simplify our business has the potential to reduce our construction costs, improve our construction cycle times and increase the quality of homes we deliver.*

### **In Conclusion**

Looking ahead, most industry experts including the National Association of Home Builders are forecasting 2005 aggregate U.S. housing demand to be down 3% to 5% from 2004's record sales. This is probably reasonable given expectations that the Federal Reserve will continue to raise rates through at least the first half of the year. Given our competitive advantages in terms of the breadth of customers we serve, the land we have in place and the quality we deliver, Pulte Homes is in a strong position to grow through this type of market slow down, thus accelerating our market share gains.

So this is where we stand. Thanks to the hard work, commitment and customer focus of our employees and business partners, Pulte Homes had a record year in 2004. We enter 2005 with tremendous momentum and clear strategies around how we manage this business and our most critical resource, land. And finally, we see a clear path for driving even better operating and financial results as measured by sales pace, margin, profitability and returns. Now it is time to execute.

We want to thank our shareholders for their continued support and our employees and our business partners for their continuous efforts to delight our customers. Just like one of our most successful customer segments, we want to ensure that in 2005 Pulte Homes is "55 and better."

Sincerely,

A handwritten signature in blue ink that reads "Richard J. Dugas, Jr.".

**RICHARD J. DUGAS, JR.**

*President and Chief Executive Officer*

A handwritten signature in blue ink that reads "William J. Pulte".

**WILLIAM J. PULTE**

*Founder and Chairman of the Board*



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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

**(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2004**

**OR**

**( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 1-9804**

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### PULTE HOMES, INC.

(Exact name of registrant as specified in its charter)

**MICHIGAN**

(State or other jurisdiction of  
incorporation or organization)

**38-2766606**

(I.R.S. Employer  
Identification No.)

**100 Bloomfield Hills Parkway, Suite 300**

**Bloomfield Hills, Michigan 48304**

(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: (248) 647-2750**

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**

Common Stock, par value \$.01

**Name of each exchange on which registered**

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

**NONE**

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). ☒

Aggregate market value of voting stock held by nonaffiliates of the registrant as of June 30, 2004: \$5,478,360,450

Number of shares of common stock outstanding as of February 28, 2005: 128,789,362

#### **Documents Incorporated by Reference**

Applicable portions of the Proxy Statement for the 2005 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form.

#### **Website Access to Company Reports, Codes and Charters**

Our internet website address is [www.pulte.com](http://www.pulte.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after we electronically file with or furnish them to the Securities and Exchange Commission. Our code of ethics for principal officers, our corporate governance guidelines and the charters of the Audit, Compensation, and Nominating and Governance committees of our Board of Directors, are also posted on our website and are available in print upon request.

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**PULTE HOMES, INC.**  
**TABLE OF CONTENTS**

<b><u>Item</u></b> <b><u>No.</u></b>		<b><u>Page</u></b> <b><u>No.</u></b>
<b>Part I</b>		
1	Business.....	3
2	Properties.....	9
3	Legal Proceedings.....	9
4	Submission of Matters to a Vote of Security Holders.....	10
4A	Executive Officers of the Registrant.....	10
<b>Part II</b>		
5	Market for the Registrant’s Common Equity and Related Stockholder Matters .....	11
6	Selected Financial Data.....	11
7	Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	13
7A	Quantitative and Qualitative Disclosures About Market Risk.....	27
8	Financial Statements and Supplementary Data.....	29
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	67
9A	Controls and Procedures .....	67
9B	CEO/CFO Certifications.....	69
<b>Part III</b>		
10	Directors and Executive Officers of the Registrant.....	69
11	Executive Compensation .....	69
12	Security Ownership of Certain Beneficial Owners and Management.....	69
13	Certain Relationships and Related Transactions .....	70
14	Principal Accountant Fees and Services.....	70
<b>Part IV</b>		
15	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	70
	Signatures .....	76

## PART I

### ITEM 1. BUSINESS

#### **Pulte Homes, Inc.**

Pulte Homes, Inc. is a publicly held holding company whose subsidiaries engage in the homebuilding and financial services businesses. Our assets consist principally of the capital stock of our subsidiaries and our income primarily consists of dividends from our subsidiaries. Our direct subsidiaries include Pulte Diversified Companies, Inc., Del Webb Corporation (“Del Webb”) and other subsidiaries engaged in the homebuilding business. Pulte Diversified Companies, Inc.’s operating subsidiaries include Pulte Home Corporation, Pulte International Corporation (“International”) and other subsidiaries engaged in the homebuilding business. Pulte Diversified Companies, Inc.’s non-operating thrift subsidiary, First Heights Bank, fsb (“First Heights”), is classified as a discontinued operation (see Note 3 of Notes to Consolidated Financial Statements). We also have a mortgage banking company, Pulte Mortgage LLC (“Pulte Mortgage”), which is a subsidiary of Pulte Home Corporation.

In January 2005, we sold all of our Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations. (See Note 3 of Notes to Consolidated Financial Statements).

We have two reportable business segments, Homebuilding and Financial Services, and one non-operating segment, Corporate.

The Homebuilding segment consists of the following two business units:

- Domestic Homebuilding, our core business, is engaged in the acquisition and development of land principally 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 and Puerto Rico.

The Financial Services segment consists principally of mortgage banking and title operations conducted through Pulte Mortgage and other subsidiaries.

Corporate is a non-operating segment that supports the operations of our subsidiaries by acting as the internal source of financing, developing and implementing strategic initiatives centered on new business development and operating efficiencies, and providing the administrative support associated with being a publicly traded entity listed on the New York Stock Exchange.

Financial information, including revenue, pre-tax income and total assets of each of our business segments is included in Note 2 of Notes to Consolidated Financial Statements.

## Homebuilding Operations

	Years Ended December 31, (\$000's omitted)				
	2004	2003	2002	2001	2000
Homebuilding settlement revenues:					
Domestic.....	\$11,094,617	\$ 8,482,341	\$ 6,991,614	\$ 5,145,526	\$ 4,083,816
International.....	196,740	191,125	170,195	25,513	27,159
Total .....	<u>\$11,291,357</u>	<u>\$ 8,673,466</u>	<u>\$ 7,161,809</u>	<u>\$ 5,171,039</u>	<u>\$ 4,110,975</u>
Homebuilding settlement units:					
Domestic.....	38,612	32,693	28,903	22,915	19,799
International.....	7,713	6,889	6,334	176	264
Total .....	<u>46,325</u>	<u>39,582</u>	<u>35,237</u>	<u>23,091</u>	<u>20,063</u>

*Note: Homebuilding settlement revenues of affiliates, not included in the table above, for the years ended December 31, 2004 through 2000 were \$72,126, \$32,511, \$40,723, \$180,621 and \$148,798, respectively. Homebuilding unit settlements of affiliates, not included in the table above, for the years ended December 31, 2004 through 2000 were 250, 149, 1,022, 7,258 and 7,718, respectively.*

### Domestic Homebuilding

Consistent with our strategy of serving all major customer segments: first-time, first and second move-up and active adult, our communities offer a wide variety of home designs including single family detached, townhouses, condominiums and duplexes at different prices and with varying levels of options and amenities. Expanding the number of customer segments served within each of our markets has enabled us to approximately double our annual closings over the past five years to a record 38,612 homes closed in 2004. Over our 54-year history, we have delivered more than 408,000 homes throughout the United States.

On July 31, 2001, we merged with Del Webb in a tax-free stock-for-stock transaction. Del Webb was primarily a homebuilder with operations in seven 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 expanded and supported our leadership position. In particular, we believe the merger strengthened our position among active adult (age 55 and older) homebuyers, added important strategic land positions, provided operational savings from economies of scale, bolstered our purchasing leverage, and enhanced our overall competitive position. In accordance with our operational strategy, we will continue to evaluate available strategic acquisition opportunities that are consistent with our long-range goals.

As of December 31, 2004, our Domestic Homebuilding operations offered homes for sale in 626 communities at sales prices ranging from \$62,000 to \$3.2 million. Sales prices of homes currently offered for sale in 70% of our communities fall within the range of \$100,000 to \$350,000 with a 2004 average unit selling price of \$287,000, compared with \$259,000 in 2003, \$242,000 in 2002, \$225,000 in 2001 and \$206,000 in 2000. Sales of single-family detached homes, as a percentage of total unit sales, were 80% in 2004, compared with 83% in 2003, 86% in 2002, and 82% in 2001 and 2000. Our Domestic Homebuilding operations are geographically diverse and, as a result, better insulate us from demand changes in individual markets. As of December 31, 2004, our Domestic Homebuilding business operated in 45 markets spanning 27 states.

As of December 31, 2004, our Domestic Homebuilding operations had 15,916 units in backlog valued at approximately \$5.2 billion.

### International Homebuilding

Our International Homebuilding operations are principally conducted through subsidiaries of International in Mexico and Puerto Rico. International Homebuilding product offerings focus on the demand of first-time buyers and middle-to-upper income consumer groups. Effective January 1, 2002, International reorganized its structure within Mexico to create a single company, Pulte Mexico S. de R.L. de C.V., which ranks as one of the largest builders in the country. Prior to the reorganization, these operations were conducted primarily through five joint ventures throughout Mexico. Under the new ownership structure, which combines the largest of these entities, we own 63.8% of Pulte Mexico S. de R.L. de C.V. and have consolidated Pulte Mexico S. de R.L. de C.V. into our financial statements. In accordance with the terms of a reorganization agreement dated as of December 31, 2001, the minority shareholders notified us in January 2005 of their intent to exercise a put option to sell their shares back to us, the consummation of which would result in the our owning 100% of Pulte Mexico S. de R.L. de C.V. We believe that this transaction will not have a material impact on our results of operations, financial position or cash flows.

We are currently in the process of evaluating various long-term strategic alternatives with regard to our International operations.



## Homebuilding Operations (continued)

### *Land acquisition and development*

We select locations for development of homebuilding communities after completing extensive market research, enabling us to match the location and product offering with our targeted consumer group. We consider factors such as proximity to developed areas, population and job growth patterns and, if applicable, estimated development costs. We historically have managed the risk of controlling our land positions through use of option contracts and outright acquisition. We typically control land with the intent to complete sales of housing units within 24 to 36 months from the date of opening a community, except in the case of certain Del Webb active adult developments and other selected large projects for which the completion of community build out requires a longer time period due to typically larger project sizes. As a result, land is generally purchased after it is properly zoned and developed or is ready for development. In addition, we dispose of owned land not required in the business through sales to appropriate end users. Where we develop land, we engage directly in many phases of the development process, including land and site planning, obtaining environmental and other regulatory approvals, as well as constructing roads, sewers, water and drainage facilities and other amenities. We use our staff and the services of independent engineers and consultants for land development activities. Land development work is performed primarily by independent contractors and local government authorities who construct sewer and water systems in some areas. At December 31, 2004, we controlled approximately 343,000 lots, of which 158,000 were owned and 185,000 were under option agreements.

### *Sales and marketing*

We are dedicated to improving the quality and value of our domestic homes through innovative proprietary architectural and community designs and state-of-the-art customer marketing techniques. Analyzing various qualitative and quantitative data obtained through extensive market research, we segment our potential customers into well-defined buyer profiles. Segmentation analysis provides a method for understanding the business opportunities and risks across the full spectrum of consumer groups in each market. Once the demands of potential buyers are understood, we link our home design and community development efforts to the specific lifestyle of each targeted consumer group.

To meet the demands of our various domestic customers, we have established a solid design expertise for a wide array of product lines. We believe that we are an innovator in the design of our homes and we view design capacity as an integral aspect of our marketing strategy. Our in-house architectural services teams and management, supplemented by outside consultants, are successful in creating distinctive design features, both in exterior facades and interior options and features. In certain markets our strategy is to offer “the complete house” in which all features shown in the home are included in the sales price. Standard features typically offered include vaulted ceilings, appliances, and a variety of available flooring and carpet.

Typically, our domestic sales teams, together with outside sales brokers, are responsible for guiding the customer through the sales process. We are committed to industry-leading customer service through a variety of quality initiatives, including the customer care program, which ensures that homeowners are comfortable at every stage of the building process. Using a seven-step, interactive process, homeowners are kept informed during their homebuilding and home owning experience. The steps include (1) a pre-construction meeting with the superintendent; (2) pre-dry wall frame walk; (3) quality assurance inspection; (4) first homeowner orientation; (5) 30-day follow-up after the close of the home; (6) three-month follow-up; and (7) an 11-month quality list after the close of the home. Fully furnished and landscaped model homes are used to showcase our homes and their distinctive design features. We have great success with the first-time buyer in the low to moderate price range; in such cases, financing under United States Government-insured and guaranteed programs is often used and is facilitated through our mortgage company. We also enjoy strong sales to the move-up buyer and, in certain markets, offer semi-custom homes in higher price ranges.

As a result of the Del Webb merger, we are better able to address the needs of active adults, among the fastest growing homebuying segments. We offer both destination communities and “in place” communities, for those buyers who prefer to remain in their current geographic area. These communities, with highly amenitized products such as golf courses, recreational centers and educational classes, offer the active adult buyer many options to maintain an active lifestyle.

## Homebuilding Operations (continued)

### *Sales and marketing (continued)*

We have received recognition and awards as a result of our achievements as a homebuilder. In 2004, the Environmental Protection Agency named Pulte as an ENERGY STAR Partner of the Year. Pulte was also named as a Top-Ranked Homebuilder in BusinessWeek's List of 50 Best Performers among the S&P 500, coming in at number 11. We were number 78 on the Fortune 100 Fastest-Growing Companies list. Pulte was the recipient of the inaugural J.D. Power and Associates Platinum Award for customer satisfaction, and was the winner of the first National Housing Quality "Gold Award".

In addition, our Charlotte, Dallas/Ft. Worth, Detroit, Ft. Myers/Naples, Houston, Jacksonville, Las Vegas, Minneapolis/St. Paul, Orlando, Palm Beach, Philadelphia, Tampa, Tucson, and Washington, D.C. markets were recognized for ranking the highest in their markets in a national customer satisfaction study. Nine of our markets came in second place, while six obtained third place positions. The survey of twenty-five U. S. markets (with Pulte presence in twenty-four of those markets) noted customer service, home readiness at the time of closing, and the company's sales staff as the three factors that most heavily influenced the customer's overall level of satisfaction. Developing the Pulte Homes brand and leveraging the strength of the "DiVosta," "Del Webb" and "Sun City" tradenames helps to distinguish our communities from the competition, and can often be rewarded with the advantages of additional sales pace, choice community locations, and reduced overall customer acquisition costs.

Our Homeowner for Life™ philosophy has increased our business from those who have previously owned a Pulte home or have been referred by a Pulte homeowner by ensuring a positive home buying and home owning experience. We introduce our homes to prospective buyers through a variety of media advertising, illustrated brochures, Internet listings and link placements, and other advertising displays. In addition, our websites, [www.pulte.com](http://www.pulte.com), [www.delwebb.com](http://www.delwebb.com), [www.divosta.com](http://www.divosta.com), and [www.espanol.pulte.com](http://www.espanol.pulte.com) provide tools to help users find a home that meets their needs, investigate financing alternatives, communicate moving plans, maintain a home, learn more about us and communicate directly with us. Approximately 3.5 million potential customers visited our websites during 2004.

Our international sales and marketing efforts focus on the identification of underserved market demand, with strong emphasis on quality initiatives and customer service. In Mexico, where our product is focused largely on social interest housing, sales and marketing efforts target areas experiencing population and employment growth.

### *Construction*

The construction process for our domestic homes begins with the in-house design of the homes we sell. The building phase is conducted under the supervision of our on-site construction superintendents. The construction work is usually performed by independent contractors under contracts that, in many instances, cover both labor and materials on a fixed-price basis. We believe that Pulte Preferred Partnerships (P<sup>3</sup>), an extension of our quality assurance program, continues to establish new standards for contractor relations. Using a selective process, we have teamed up with what we believe are premier contractors and suppliers to improve all aspects of the land development and house construction processes.

We maintain efficient construction operations by using standard materials and components from a variety of sources and, when possible, by building on contiguous lots. To minimize the effects of changes in construction costs, the contracting and purchasing of building supplies and materials generally is negotiated at or near the time when related sales contracts are signed. In addition, we leverage our size by actively negotiating our materials needs on a national or regional basis to minimize production component cost. We are also working to establish a more integrated system that can effectively link suppliers, contractors and the production schedule through various strategic business partnerships and e-business initiatives.

Housing in Mexico and Puerto Rico consists primarily of reinforced poured concrete, concrete block and/or brick construction with flat roofs and public water, electric and sanitary system connections. Building materials, supplies and components are sourced locally and the construction work is performed by general contractors and/or independent contractors, which in many cases include both labor and materials.

We cannot determine the extent to which necessary building materials will be available at reasonable prices in the future and have, on occasion, experienced shortages of skilled labor in certain trades and of building materials in some markets.

## Homebuilding Operations (continued)

### *Competition and other factors*

Our dedication to customer satisfaction is evidenced by our consumer and value-based brand approach to product development, and is something that we believe distinguishes us in the homebuilding industry and contributes to our long-term competitive advantage. The housing industry in the United States, however, is highly competitive. In each of our market areas, there are numerous homebuilders with which we compete. We also compete with the resales of existing house inventory. Any provider of housing units, for-sale or to rent, including apartment builders, may be considered a competitor. Conversion of apartments to condominiums further provides certain segments of the population an alternative to traditional housing, as does manufactured housing. We compete primarily on the basis of price, reputation, design, location and quality of our homes. The housing industry is affected by a number of economic and other factors including: (1) significant national and world events, which impact consumer confidence; (2) changes in the costs of building materials and labor; (3) changes in interest rates; (4) changes in other costs associated with home ownership, such as property taxes and energy costs; (5) various demographic factors; (6) changes in federal income tax laws; (7) changes in government mortgage financing programs, and (8) availability of sufficient mortgage capacity. In addition to these factors, our business and operations could be affected by shifts in demand for new homes.

Our operations are subject to building, environmental and other regulations of various federal, state, local and foreign governing authorities. For our homes to qualify for Federal Housing Administration ("FHA") or Veterans Administration ("VA") mortgages, we must satisfy valuation standards and site, material and construction requirements of those agencies. Our compliance with federal, state, local and foreign laws relating to protection of the environment has had, to date, no material effect upon capital expenditures, earnings or competitive position. More stringent requirements could be imposed in the future on homebuilders and developers, thereby increasing the cost of compliance.

### **Financial Services Operations**

We conduct our financial services business, which includes mortgage and title operations, through Pulte Mortgage and other subsidiaries.

#### *Mortgage banking*

Our mortgage bank arranges financing through the origination of mortgage loans primarily for the benefit of our domestic homebuyers, but also services the general public. We also engage in the sale of such loans and the related servicing rights. We are a lender approved by the FHA and VA and are a seller/servicer approved by Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and other investors. In our conventional mortgage lending activities we follow underwriting guidelines established by FNMA and FHLMC.

Our mortgage underwriting, processing and closing functions are centralized in Denver, Colorado using a mortgage operations center ("MOC") concept. We also use a centralized telephone loan officer concept where loan officers are centrally located at a mortgage application center ("MAC") in Denver. Our sales representatives, who are the mortgage customers' main contact, forward the loan applications to a MAC loan counselor who calls the customer to complete the loan application and then forwards it to the MOC for processing. We believe both the MOC and the MAC improve the speed and efficiency of our mortgage operations, thereby improving our profitability and allowing us to focus on creating attractive mortgage financing opportunities for our customers.

In originating mortgage loans, we initially use our own funds and borrowings made available to us through various credit arrangements. Subsequently, we sell such mortgage loans and mortgage-backed securities to outside investors.

Our capture rate for the years ended December 31, 2004, 2003, and 2002 was approximately 88%, 83% and 78%, respectively. Our capture rate represents loan originations from our homebuilding business as a percent of total loan opportunities, excluding cash settlements, from our homebuilding business. During the years ended December 31, 2004, 2003 and 2002, we originated mortgage loans for approximately 84%, 73% and 68%, respectively, of the homes we sold domestically. Such originations represented 92%, 83% and 85%, respectively, of our originations.

We sell our servicing rights on a flow basis through fixed price servicing sales contracts to reduce the risks inherent in servicing loans. This strategy results in owning the servicing rights for only a short period of time, generally less than four months after the loan is originated, which substantially reduces the risk of impairment with respect to the fair value of these reported assets. The servicing sales contracts provide for the reimbursement of payments made when loans prepay within specified periods of time, usually 90 days after sale or securitization.

## **Financial Services Operations (continued)**

### *Mortgage banking (continued)*

The mortgage industry in the United States is highly competitive. We compete with other mortgage companies and financial institutions to provide attractive mortgage financing to both our homebuyers and to the general public. The Internet is also an important resource for homebuyers in obtaining financing as a number of companies provide online approval for their customers. These Internet-based mortgage companies may also be considered competitors.

In originating and servicing mortgage loans, we are subject to rules and regulations of the FHA, VA, GNMA, FNMA and FHLMC. In addition to being affected by changes in these programs, our mortgage banking business is also affected by several of the same factors that impact our homebuilding business.

### **Discontinued operations**

#### *First Heights*

During the first quarter of 1994, we adopted a plan of disposal for First Heights and announced our strategy to exit the thrift industry and increase our 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 we expected to complete the plan of disposal within a reasonable period of time, contractual disputes precluded us from completing the disposal in accordance with our original plan.

First Heights' day-to-day activities are principally devoted to supporting residual regulatory compliance matters and the litigation with the United States government, discussed in Item 3, 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 presented as discontinued.

#### *Argentina*

In January 2005, we sold all of our Argentina operations to an Argentine company involved in residential and commercial real estate development. The disposition of these operations was the chosen action to improve our overall returns. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements. Previously, the Argentina operations were included in the Homebuilding segment. Total assets to be disposed of at December 31, 2004 were \$15.4 million, consisting primarily of cash and inventories. Total liabilities to be disposed of at December 31, 2004 were \$13.7 million and consisted primarily of accounts payable and other accrued liabilities.

### **Corporate**

Corporate is a non-operating segment that is comprised primarily of Pulte Homes, Inc. and Pulte Diversified Companies, Inc., both of which are holding companies. The primary purpose of Corporate is to support the operations of our subsidiaries by acting as the internal source of financing, developing and implementing strategic initiatives centered around new business development and operating efficiencies. Business development activities include the pursuit of additional domestic and international opportunities as well as the development of innovative building components and processes. Corporate also includes the activities associated with supporting a publicly traded entity listed on the New York Stock Exchange.

Corporate assets include equity investments in its subsidiaries, short-term financial instruments and affiliate advances. Liabilities include senior and subordinated debt and income taxes. Corporate revenues consist primarily of investment earnings of excess funds, while its expenses include costs associated with supporting a publicly traded company and its subsidiaries' operations, and investigating strategic initiatives.

### **Organization/Employees**

All subsidiaries and operating units operate independently with respect to daily operations. Homebuilding real estate purchases and other significant homebuilding, mortgage banking, financing activities and similar operating decisions must be approved by the business unit and/or corporate senior management.

At December 31, 2004, we employed approximately 13,000 people. Our employees are not represented by any union. Contracted work, however, may be performed by union contractors. Homebuilding and mortgage banking management personnel are paid performance bonuses and incentive compensation. Performance bonuses are based on individual performance while incentive compensation is based on the performance of the applicable business unit or subsidiary. Our corporate management personnel are paid incentive compensation based on our overall performance. Each subsidiary is given autonomy regarding employment of personnel, although our senior corporate management acts in an advisory capacity in the employment of subsidiary officers. We consider our employee and contractor relations to be satisfactory.

## ITEM 2. PROPERTIES

Our homebuilding and corporate headquarters are located at 100 Bloomfield Hills Parkway, Bloomfield Hills, Michigan 48304, where we lease 81,740 square feet of office space. We lease 54,380 square feet of office space at 1230 West Washington Street, Tempe, Arizona 85281 for certain corporate and business services. Pulte Mortgage's offices are located at 7475 South Joliet Street, Englewood, Colorado 80112, 99 Inverness Drive East, Englewood, Colorado 80112, and 12300 East Arapahoe Road, Centennial, Colorado 80112. We lease approximately 61,436 square feet, 24,400 square feet and 43,050 square feet, respectively, of office space at these locations. Our homebuilding markets and mortgage branch operations generally lease office space for their day-to-day operations. First Heights' administrative office is located in 550 square feet of leased space at 2010 North Loop West, Suite 105, Houston, Texas 77018.

Because of the nature of our homebuilding operations, significant amounts of property are held as inventory in the ordinary course of our homebuilding business. Such properties are not included in response to this Item.

## ITEM 3. LEGAL PROCEEDINGS

We are involved in various litigation incidental to our continuing business operations. We believe that none of this litigation will have a material adverse impact on our results of operations, financial position or cash flows.

### *Storm Water Discharge Practices*

In April 2004, we received a request for information from the United States Environmental Protection Agency ("EPA") pursuant to Section 308 of the Clean Water Act. The request seeks information about storm water discharge practices in connection with homebuilding projects completed or underway by us. We have provided the EPA with this information. Although the matter has since been referred to the United States Department of Justice ("DOJ") for enforcement, the EPA has asked that we engage in "pre-filing" negotiations to resolve the matter short of litigation. We are actively engaged in these negotiations. If the negotiations fail and the DOJ alleges that we have violated regulatory requirements applicable to storm water discharges, the government may seek injunctive relief and penalties. We believe that we have defenses to any such allegations. At this time, however, we can neither predict the outcome of this inquiry, nor can we currently estimate the costs that may be associated with its eventual resolution.

### *First Heights-related litigation*

We are a party to a lawsuit 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 lawsuit (the Court of Federal Claims Case) was filed on December 26, 1996, in the United States Court of Federal Claims (Washington, D.C.) by Pulte Homes, Inc., Pulte Diversified Companies, Inc. and First Heights (collectively, the Pulte Parties) against the United States.

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 other claims concerning the contract, including 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 Pulte Parties for breach of contract by enacting Section 13224 of OBRA. In September 2003, the United States Court of Federal Claims issued final judgment that the Pulte Parties had been damaged by approximately \$48.7 million as a result of the United States government's breach of contract with them. The United States government and the Pulte Parties appealed the final judgment to the United States Court of Appeals for the Federal Circuit in October 2003. Accordingly, any gain related to this litigation will be recognized only upon final resolution.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

This Item is not applicable.

#### ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information with respect to our executive officers.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Year Became An Officer</u>
William J. Pulte	72	Chairman of the Board	1956
Richard J. Dugas, Jr.	39	President and Chief Executive Officer	2002
Steven C. Petruska	46	Executive Vice President and Chief Operating Officer	2004
Roger A. Cregg	48	Executive Vice President and Chief Financial Officer	1997
David M. Sherbin	45	Vice President, General Counsel and Secretary	2005
Vincent J. Frees	54	Vice President and Controller	1995
Gregory M. Nelson	49	Vice President and Assistant Secretary	1993
Bruce E. Robinson	43	Vice President and Treasurer	1998

The following is a brief account of the business experience of each officer during the past five years:

Mr. Pulte was appointed Chairman of the Board in December 2001. He has also served as Chairman of the Executive Committee of the Board of Directors since January 1999.

Mr. Dugas was appointed President and Chief Executive Officer in July 2003. Prior to that date, he served as Executive Vice President and Chief Operating Officer. He was appointed Chief Operating Officer in May 2002 and Executive Vice President in December 2002. Since 1994, he has served in a variety of management positions. Most recently, he was Coastal Region President with responsibility for our Georgia, North Carolina, South Carolina, and Tennessee operations.

Mr. Petruska was appointed Executive Vice President and Chief Operating Officer in January 2004. Since joining our company in 1984, he has held a number of management positions. Most recently, he was the President for both the Arizona Area and Nevada Area operations.

Mr. Cregg was appointed Executive Vice President in May 2003 and was named Chief Financial Officer effective January 1998.

Mr. Sherbin was appointed Vice President, General Counsel and Secretary in January 2005. Before joining the Company, Mr. Sherbin was Senior Vice President, General Counsel and Secretary at Federal-Mogul Corporation since 1997.

Mr. Frees has been Vice President and Controller since May 1995.

Mr. Nelson has been Vice President and Assistant Secretary since August 1993.

Mr. Robinson has been Vice President and Treasurer since July 1998.

There is no family relationship between any of the officers. Each officer serves at the pleasure of the Board of Directors.



## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common shares are listed on the New York Stock Exchange (Symbol: PHM).

#### *Unregistered Sales of Equity Securities*

To date, we issued 208,000 shares of common stock under an equity plan, which had been approved by shareholders, but not registered with the Securities and Exchange Commission. We filed a Form S-8 Registration Statement on March 9, 2005 for the Pulte Homes, Inc. 2002 Stock Incentive Plan, which has been incorporated by reference as Exhibit 10(m).

#### *Related Stockholder Matters*

The table below, which has been adjusted to retroactively reflect our two-for-one stock split announced December 11, 2003 and effected January 2, 2004, sets forth, for the quarterly periods indicated, the range of high and low closing prices and cash dividends declared per share.

	<u>2004</u>			<u>2003</u>		
	<u>High</u>	<u>Low</u>	<u>Declared Dividends</u>	<u>High</u>	<u>Low</u>	<u>Declared Dividends</u>
1st Quarter	\$58.15	\$40.00	\$.05	\$26.59	\$22.73	\$.02
2nd Quarter	56.50	44.75	.05	35.99	24.66	.02
3rd Quarter	64.07	48.87	.05	34.88	28.98	.02
4th Quarter	65.00	47.46	.05	49.42	33.73	.05

At December 31, 2004, there were 2,478 shareholders of record.

### ITEM 6. 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.

	<u>Years Ended December 31,</u> <u>(\$000's omitted)</u>				
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001(a)</u>	<u>2000</u>
<b>OPERATING DATA:</b>					
<b>Homebuilding:</b>					
Revenues.....	<u>\$11,596,748</u>	<u>\$ 8,892,786</u>	<u>\$ 7,338,110</u>	<u>\$ 5,300,173</u>	<u>\$ 4,195,675</u>
Income before income taxes.....	<u>\$ 1,643,793</u>	<u>\$ 1,005,124</u>	<u>\$ 724,369</u>	<u>\$ 519,187</u>	<u>\$ 387,149</u>
<b>Financial Services:</b>					
Revenues.....	<u>\$ 112,719</u>	<u>\$ 115,847</u>	<u>\$ 106,628</u>	<u>\$ 77,222</u>	<u>\$ 50,669</u>
Income before income taxes.....	<u>\$ 47,429</u>	<u>\$ 68,846</u>	<u>\$ 66,723</u>	<u>\$ 36,948</u>	<u>\$ 24,788</u>
<b>Corporate:</b>					
Revenues.....	<u>\$ 1,749</u>	<u>\$ 3,281</u>	<u>\$ 1,202</u>	<u>\$ 2,210</u>	<u>\$ 633</u>
Loss before income taxes .....	<u>\$ (90,685)</u>	<u>\$ (75,351)</u>	<u>\$ (61,968)</u>	<u>\$ (57,452)</u>	<u>\$ (56,296)</u>
<b>Consolidated results:</b>					
Revenues.....	<u>\$11,711,216</u>	<u>\$ 9,011,914</u>	<u>\$ 7,445,940</u>	<u>\$ 5,379,605</u>	<u>\$ 4,246,977</u>
Income from continuing operations before income taxes .....	<u>\$ 1,600,537</u>	<u>\$ 998,619</u>	<u>\$ 729,124</u>	<u>\$ 498,683</u>	<u>\$ 355,641</u>
Income taxes.....	<u>602,529</u>	<u>379,376</u>	<u>284,339</u>	<u>192,017</u>	<u>136,922</u>
Income from continuing operations .....	<u>998,008</u>	<u>619,243</u>	<u>444,785</u>	<u>306,666</u>	<u>218,719</u>
Income (loss) from discontinued operations (b).....	<u>(11,467)</u>	<u>5,391</u>	<u>8,860</u>	<u>(5,273)</u>	<u>(30,206)</u>
Net income.....	<u>\$ 986,541</u>	<u>\$ 624,634</u>	<u>\$ 453,645</u>	<u>\$ 301,393</u>	<u>\$ 188,513</u>

(a) Del Webb operations were merged effective July 31, 2001.

(b) In January 2005, the Company sold all of its Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements (see Note 3 of Notes to Consolidated Financial Statements). All prior periods have been reclassified to conform to the 2004 presentation.

	Years Ended December 31,				
	2004	2003	2002	2001(a)	2000
<b>PER SHARE DATA:</b>					
<b>Earnings per share - basic:</b>					
Income from continuing operations.....	\$ 7.90	\$ 5.07	\$ 3.68	\$ 3.12	\$ 2.65
Income (loss) from discontinued operations (b) .....	(.09)	.04	.07	(.05)	(.37)
Net income .....	<u>\$ 7.81</u>	<u>\$ 5.11</u>	<u>\$ 3.75</u>	<u>\$ 3.07</u>	<u>\$ 2.28</u>
Weighted-average common shares outstanding (000's omitted) .....	<u>126,295</u>	<u>122,162</u>	<u>120,906</u>	<u>98,196</u>	<u>82,620</u>
<b>Earnings per share - assuming dilution:</b>					
Income from continuing operations.....	\$ 7.67	\$ 4.93	\$ 3.60	\$ 3.05	\$ 2.59
Income (loss) from discontinued operations (b) .....	(.09)	.04	.07	(.05)	(.36)
Net income .....	<u>\$ 7.58</u>	<u>\$ 4.97</u>	<u>\$ 3.67</u>	<u>\$ 2.99</u>	<u>\$ 2.24</u>
Weighted-average common shares outstanding and effect of dilutive securities (000's omitted) .....	<u>130,117</u>	<u>125,730</u>	<u>123,492</u>	<u>100,646</u>	<u>84,292</u>
<b>Shareholders' equity</b> .....	<u>\$ 35.37</u>	<u>\$ 27.55</u>	<u>\$ 22.58</u>	<u>\$ 19.22</u>	<u>\$ 15.01</u>
<b>Cash dividends declared</b> .....	<u>\$ .20</u>	<u>\$ .11</u>	<u>\$ .08</u>	<u>\$ .08</u>	<u>\$ .08</u>

(a) Del Webb operations were merged effective July 31, 2001.

(b) In January 2005, the Company sold all of its Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements (see Note 3 of Notes to Consolidated Financial Statements). All prior periods have been reclassified to conform to the 2004 presentation.

	December 31, (\$000's omitted)				
	2004	2003	2002	2001	2000
<b>BALANCE SHEET DATA:</b>					
House and land inventories .....	\$ 7,390,791	\$ 5,510,756	\$ 4,277,571	\$ 3,811,636	\$ 1,896,856
Total assets .....	10,406,897	8,072,151	6,872,087	5,710,893	2,886,483
Senior notes and subordinated notes .....	2,861,550	2,150,972	1,913,268	1,722,864	666,296
Shareholders' equity .....	4,522,274	3,448,123	2,760,426	2,276,665	1,247,931

	Years Ended December 31,				
	2004	2003	2002	2001	2000
<b>OTHER DATA:</b>					
Domestic Homebuilding:					
Total markets, at year-end .....	45	44	44	43	41
Total active communities, at year-end....	626	535	460	440	396
Total settlements - units .....	38,612	32,693	28,903	22,915	19,799
Total net new orders - units (a) .....	40,576	34,989	30,830	22,163	19,844
Backlog units, at year-end .....	15,916	13,952	10,605	8,678	5,477
Average unit selling price .....	\$ 287,000	\$ 259,000	\$ 242,000	\$ 225,000	\$ 206,000
Gross profit margin %					
from home sales (b) .....	22.6%	20.6%	19.4%	19.1%	18.0%
Homebuilding settlement units (c):					
Domestic .....	38,612	32,693	28,903	22,915	19,799
International .....	7,713	6,889	6,334	176	264
Total .....	<u>46,325</u>	<u>39,582</u>	<u>35,237</u>	<u>23,091</u>	<u>20,063</u>

(a) Total net new orders-units for the years ended December 31, 2003 and 2001, do not include 1,051 units and 3,953 units, respectively, of acquired backlog.

(b) Domestic homebuilding interest expense, which represents the amortization of capitalized interest, is included as part of homebuilding cost of sales.

(c) Homebuilding unit settlements of affiliates, not included in the table above, for the years ended December 31, 2004 through 2000 were 250, 149, 1,022, 7,258 and 7,718, respectively.

## ITEM 7. 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, 2004, 2003, and 2002 is as follows (\$000's omitted, except per share data):

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Pre-tax income (loss):			
Homebuilding .....	\$1,643,793	\$ 1,005,124	\$ 724,369
Financial Services .....	47,429	68,846	66,723
Corporate .....	(90,685)	(75,351)	(61,968)
Income from continuing operations before income taxes ...	1,600,537	998,619	729,124
Income taxes .....	<u>602,529</u>	<u>379,376</u>	<u>284,339</u>
Income from continuing operations .....	998,008	619,243	444,785
Income (loss) from discontinued operations .....	<u>(11,467)</u>	<u>5,391</u>	<u>8,860</u>
Net income .....	<u>\$ 986,541</u>	<u>\$ 624,634</u>	<u>\$ 453,645</u>
Per share data - assuming dilution:			
Income from continuing operations .....	\$ 7.67	\$ 4.93	\$ 3.60
Income (loss) from discontinued operations .....	<u>(.09)</u>	<u>.04</u>	<u>.07</u>
Net income .....	<u>\$ 7.58</u>	<u>\$ 4.97</u>	<u>\$ 3.67</u>

Key financial highlights and events for the years ended December 31, 2004, 2003, and 2002 are as follows:

#### *Homebuilding Operations*

- Continued strong demand for new homes in many of our markets, market share gains, geographic and product mix shifts, average unit selling price increases and benefits from the ongoing initiatives to simplify processes and leverage construction costs throughout the operations contributed to increases in pre-tax income of our homebuilding business segment. Pre-tax income increased 64% for the year ended December 31, 2004, compared with the same period in the prior year. Pre-tax income increased 39% in 2003, compared to the year ended December 31, 2002.
- Domestic homebuilding settlement gross margin percentages were up approximately 200 basis points to 22.6% for the year ended December 31, 2004 and 120 basis points to 20.6% for the year ended December 31, 2003, respectively, compared with the same periods in the prior years.
- Units in backlog increased to a record 15,916 units, valued at \$5.2 billion at December 31, 2004, compared with 13,952 units, valued at \$4.1 billion at December 31, 2003. There were 10,605 units in backlog at December 31, 2002 valued at \$2.9 billion. The increase in backlog is primarily attributed to continued strong demand for new homes in many of our markets.
- During the third quarter of 2004, we were impacted by hurricanes in the southeastern United States. In addition, during October 2004, we lowered pricing in Las Vegas to better align pricing in our communities with the market.
- In January 2005, we sold all of our Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations.

## Overview (continued)

### Financial Services Operations

- Mortgage origination units, origination principal and our capture rate increased during 2004 compared with 2003, and during 2003 compared with 2002. Pre-tax income for the year ended December 31, 2004 decreased 31% compared with 2003 due to a shift in our product mix, starting in the second half of 2003, toward adjustable rate mortgages (“ARMs”) versus fixed rate mortgages due to changes in customer mortgage product preference. Pre-tax income of our financial services business segment increased 3% from 2002 in 2003, driven by an increase in loan originations and a higher capture rate tempered by product mix changes and a less favorable interest rate environment during the last half of the year.

### Corporate

- Pre-tax loss of our non-operating Corporate segment increased 20% in 2004 to \$90.7 million and in 2003, pre-tax loss increased 22% from 2002. During 2004, net interest expense increased due to higher debt levels as a result of our growth. Other corporate expenses, net in 2004 were impacted by increased charitable contributions expense. In addition, income recognized during 2003 and 2002 from the sale and adjustment to fair value of various non-operating parcels of commercial land held for sale did not recur in 2004, resulting in higher net expense. During 2003, other corporate expenses, net increased due principally to higher compensation-related costs.

## Homebuilding Operations

Our Homebuilding segment consists of the following operations:

- Domestic Homebuilding - We conduct our Domestic Homebuilding operations in 45 markets located throughout 27 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 - We conduct our International Homebuilding operations through subsidiaries of International Corporation (International) in Mexico and Puerto Rico. International focuses on the demand of first-time buyers and middle-to-upper income consumer groups. We are currently in the process of evaluating various long-term strategic alternatives with regard to our International operations.

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

	Years Ended December 31,		
	2004	2003	2002
Homebuilding settlement revenues:			
Domestic .....	\$ 11,094,617	\$ 8,482,341	\$ 6,991,614
International .....	196,740	191,125	170,195
Total .....	<u>\$ 11,291,357</u>	<u>\$ 8,673,466</u>	<u>\$ 7,161,809</u>
Homebuilding settlement units:			
Domestic .....	38,612	32,693	28,903
International .....	7,713	6,889	6,334
Total .....	<u>46,325</u>	<u>39,582</u>	<u>35,237</u>

*Note: Homebuilding revenues of affiliates, not included in the table above, for the years ended December 31, 2004 through 2002 were \$72,126, \$32,511, and \$40,723, respectively. Homebuilding unit settlements of affiliates, not included in the table above, for the years ended December 31, 2004 through 2002 were 250, 149, and 1,022, respectively.*

# Homebuilding Operations (continued)

## Domestic Homebuilding

The Domestic Homebuilding operations represent our core business. We conduct our operations in 45 markets, located throughout 27 states, presented geographically as follows:

<i>Northeast:</i>	Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Virginia
<i>Southeast:</i>	Florida, Georgia, North Carolina, South Carolina, Tennessee
<i>Midwest:</i>	Illinois, Indiana, Kansas, Michigan, Minnesota, Ohio
<i>Central:</i>	Colorado, New Mexico, Texas
<i>West:</i>	Arizona, California, Nevada

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

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Unit settlements:			
Northeast .....	3,249	2,692	2,440
Southeast .....	9,362	8,234	8,271
Midwest .....	5,520	4,936	4,458
Central .....	6,066	5,283	4,588
West .....	14,415	11,548	9,146
	<u>38,612</u>	<u>32,693</u>	<u>28,903</u>
Net new orders - units (a):			
Northeast .....	3,197	3,098	2,738
Southeast .....	10,941	9,021	8,651
Midwest .....	5,396	4,736	4,684
Central .....	5,987	5,125	4,590
West .....	15,055	13,009	10,167
	<u>40,576</u>	<u>34,989</u>	<u>30,830</u>
Net new orders - dollars (\$000's omitted) (a) .....	<u>\$12,101,000</u>	<u>\$9,555,000</u>	<u>\$7,731,000</u>
Backlog at December 31 - units:			
Northeast .....	1,483	1,535	1,129
Southeast .....	5,305	3,726	2,939
Midwest .....	1,277	1,401	1,601
Central .....	1,077	1,156	905
West .....	6,774	6,134	4,031
	<u>15,916</u>	<u>13,952</u>	<u>10,605</u>
Backlog at December 31 - dollars (\$000's omitted) .....	<u>\$5,154,000</u>	<u>\$4,147,000</u>	<u>\$2,857,000</u>

(a) Net new orders for the year ended December 31, 2003 do not include 1,051 units of acquired backlog and the related dollars.

Continued strong demand for new homes, supported by a favorable interest rate environment, an increase in the number of active communities and market share expansion, drove increases in net new orders, unit settlements and unit backlog. Net new orders increased 16% to a record 40,576 units, for the year ended December 31, 2004. Net new orders for the year ended December 31, 2003 increased 13% to 34,989 units compared with 30,830 units for the year ended December 31, 2002.

Home settlements set a record for the year ended December 31, 2004 at 38,612 units, an increase of 18% over the same period in 2003. In 2003, home settlements also reached a record high, increasing 13% to 32,693 units. Active communities increased from 460 in 2002 to 535 in 2003 to 626 in 2004.

## Homebuilding Operations (continued)

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. The average selling price for our homes increased 11% for the year ended December 31, 2004, to \$287,000 compared with 2003 and increased to \$259,000 in 2003 from \$242,000 in 2002. The most significant price increases for both 2004 and 2003 were in the West, Northeast and Florida in the Southeast geographic areas.

Ending backlog, which represents orders for homes that have not yet closed, grew to a record 15,916 units at December 31, 2004 compared with 13,952 units at December 31, 2003 and 10,605 units at December 31, 2002. The dollar value of our backlog was up 24% to \$5.2 billion at December 31, 2004, compared with \$4.1 billion at December 31, 2003 and \$2.9 billion at December 31, 2002. Our most significant increases at December 31, 2004, occurred in the Southeast and West, which had unit increases of 42% and 10% respectively. At December 31, 2003, compared with December 31, 2002, strong demand resulted in significant increases in backlog for all geographic areas of the country except the Midwest.

As announced on October 4, 2004, we lowered pricing in Las Vegas to better align pricing in our communities with pricing in the market. This action was in response to a period of slow sign-ups and increased cancellation rates, which we attributed to our then above-market pricing. However, since the price reductions took effect in October of 2004, our communities in Las Vegas have experienced improved traffic and new order activity. Las Vegas backlog totaled 883 units, with a value of \$379 million at December 31, 2004, which represented 6% and 7% of total domestic homebuilding units and dollars, respectively. At December 31, 2003, Las Vegas backlog totaled 1,770 units, with a value of \$627.6 million, which represented 13% and 15% of total domestic homebuilding units and dollars, respectively.

During August and September of 2004 four hurricanes occurred throughout Florida and the southeastern areas of the United States. We sustained minimal property damage, but did experience delayed home settlements and incurred additional overhead expenses related to lost workdays and cleanup efforts undertaken as a result of the hurricanes. Further, the impact of the storms delayed the opening of several new communities and resulted in shortages of building materials in some Florida markets.

The West contributed the largest portion of our operating activities, compared with the other geographic areas in the domestic homebuilding operations, representing 37% of unit net new orders and unit settlements for the year ended December 31, 2004 compared with 35% of settlements and 37% of net new orders during 2003, and 32% of settlements and 33% of net new orders during 2002. The West contributed the largest portion of our backlog, compared with other geographic areas in the domestic homebuilding operations, representing 43%, 44% and 38% of the total domestic homebuilding backlog units at December 31, 2004, 2003 and 2002, respectively.

The following table presents markets that represent 10% or more of unit new orders, unit settlements, and settlement revenues for the years ended December 31, 2004, 2003 and 2002:

	Year Ended December 31,		
	2004	2003	2002
<i>Unit net new orders:</i>			
Phoenix .....	16%	14%	11%
Las Vegas.....	*	10%	*
<i>Unit settlements:</i>			
Phoenix .....	14%	12%	11%
Las Vegas.....	*	*	*
<i>Settlement revenues:</i>			
Phoenix .....	12%	11%	10%
Las Vegas.....	12%	*	*

\* Represents less than 10%.



## Homebuilding Operations (continued)

At December 31, 2004 and 2003, our Domestic Homebuilding operations controlled approximately 343,400 and 256,900 lots, respectively. Approximately 158,000 and 120,400 lots were owned, and approximately 125,800 and 66,000 lots were under option agreements approved for purchase at December 31, 2004 and 2003, respectively. In addition, there were approximately 59,600 lots under option agreements at December 31, 2004, pending approval, that are under review and evaluation for future use by our Domestic Homebuilding operations. This compared to 70,500 lots at December 31, 2003.

The total purchase price applicable to approved land under option for use by our homebuilding operations at future dates approximated \$4.1 billion at December 31, 2004. In addition, total purchase price applicable to land under option pending approval was valued at \$2.4 billion at December 31, 2004. Land option agreements, which may be cancelled at our discretion, may extend over several years and are secured by deposits and advanced costs totaling \$327.6 million, which are generally non-refundable.

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

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Home sale revenue (settlements) .....	\$ 11,094,617	\$ 8,482,341	\$ 6,991,614
Land sale revenue .....	305,391	219,320	176,301
Home cost of sales* .....	(8,583,551)	(6,731,834)	(5,638,162)
Land cost of sales .....	(205,589)	(153,415)	(123,306)
Selling, general and administrative expenses .....	(973,629)	(820,951)	(664,469)
Equity income .....	47,203	29,045	2,265
Other income (expense), net .....	<u>(51,027)</u>	<u>(25,684)</u>	<u>(25,233)</u>
Pre-tax income .....	<u>\$ 1,633,415</u>	<u>\$ 998,822</u>	<u>\$ 719,010</u>
Average sales price .....	<u>\$ 287</u>	<u>\$ 259</u>	<u>\$ 242</u>

\* Domestic homebuilding interest expense, which represents the amortization of capitalized interest, is included as part of homebuilding cost of sales.

Homebuilding gross profit margins from home sales in 2004 increased 200 basis points over 2003 to 22.6%, and in 2003 increased 120 basis points to 20.6% compared with 2002. The increases are due to strong consumer demand, positive home pricing, favorable shifts in product and geographic mix, the benefits of leverage-buy purchasing activities and effective production and inventory management.

We consider land acquisition one of our core competencies. We acquire land primarily for the construction of our homes for sale to homebuyers. We will often sell select parcels of land within or adjacent to our communities to retail and commercial establishments. We also will, on occasion, sell lots within our communities to other homebuilders. Gross profits from land sales were \$99.8 million and \$65.9 million for the years ended December 31, 2004 and 2003, respectively, representing increases of \$33.9 million and \$12.9 million, respectively, from the previous years totals. Revenues and their related gains/losses may vary significantly between periods, depending on the timing of land sales. We continue to evaluate our existing land positions to ensure the most effective use of capital. Included in other assets is approximately \$230.1 million in land held for disposition as of December 31, 2004, as compared to \$251.2 million and \$218.8 million at December 31, 2003 and 2002, respectively.

For the year ended December 31, 2004, selling, general and administrative expenses, as a percentage of home settlement revenues, decreased 90 basis points to 8.8% compared with 2003 after increasing 20 basis points to 9.7% in 2003 compared with 2002. The improvement in 2004 can be attributed to greater leverage as a result of volume increases and the favorable pricing environment for our homes. The increase in 2003 is principally attributable to costs associated with the realignment of our field operations and organizations to meet the challenge and opportunity for future growth.

Equity income for 2004 includes earnings from our 50% investment in a joint venture that supplies and installs basic building components and operating systems, acquired in January 2004, and two Nevada-based joint ventures, related to the sale of commercial and residential properties. Equity income for 2003 primarily includes earnings from the two Nevada-based joint ventures.

Other income (expense), net includes the write-off of deposits and pre-acquisition costs resulting from decisions not to pursue certain land acquisitions and options, insurance-related expenses and settlements and other non-operating expenses. For the year ended December 31, 2004, the increase in expense is due to larger write-offs of deposit and pre-acquisition costs, as we continue to evaluate potential land acquisitions for the most effective use of capital.

## Homebuilding Operations (continued)

### International Homebuilding

Our International Homebuilding operations are primarily conducted through subsidiaries of International in Mexico and Puerto Rico.

The following table presents selected financial data for our International Homebuilding operations for the years ended December 31, 2004, 2003 and 2002 (\$000's omitted)\*:

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Revenues .....	\$ 196,740	\$ 191,125	\$ 170,195
Cost of sales .....	(158,972)	(152,445)	(136,745)
Selling, general and administrative expense .....	(28,459)	(34,259)	(29,512)
Other income (expense), net .....	(2,362)	(203)	(1,257)
Minority interest .....	(3,242)	(1,382)	(1,801)
Equity in income of joint ventures .....	<u>6,673</u>	<u>3,466</u>	<u>4,479</u>
Pre-tax income .....	<u>\$ 10,378</u>	<u>\$ 6,302</u>	<u>\$ 5,359</u>
Unit settlements: .....	<u>7,713</u>	<u>6,889</u>	<u>6,334</u>

*Note: Homebuilding unit settlements of affiliates, not included in the table above, for the years ended December 31, 2004, 2003, and 2002 were 250, 149, and 1,022, respectively.*

*\* In January 2005, the Company sold all of its Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements (see Note 3 of Notes to Consolidated Financial Statements).*

International unit settlements for the years ended December 31, 2004 and 2003, increased 12% and 9%, respectively. International revenues for the years ended December 31, 2004 and 2003 increased 3% and 12%, respectively, over the prior year periods. Revenues increased for both years primarily due to increased unit closings in Mexico. Our operations in Puerto Rico have experienced decreased unit closings and revenue as more of our business there has shifted to joint venture affiliates.

The higher proportion of unit settlements derived from Mexico, coupled with a higher percentage of those closings coming from economic housing, which is the lowest price point served in Mexico, had a negative impact on gross margins in 2004 compared with 2003. Gross margins decreased approximately 100 basis points to 19.2% for the year ended December 31, 2004. For the year ended December 31, 2003, gross margins were 20.2%, an increase of 50 basis points compared with 2002, due to favorable product and geographic mix shifts in Mexico.

Selling, general and administrative expenses as a percent of revenue decreased by 340 basis points to 14.5% in 2004 from 17.9% in 2003 and 17.3% in 2002. The increase from 2002 to 2003 was driven primarily by reorganization costs incurred during the restructuring of our operations in Mexico in an effort to enhance future profitability while the improvement in 2004 reflects the benefits of the restructuring actions.

Our operations in Mexico are affected by fluctuations in currency rates for that country. Transaction gains and losses for the years ended December 31, 2004, 2003 and 2002, classified as other income (expense), net, were not significant. For the years ended December 31, 2004 and 2003, we recorded a foreign currency translation gain of \$781 thousand and a loss of \$5.9 million, respectively, for Mexico, as a component of accumulated other comprehensive income on the balance sheet. For the year ended December 31, 2002, we recorded a foreign currency translation gain of \$8.6 million for Mexico. At December 31, 2004, our investment in Puerto Rico and Mexico, net of accumulated foreign currency translation adjustments, approximated \$28.8 million, and \$72.2 million, respectively.

## Financial Services Operations

We conduct our financial services business, which includes mortgage and title operations, through Pulte Mortgage and other subsidiaries.

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, generally less than four months, we do not amortize the servicing asset. Since the servicing rights are recorded based on 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.

The following table presents mortgage origination data for our Financial Services operations:

	Years Ended December 31,		
	2004	2003	2002
Total originations:			
Loans.....	<u>35,232</u>	<u>28,655</u>	<u>23,074</u>
Principal (\$000's omitted).....	<u>\$6,739,200</u>	<u>\$4,989,500</u>	<u>\$3,771,000</u>
Originations for Pulte customers:			
Loans.....	<u>32,471</u>	<u>23,864</u>	<u>19,537</u>
Principal (\$000's omitted).....	<u>\$6,299,200</u>	<u>\$4,179,100</u>	<u>\$3,176,500</u>

Pre-tax income of our financial services operations was \$47.4 million, \$68.8 million and \$66.7 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Mortgage origination unit and principal volume for the year ended December 31, 2004, increased 23% and 35%, respectively, over 2003. Mortgage origination unit and principal volume for the year ended December 31, 2003, increased 24% and 32%, respectively, over 2002. This growth can be attributed to increases in the capture rate of 510 basis points to 87.8% in 2004 and 510 basis points to 82.7% in 2003, combined with the volume increases experienced in our homebuilding business and an increase in average loan size. Our capture rate represents loan originations from our homebuilding business as a percent of total loan opportunities, excluding cash settlements, from our homebuilding business. Our domestic homebuilding customers continue to account for the majority of total loan production, representing 92% of Pulte Mortgage unit production for 2004, compared with 83% in 2003 and 85% in 2002.

Adjustable rate mortgages (ARMs) represented 43% of total funded origination dollars and 42% of total funded origination units for the year ended December 31, 2004, compared with 24% and 22%, respectively, in 2003 and 16% and 13%, respectively, in 2002. Refinancings represented 3% of total loan production in 2004, compared with 8% in both 2003 and 2002.

At December 31, 2004, loan application backlog was \$3.5 billion, compared with \$2.2 billion and \$1.4 billion at December 31, 2003 and 2002, respectively.

Pre-tax income decreased 31% for the year ended December 31, 2004, compared with 2003, as increased volume was offset by changes in product mix to ARMs, which generally have a lower profit per loan than fixed rate products. The shift to ARMs is attributable to customer mortgage product preference. In addition, in 2004, 36% of total originations were brokered loans, which are less profitable to us, compared with 16% in 2003. Mortgage origination fees increased to \$20.5 million for the year ended December 31, 2004, compared with \$7.5 million in 2003, due to the increase in brokered loans. Gains from the sale of mortgages during 2004 decreased \$14.1 million, or 22%, from \$64.4 million in 2003, and net interest income decreased \$5.5 million, to \$9.7 million during 2004 as compared with \$15.1 million in 2003. These decreases were due to the product mix shifts and an unfavorable interest rate environment in 2004 compared with 2003. Income from our title operations was \$17.6 million in 2004, an increase of 30% over 2003. Our minority interest in Su Casita, a Mexican mortgage banking company, contributed income of \$4 million for the year ended December 31, 2004, compared with \$4.4 million in 2003. Selling, general and administrative expense for the year ended December 31, 2004, increased 41% to \$57.5 million compared with 2003 due to increased origination volume.

Pre-tax income for the year ended December 31, 2003, increased 3% to \$68.8 million, as a result of increased volume, partially offset by a less favorable interest rate environment for selling loans during the last six months of the year and an increase in training, systems, and facilities costs incurred in anticipation of the projected growth of the business. Gains from the sale of mortgages increased \$2.0 million, or 3%, from the same period in 2002. As compared with 2002, net interest income increased \$3.8 million to \$15.1 million during 2003 due to increased production. Title income grew 11% contributing \$13.5 million to pre-tax income for the year.

## Financial Services Operations (continued)

We hedge portions of our forecasted cash flow from sales of closed mortgage loans with derivative financial instruments. For the year ended December 31, 2004, we did not recognize any material net gains or losses related to an ineffective portion of the hedging instrument. We also did not recognize any material net gains or losses during 2004 for cash flow hedges that were discontinued because it is probable that the original forecasted transaction will not occur. At December 31, 2004, we expect to reclassify \$138 thousand, net of taxes, of net gains on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months from sales of closed mortgage loans.

## Corporate

Corporate is a non-operating segment that supports the operations of our subsidiaries by acting as the internal source of financing, developing and implementing strategic initiatives centered on new business development and operating efficiencies, and providing the necessary administrative support associated with being a publicly traded entity listed on the New York Stock Exchange. 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):

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Net interest expense .....	\$ 47,372	\$ 39,364	\$ 38,214
Other corporate expenses, net.....	<u>43,313</u>	<u>35,987</u>	<u>23,754</u>
Loss before income taxes.....	<u>\$ 90,685</u>	<u>\$ 75,351</u>	<u>\$ 61,968</u>

Interest expense, net of interest capitalized into inventory, increased 20% to \$47.4 million in 2004 and 3% to \$39.4 million in 2003. This trend is a result of an increase in debt levels necessary to support our growth. Interest incurred for the years ended December 31, 2004, 2003, and 2002, excluding interest incurred by our financial services operations, was approximately \$205.2 million, \$179 million and \$162.5 million, respectively.

The increase in other corporate expenses, net for the year ended December 31, 2004, compared with the prior year was partially due to increased charitable contributions. Additionally, during 2003 and 2002, we recognized income from the sale and adjustment to fair value of various non-operating parcels of commercial land held for sale. Other corporate expense, net in 2003 increased \$12.2 million compared with 2002 principally as a result of higher compensation-related costs.

Interest capitalized into inventory is charged to home cost of sales based on the cyclical timing of our unit settlements, over a period that approximates the average life cycle of our communities. Interest in inventory, has 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):

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Interest in inventory at beginning of year.....	\$ 200,584	\$ 142,984	\$ 68,595
Interest capitalized .....	156,056	136,308	123,086
Interest expensed.....	<u>(133,049)</u>	<u>(78,708)</u>	<u>(48,697)</u>
Interest in inventory at end of year .....	<u>\$ 223,591</u>	<u>\$ 200,584</u>	<u>\$ 142,984</u>

## Discontinued Operations

First Heights - During the third quarter of 2004, 2003 and 2002, we recorded non-cash, after-tax gains of \$10.8 million, \$7.9 million and \$10 million, respectively, related to the favorable resolution of certain tax matters relating to our thrift operation, First Heights Bank, fsb (First Heights), which we discontinued in 1994.

In September 2003, the United States Court of Federal Claims issued final judgment that Pulte Homes, Inc., Pulte Diversified Companies, Inc. and First Heights (collectively, the Pulte Parties) had been damaged by approximately \$48.7 million as a result of the United States government's breach of contract with them. The final judgment follows the Court's August 17, 2001 ruling that the United States breached the contract related to the Pulte Parties' 1988 acquisition of five savings and loan associations by enacting Section 13224 of the Omnibus Budget Reconciliation Act of 1993. The United States government and the Pulte Parties filed Notices of Appeal with the United States Court of Appeals for the Federal Circuit in October 2003. Accordingly, any gain related to this litigation will be recognized only upon final resolution.

Argentina - In January 2005, we sold all of our Argentina operations to an Argentine company involved in residential and commercial real estate development. The disposition of these operations was the chosen action to improve our overall returns. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements. Previously, the Argentina operations were included in the Homebuilding segment.

For the years ended December 31, 2004, 2003, and 2002, discontinued Argentine operations reported pre-tax losses of \$1.4 million, \$1.9 million, and \$200 thousand, respectively. In addition, we recognized a pre-tax loss of \$33.2 million (\$20.6 million after-tax) on the write-down of the Argentina operations to fair value less costs to sell.

Our operations in Argentina are affected by fluctuations in currency rates. At December 31, 2004, foreign currency translation losses of \$25.1 million, which were previously recorded as a component of accumulated other comprehensive income on the balance sheet, were recognized in the income statement in connection with the classification of these operations as held for sale. These were included in the pre-tax loss of \$33.2 million on the write-down to fair value. For the year ended December 31, 2003, we recorded a foreign currency translation gain of \$1.9 million for Argentina, as a component of accumulated other comprehensive income on the balance sheet.

Total assets to be disposed of at December 31, 2004 were \$15.4 million, consisting primarily of cash and inventories. Total liabilities to be disposed of at December 31, 2004 were \$13.7 million and consisted primarily of accounts payable and other accrued liabilities.



## Liquidity and Capital Resources

We finance our homebuilding land acquisitions, development and construction activities from internally generated funds and existing credit agreements.

At December 31, 2004, we had cash and equivalents of \$314.6 million and \$2.9 billion of senior notes outstanding. Other financing included limited recourse collateralized financing totaling \$81.9 million. Sources of our working capital include our cash and equivalents, our \$1.31 billion committed unsecured revolving credit facility and Pulte Mortgage's \$940 million committed credit arrangements.

Our debt-to-total capitalization, excluding our collateralized debt, was approximately 38.8% at December 31, 2004, and approximately 36% net of cash and equivalents. We routinely monitor current operational requirements and financial market conditions to evaluate the use of available financing sources, including securities offerings.

Pulte Mortgage provides mortgage financing for many of our home sales and uses its own funds and borrowings made available pursuant to various committed and uncommitted credit arrangements. At December 31, 2004, Pulte Mortgage had committed credit arrangements of \$940 million comprised of a \$390 million bank revolving credit facility and a \$550 million annual asset-backed commercial paper program.

Our income tax liability and related effective tax rate are affected by a number of factors. In 2004, our effective tax rate was 37.65% compared to 38% in 2003 and 39% in 2002. The reduction in the effective tax rate for 2004 was principally due to the favorable resolution of certain state tax matters. The reduction in the effective tax rate during 2003 was principally due to a lower than expected effective state income tax rate for 2003 and the shareholders' approval of our new Senior Management Annual Incentive Plan, which allows full tax deductibility of Plan payments under Section 162(m) of the Internal Revenue Service Code. We anticipate that our effective tax rate for 2005 will be approximately 38%.

Our net cash used in operating activities for the year ended December 31, 2004, amounted to \$698.3 million, compared with \$331.3 million for the year ended December 31, 2003. The increases in net income for both years were offset primarily by significant investments in land necessary to support the continued growth of the business. Our net cash provided by operating activities for the year ended December 31, 2002, was \$158.8 million. The increase in net income was aided by the realization of certain tax benefits and an increase in accrued liabilities, while inventories continued to build to support the growth of the business.

Cash used in investing activities was \$198.6 million for the year ended December 31, 2004, compared with \$4.3 million in the prior year. The change in net cash used in investing activities primarily relates to our investments in unconsolidated entities. During January 2004, we invested \$35 million for a 50% ownership interest in an entity that supplies and installs basic building components and operating systems. During 2004, we invested approximately \$117.8 million in three new joint ventures that develop and/or sell land within the United States. Also, we contributed \$44.2 million of additional capital contributions to and received \$66.1 million in distributions from our unconsolidated joint ventures for the year ended December 31, 2004. Further, we incurred approximately \$75.2 million in capital expenditures to support the growth of our business. Net cash provided by investing activities was \$12.1 million in 2002.

Net cash provided by financing activities totaled \$809.6 million for the year ended December 31, 2004. Cash inflows from financing activities for the year ended December 31, 2004 are primarily attributed to proceeds received from our \$500 million, 5.25% senior notes issued in January 2004 and our \$400 million, 4.875% senior notes issued in July 2004, and \$44 million of cash received from the exercise of stock options. Cash outflows from financing activities for the year ended December 31, 2004 primarily relate to the repayment of our \$112 million, 8.375% senior notes in August 2004, redemption of the remaining \$77 million of Del Webb 10.25% senior subordinated notes in February 2004, approximately \$25.4 million of cash dividends paid to our shareholders, \$44.9 million used to repay borrowings, and \$14.7 million used to repurchase our common stock.

Net cash provided by financing activities for the year ended December 31, 2003, was \$128.9 million, reflecting proceeds from the \$300 million senior notes issued in February and the \$400 million senior notes issued in May and proceeds from employee stock option exercises, offset by the repayment of debt, dividends paid and stock repurchases.

Net cash provided by financing activities for the year ended December 31, 2002, was \$374 million, reflecting proceeds from the \$300 million senior notes issued in June 2002, proceeds from borrowings under our various credit facilities and proceeds from employee stock option exercises, offset by the repayment of debt, dividends paid and stock repurchases.

## **Liquidity and Capital Resources (continued)**

Our \$125 million, 7.3% unsecured senior notes are due in 2005. We anticipate repaying these notes in 2005 by issuing new unsecured senior notes and/or using cash provided by operations.

In September 2004, we restructured and amended the 5-year unsecured revolving credit facility, increasing the borrowing availability from \$850 million to \$1.31 billion, extending the maturity date from September 30, 2008 to September 15, 2009, with pricing more favorable to the Company. The credit facility includes an uncommitted accordion feature, under which the credit facility may be increased to \$1.5 billion. The Company has the capacity to issue letters of credit up to \$750 million. Borrowing availability is reduced by the amount of letters of credit outstanding. The credit facility contains restrictive covenants, the most restrictive of which requires the Company not to exceed a debt-to-total capitalization ratio of 50% as defined in the agreement. We had no outstanding borrowings under this unsecured revolving credit facility at December 31, 2004.

In September 2004, Pulte Mortgage amended its commercial paper conduit, which increased a sub-limit for eligible collateral, eliminated the \$50 million quarterly accordion feature, and made pricing more favorable to Pulte Mortgage. The commercial paper conduit is a \$550 million committed line of credit. We had outstanding borrowings of \$525 million under the commercial paper conduit at December 31, 2004.

In July 2004, we expanded the capacity on Pulte Mortgage's revolving credit facility from \$355 million to \$390 million. The revolving credit facility contains restrictive covenants, the most restrictive of which requires Pulte Mortgage to maintain a minimum tangible net worth of \$30 million and adjusted liabilities cannot exceed 12 times adjusted net worth. There were approximately \$91.2 million of borrowings outstanding under Pulte Mortgage's revolving credit facility at December 31, 2004. Mortgage loans originated by Pulte Mortgage are subsequently sold to outside investors. We anticipate that there will be adequate mortgage financing available for purchasers of our homes.

In July 2004, we sold \$400 million of 4.875% senior notes, which mature on July 15, 2009 and are guaranteed by Pulte Homes, Inc. and certain of its 100%-owned subsidiaries. These notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness. Proceeds from this offering were used for the repayment of expiring notes due on August 15, 2004 of approximately \$112 million and for general corporate purposes, including continued investment in our business.

In January 2004, we sold \$500 million of 5.25% senior notes, which mature on January 15, 2014 and are guaranteed by Pulte Homes, Inc. and certain of its 100%-owned subsidiaries. These notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness. Proceeds from the sale were used to retire the \$77 million outstanding Del Webb 10.25% senior subordinated notes and for general corporate purposes, including continued investment in our business.

At December 31, 2004, we had \$600 million remaining under our current mixed security shelf registration. Subsequent to December 31, 2004, we sold \$350 million of 5.2% senior notes, which mature on February 15, 2015, and \$300 million of 6% senior notes, which mature on February 15, 2035, which are guaranteed by Pulte Homes, Inc. and certain of its 100%-owned subsidiaries. These notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness. Proceeds from the sale were used to repay the indebtedness of our revolving credit facility and for general corporate purposes, including continued investment in our business.

At December 31, 2004, we had remaining authorization to purchase common stock aggregating \$62.8 million, pursuant to our \$100 million share repurchase program. As of December 31, 2004, we have repurchased a total of 1,256,400 shares for a total of \$37.2 million.

In December 2003, we increased our dividend 150% to \$.05 per share from \$.02 per share, effective for the fourth quarter of 2003. There was no change to our dividend rate during 2004.

### *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 to 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.

## Contractual Obligations and Commercial Commitments

The following table summarizes our payments under contractual obligations as of December 31, 2004:

	Payments Due by Period (S000's omitted)				
	<u>Total</u>	<u>2005</u>	<u>2006-2007</u>	<u>2008-2009</u>	<u>After 2009</u>
Contractual obligations:					
Long-term debt (a) .....	\$5,293,170	\$ 314,556	\$ 360,860	\$ 760,860	\$3,856,894
Capital lease obligations .....	-	-	-	-	-
Operating lease obligations .....	214,240	46,337	70,964	53,318	43,621
Purchase obligations .....	-	-	-	-	-
Other long-term liabilities (b) .....	84,463	61,881	18,879	3,703	-
Total contractual obligations .....	<u>\$5,591,873</u>	<u>\$ 422,774</u>	<u>\$ 450,703</u>	<u>\$ 817,881</u>	<u>\$3,900,515</u>

(a) Represents our senior notes and subordinated notes and related interest payments

(b) Represents our limited recourse collateralized financing arrangements and related interest payments

The following table summarizes our other commercial commitments as of December 31, 2004:

	Amount of Commitment Expiration by Period (S000's omitted)				
	<u>Total</u>	<u>2005</u>	<u>2006-2007</u>	<u>2008-2009</u>	<u>After 2009</u>
Other commercial commitments:					
Guarantor revolving credit facilities (a) ...	\$1,310,000	\$ -	\$ -	\$1,310,000	\$ -
Non-guarantor revolving credit facilities ..	940,000	-	940,000	-	-
Other credit facilities .....	5,050	5,050	-	-	-
Standby letters of credit (b) .....	40,268	13,417	26,851	-	-
Total commercial commitments .....	<u>\$2,295,318</u>	<u>\$ 18,467</u>	<u>\$ 966,851</u>	<u>\$1,310,000</u>	<u>\$ -</u>

(a) Includes capacity to issue up to \$750 million in standby letters of credit of which \$316.1 million was outstanding at December 31, 2004.

(b) Excludes standby letters of credit issued under the Guarantor revolving credit facilities.

## Off-Balance Sheet Arrangements

We use standby letters of credit and performance bonds 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 projects. If the obligations related to a project are ongoing, annual extensions of the letters of credit are typically granted on a year-to-year basis. At December 31, 2004, we had outstanding letters of credit of \$356 million. 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 \$1.49 billion at December 31, 2004, are typically outstanding over a period that approximates 3-5 years. We do not believe that we will be required to draw upon any such letters of credit or performance bonds.

In the ordinary course of business, we enter into land option or option type agreements in order to procure land for the construction of houses in the future. At December 31, 2004, these agreements totaled approximately \$6.5 billion. Pursuant to these land option agreements, we provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. If the entity holding the land under option is a variable interest entity, our deposit represents a variable interest in that entity. At December 31, 2004, we consolidated certain variable interest entities with assets totaling \$106.4 million.

At December 31, 2004 and 2003, our unconsolidated joint ventures had outstanding debt of \$58.1 million and \$72.6 million, respectively. We have not guaranteed any of this outstanding indebtedness.

## Critical Accounting Policies and Estimates

The accompanying consolidated financial statements were prepared in conformity with United States generally accepted accounting principles. 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 consolidated financial statements, we have made our best estimates and judgments of the amounts and disclosures included in the consolidated financial statements, giving due regard to materiality. The development and selection of the following critical accounting policies and estimates have been discussed with the Audit Committee of the Board of Directors.

### *Revenue recognition*

Homebuilding – 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. We do not engage in arrangements whereby we have ongoing relationships with our homebuyers that require us to repurchase our homes or provide homebuyers with the right of return.

Financial Services – 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, or a contracted set fee in the case of certain sub-servicing, and are credited to income when 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. Gains and losses from sales of mortgage loans are recognized when the loans are sold. Interest income is accrued from the date a mortgage loan is originated until the loan is sold.

### *Inventory valuation*

Our finished inventories are stated at the lower of accumulated costs or net realizable value. Included in inventories are all direct development costs. 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.

We capitalize interest cost into homebuilding inventories. Interest capitalized each quarter is identified as a separate layer in our capitalized interest balance sheet pool. Each layer of capitalized interest is amortized over a period that approximates the average life of communities under development. Interest expense is allocated to the quarters over the amortization period based on the cyclical timing of unit settlements.

Sold units are expensed on a specific identification basis. Under the specific identification basis, cost of sales includes the construction cost of the home, an average lot cost by project based on land acquisition and development costs, and closing costs and commissions. Construction cost of the home includes amounts paid through the closing date of the home, plus an accrual for costs incurred but not yet paid, based on an analysis of budgeted construction cost. This accrual is reviewed for accuracy based on actual payments made after closing compared to the amount accrued, and adjustments are made if needed. Total project land acquisition and development costs are based on an analysis of budgeted costs compared to actual costs incurred to date and estimates to complete. Adjustments to estimated total project land acquisition and development costs for the project affect the amount of future lots costed.

## Critical Accounting Policies and Estimates (continued)

### *Residential mortgage loans available-for-sale*

Residential mortgage loans available-for-sale are stated at the lower of aggregate cost or market value. Gains and losses from sales of mortgage loans are recognized when the loans are sold. We hedge our residential mortgage loans available-for-sale. Gains and losses from closed commitments and futures contracts are matched against the related gains and losses on the sale of mortgage loans.

### *Goodwill and intangible assets*

We have recorded certain intangible assets and goodwill, most recently as a result of the Del Webb merger in 2001. Intangible assets, primarily trademarks and tradenames, were valued using proven valuation procedures and are amortized over their estimated useful life. Goodwill is subject to annual impairment testing. The carrying value and ultimate realization of these assets is dependent upon estimates of future earnings and benefits that we expect to generate from their use. If our expectations of future results and cash flows decrease significantly, intangible assets and goodwill may be impaired and the resulting charge to operations may be material. If we determine that the carrying value of intangible assets, long-lived assets and goodwill may not be recoverable based upon the existence of one or more indicators of impairment, we measure impairment based on one of three methods. For assets related to ongoing operations, we use a projected undiscounted cash flow method to determine if impairment exists and then measure impairment using discounted cash flows. For assets to be disposed of, we assess the fair value of the asset based on current market conditions for similar assets. For goodwill, we assess fair value by measuring discounted cash flows of our reporting units and measure impairment as the difference between the resulting implied fair value of goodwill and the recorded book value.

The estimates of useful lives and expected cash flows require us to make significant judgments regarding future periods that are subject to some factors outside of our control. Changes in these estimates could result in significant revisions to the carrying value of these assets and material charges to the results of operations.

### *Allowance for warranties*

Home purchasers are provided with warranties against certain building defects. The specific terms and conditions of those warranties vary geographically. Most warranties cover different aspects of the home's construction and operating systems for a period of up to ten years. We estimate the costs to be incurred under these warranties and record a liability in the amount of such costs at the time product revenue is recognized. Factors that affect our warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of recorded warranty liabilities and adjust the amounts as necessary. Although we have not made significant adjustments to the accrual in the past, actual warranty cost in the future could differ from our current estimate.

### *Insurance*

The Company has, and requires the majority of its subcontractors to have general liability and workers compensation insurance. These insurance policies protect the Company against a portion of its risk of loss from claims, subject to certain self-insured retentions, deductibles, and other coverage limits. The Company reserves for costs to cover its self-insured and deductible amount under those policies and for any costs of claims and lawsuits in excess of its coverage limits or not covered by such policies, based on an analysis of the Company's historical claims, which includes an estimate of claims incurred but not yet reported. The Company's total reserves for such items were \$115.6 million and \$81.1 million at December 31, 2004 and 2003, respectively. Expenses related to such claims were approximately \$58.4 million, \$40.9 million, and \$25.8 million for the years ended December 31, 2004, 2003, and 2002, respectively.

### *Stock-based compensation*

We currently have several stock-based employee compensation plans. Effective January 1, 2003 we adopted the preferable fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Issued to Employees." We selected the prospective method of adoption as permitted by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." Under the prospective method, we recognize compensation expense on an accelerated basis over the vesting period based on the fair value provisions of SFAS No. 123. Grants made prior to January 1, 2003 continue to be accounted for under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. With the exception of certain variable stock option grants, no stock-based employee compensation cost is reflected in net income for grants made prior to January 1, 2003, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.



## Critical Accounting Policies and Estimates (continued)

### Stock-based compensation (continued)

We use the Black-Scholes option-pricing model to determine the fair value of each option grant. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, risk-free interest rates and expected lives. These assumptions reflect management's best estimates, but these items involve inherent uncertainties based on market conditions generally outside of our control. As a result, if other assumptions had been used, stock-based compensation expense could have been materially impacted. Furthermore, if management uses different assumptions in future periods, stock-based compensation expense could be materially impacted in future periods.

On December 15, 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), Share-Based Payment, which amends SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) requires that all share-based payments to employees, including grants of employee stock options, be accounted for at fair value. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. Under SFAS No. 123(R), we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. We previously adopted the fair-value-based method of accounting for share-based payments under SFAS No. 123 effective January 1, 2003 using the prospective method described in SFAS No. 148, Accounting for Stock-Based Compensation—Transition and Disclosure. Currently, we use the Black-Scholes model to estimate the value of stock options granted to employees and we are considering the preferred lattice model. Because SFAS No. 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date, and because we adopted SFAS No. 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date), compensation cost for some previously granted awards that were not recognized under SFAS No. 123 will be recognized under SFAS No. 123(R). SFAS No. 123(R) also amends SFAS No. 95, Statement of Cash Flows, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. As originally issued, SFAS No. 95 required all income tax payments to be classified as operating cash outflows. This statement is effective for fiscal periods beginning after June 15, 2005. We are still evaluating the impact of adopting SFAS No. 123(R).

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our rate-sensitive financing to the extent long-term rates decline. The following tables set forth, as of December 31, 2004 and 2003, our rate-sensitive financing obligations, principal cash flows by scheduled maturity, weighted-average interest rates and estimated fair market value (\$000's omitted).

As of December 31, 2004 for the Years ended December 31,								
	2005	2006	2007	2008	2009	There- after	Total	Fair Value
<b>Rate sensitive liabilities:</b>								
<i>Fixed interest rate debt:</i>								
Senior notes and subordinated notes.....	\$ 125,000	\$ -	\$ -	\$ -	\$ 400,000	\$2,348,563	\$2,873,563	\$ 3,124,413
Average interest rate .....	7.3%	-	-	-	4.88%	6.86%	6.6%	-
Limited recourse collateralized financing .....	\$ 60,392	\$ 13,309	\$ 4,699	\$ 2,350	\$ 1,113	\$ -	\$ 81,863	\$ 81,863
Average interest rate .....	1.48%	1.97%	4.17%	5.25%	5.25%	-	1.87%	-
As of December 31, 2003 for the Years ended December 31,								
	2004	2005	2006	2007	2008	There- after	Total	Fair Value
<b>Rate sensitive liabilities:</b>								
<i>Fixed interest rate debt:</i>								
Senior notes and subordinated notes.....	\$ 185,503	\$ 125,000	\$ -	\$ -	\$ -	\$1,848,563	\$2,159,066	\$ 2,387,945
Average interest rate .....	9.12%	7.0%	-	-	-	7.29%	7.45%	-
Limited recourse collateralized financing .....	\$ 29,259	\$ 33,865	\$ 13,267	\$ 2,367	\$ 2,354	\$ 2,143	\$ 83,255	\$ 83,255
Average interest rate .....	2.52%	6.00%	3.50%	5.09%	5.24%	4.78%	4.31%	-

Pulte Mortgage, 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., commit 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 2004 and 2003, 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. 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.

At December 31, 2004, our aggregate net investments exposed to foreign currency exchange rate risk include our operations in Mexico, which approximated \$72.2 million, and our mortgage banking joint venture investment in Mexico, which approximated \$21.1 million.

## **SPECIAL NOTES CONCERNING FORWARD-LOOKING STATEMENTS**

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Item 7A., *Quantitative and Qualitative Disclosures About Market Risk*, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act").

Forward-looking statements give current expectations or forecasts of future events. Words such as "anticipate", "expect", "intend", "plan", "believe", "seek", "estimate", and other words and terms of similar meaning in connection with discussions of future operating or financial performance signify forward-looking statements. From time to time, we also may provide oral or written forward-looking statements in other materials released to the public. Such statements are made in good faith by us pursuant to the "Safe Harbor" provisions of the Reform Act.

Such forward-looking statements involve known risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from our future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among other things, (1) general economic and business conditions; (2) interest rate changes and the availability of mortgage financing; (3) the relative stability of debt and equity markets; (4) competition; (5) the availability and cost of land and other raw materials used in our homebuilding operations; (6) the availability and cost of insurance covering risks associated with our business; (7) shortages and the cost of labor; (8) weather related slowdowns; (9) slow growth initiatives and/or local building moratoria; (10) state and federal governmental regulations, including the interpretation of tax, labor and environmental laws; (11) changes in consumer confidence and preferences; (12) required accounting changes; (13) terrorist acts and other acts of war; and (14) other factors over which we have little or no control.

# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## PULTE HOMES, INC. CONSOLIDATED BALANCE SHEETS December 31, 2004 and 2003 (\$000's omitted, except share data)

### ASSETS

	<u>2004</u>	<u>2003</u>
Cash and equivalents .....	\$ 314,634	\$ 401,883
Unfunded settlements .....	118,471	122,271
House and land inventory .....	7,390,791	5,510,756
Land held for sale .....	230,743	251,237
Land, not owned, under option agreements .....	106,380	73,256
Residential mortgage loans available-for-sale .....	697,077	541,502
Investments in unconsolidated entities .....	258,868	69,502
Goodwill .....	307,693	307,693
Intangible assets, net .....	135,454	143,704
Other assets .....	815,020	641,548
Deferred income tax asset .....	<u>31,766</u>	<u>8,799</u>
	<u>\$10,406,897</u>	<u>\$ 8,072,151</u>

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Liabilities:

Accounts payable, including book overdrafts of \$304,394 and \$222,681 in 2004 and 2003, respectively .....	\$ 609,039	\$ 452,648
Customer deposits .....	341,050	372,507
Accrued and other liabilities .....	1,237,426	1,071,203
Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets .....	617,415	479,287
Income taxes .....	202,557	79,391
Deferred income tax liability .....	15,586	18,020
Senior notes and subordinated notes .....	2,861,550	2,150,972
Commitments and contingencies .....		
Total liabilities .....	<u>5,884,623</u>	<u>4,624,028</u>

#### Shareholders' Equity:

Preferred stock, \$.01 par value; 25,000,000 shares authorized, none issued .....	-	-
Common stock, \$.01 par value; 200,000,000 shares authorized, 127,874,184 and 125,152,816 shares issued and outstanding at December 31, 2004 and 2003, respectively .....	1,279	1,252
Additional paid-in capital .....	1,116,018	1,015,991
Unearned compensation .....	(44)	(656)
Accumulated other comprehensive loss .....	(14,380)	(39,142)
Retained earnings .....	<u>3,419,401</u>	<u>2,470,678</u>
Total shareholders' equity .....	<u>4,522,274</u>	<u>3,448,123</u>
	<u>\$10,406,897</u>	<u>\$ 8,072,151</u>

See Notes to Consolidated Financial Statements.

**PULTE HOMES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the years ended December 31, 2004, 2003 and 2002  
(000's omitted, except per share data)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Revenues:</b>			
Homebuilding.....	\$ 11,596,748	\$8,892,786	\$7,338,110
Financial Services .....	112,719	115,847	106,628
Corporate .....	<u>1,749</u>	<u>3,281</u>	<u>1,202</u>
Total revenues.....	<u>11,711,216</u>	<u>9,011,914</u>	<u>7,445,940</u>
<b>Expenses:</b>			
Homebuilding, principally cost of sales .....	10,006,831	7,920,173	6,620,485
Financial Services .....	71,528	53,253	45,579
Corporate, net .....	<u>92,434</u>	<u>78,632</u>	<u>63,170</u>
Total expenses .....	<u>10,170,793</u>	<u>8,052,058</u>	<u>6,729,234</u>
<b>Other income:</b>			
Equity income .....	<u>60,114</u>	<u>38,763</u>	<u>12,418</u>
Income from continuing operations before income taxes.....	1,600,537	998,619	729,124
Income taxes .....	<u>602,529</u>	<u>379,376</u>	<u>284,339</u>
Income from continuing operations .....	998,008	619,243	444,785
Income (loss) from discontinued operations .....	<u>(11,467)</u>	<u>5,391</u>	<u>8,860</u>
<b>Net income</b> .....	<u>\$ 986,541</u>	<u>\$ 624,634</u>	<u>\$ 453,645</u>
<b>Per share data:</b>			
Basic:			
Income from continuing operations .....	\$ 7.90	\$ 5.07	\$ 3.68
Income (loss) from discontinued operations.....	<u>(.09)</u>	<u>.04</u>	<u>.07</u>
Net income.....	<u>\$ 7.81</u>	<u>\$ 5.11</u>	<u>\$ 3.75</u>
Assuming dilution:			
Income from continuing operations .....	7.67	\$ 4.93	\$ 3.60
Income (loss) from discontinued operations.....	<u>(.09)</u>	<u>.04</u>	<u>.07</u>
Net income.....	<u>\$ 7.58</u>	<u>\$ 4.97</u>	<u>\$ 3.67</u>
Cash dividends declared .....	<u>\$ .20</u>	<u>\$ .11</u>	<u>\$ .08</u>
Number of shares used in calculation:			
Basic:			
Weighted-average common shares outstanding .....	126,295	122,162	120,906
Assuming dilution:			
Effect of dilutive securities - stock options and restricted stock grants.....	<u>3,822</u>	<u>3,568</u>	<u>2,586</u>
Adjusted weighted-average common shares and effect of dilutive securities .....	<u>130,117</u>	<u>125,730</u>	<u>123,492</u>

See Notes to Consolidated Financial Statements.

**PULTE HOMES, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**  
**For the years ended December 31, 2004, 2003 and 2002**  
**(\$000's omitted, except per share data)**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Unearned Compensation</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Shareholders' Equity, December 31, 2001</b> .....	1,184	862,289	(3,859)	(13,969)	1,431,020	2,276,665
Stock option exercise, including tax benefit of \$20,651.....	34	55,667	-	-	-	55,701
Restricted stock award.....	6	11,313	(11,319)	-	-	-
Restricted stock award amortization.....	-	-	5,312	-	-	5,312
Cash dividends declared - \$.08 per share.....	-	-	-	-	(9,773)	(9,773)
Stock repurchases.....	(2)	(1,793)	-	-	(3,002)	(4,797)
Stock based compensation.....	-	5,075	-	-	-	5,075
Comprehensive income:						
Net income.....	-	-	-	-	453,645	453,645
Change in fair value of derivatives, net of income taxes of \$807, net of reclassification for net realized losses on derivatives of \$592 included in net income.....	-	-	-	(1,288)	-	(1,288)
Foreign currency translation adjustments.....	-	-	-	(20,114)	-	(20,114)
Total comprehensive income.....						<u>432,243</u>
<b>Shareholders' Equity, December 31, 2002</b> .....	1,222	932,551	(9,866)	(35,371)	1,871,890	2,760,426
Stock option exercise, including tax benefit..... of \$28,742.....	32	68,203	-	-	-	68,235
Restricted stock award.....	6	(6)	-	-	-	-
Restricted stock award amortization.....	-	-	9,210	-	-	9,210
Cash dividends declared - \$.11 per share.....	-	-	-	-	(13,612)	(13,612)
Stock repurchases.....	(8)	(6,062)	-	-	(12,234)	(18,304)
Stock based compensation.....	-	21,305	-	-	-	21,305
Comprehensive income:						
Net income.....	-	-	-	-	624,634	624,634
Change in fair value of derivatives, net of income taxes of \$(1,055), net of reclassification for net realized losses on derivatives of \$1,880 included in net income.....	-	-	-	1,682	-	1,682
Foreign currency translation adjustments.....	-	-	-	(5,453)	-	(5,453)
Total comprehensive income.....						<u>620,863</u>
<b>Shareholders' Equity, December 31, 2003</b> .....	\$ 1,252	\$ 1,015,991	\$ (656)	\$ (39,142)	\$ 2,470,678	\$ 3,448,123
Stock option exercise, including tax benefit of \$35,700.....	28	79,631	-	-	-	79,659
Restricted stock award.....	2	(2)	-	-	-	-
Restricted stock award amortization.....	-	-	612	-	-	612
Cash dividends declared - \$.20 per share.....	-	-	-	-	(25,427)	(25,427)
Stock repurchases.....	(3)	(2,293)	-	-	(12,391)	(14,687)
Stock based compensation.....	-	22,691	-	-	-	22,691
Comprehensive income:						
Net income.....	-	-	-	-	986,541	986,541
Change in fair value of derivatives, net of income taxes of \$(206), net of reclassification for net realized losses on derivatives of \$199 included in net income...	-	-	-	336	-	336
Foreign currency translation adjustments.....	-	-	-	24,426	-	24,426
Total comprehensive income.....						<u>1,011,303</u>
<b>Shareholders' Equity, December 31, 2004</b> .....	<u>\$ 1,279</u>	<u>\$ 1,116,018</u>	<u>\$ (44)</u>	<u>\$ (14,380)</u>	<u>\$ 3,419,401</u>	<u>\$ 4,522,274</u>

See Notes to Consolidated Financial Statements.



**PULTE HOMES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2004, 2003 and 2002**  
**(\$000's omitted)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:			
Net income .....	\$ 986,541	\$ 624,634	\$ 453,645
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:			
Loss on Argentina write-down.....	33,150	-	-
Amortization and depreciation .....	46,296	39,419	38,925
Stock-based compensation expense.....	23,303	30,515	10,387
Deferred income taxes.....	(25,401)	20,637	39,235
Undistributed earnings of affiliates.....	(21,625)	(36,186)	(7,716)
Other, net .....	3,332	775	(3,801)
Increase (decrease) in cash due to:			
Inventories.....	(2,072,588)	(1,414,294)	(516,179)
Residential mortgage loans available-for-sale .....	(155,575)	59,000	(165,727)
Other assets .....	28,755	(5,678)	43,598
Accounts payable, accrued and other liabilities .....	294,169	331,759	191,141
Income taxes .....	<u>161,363</u>	<u>18,124</u>	<u>75,245</u>
Net cash provided by (used in) operating activities.....	<u>(698,280)</u>	<u>(331,295)</u>	<u>158,753</u>
Cash flows from investing activities:			
Distributions from unconsolidated entities.....	66,067	43,606	50
Investments in unconsolidated entities.....	(196,997)	(13,827)	(9,439)
Proceeds from the sale of fixed assets .....	7,094	5,023	45,198
Capital expenditures.....	(75,219)	(39,120)	(23,700)
Other, net.....	<u>500</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) investing activities .....	<u>(198,555)</u>	<u>(4,318)</u>	<u>12,109</u>
Cash flows from financing activities:			
Payment of senior notes and subordinated notes.....	(189,270)	(457,511)	(107,576)
Proceeds from borrowings .....	1,039,949	696,965	578,317
Repayment of borrowings.....	(44,892)	(118,168)	(117,256)
Issuance of common stock.....	43,959	39,493	34,597
Stock repurchases.....	(14,687)	(18,304)	(4,344)
Dividends paid .....	<u>(25,427)</u>	<u>(13,612)</u>	<u>(9,773)</u>
Net cash provided by financing activities .....	<u>809,632</u>	<u>128,863</u>	<u>373,965</u>
Effect of exchange rate changes on cash and equivalents .....	(46)	(1,994)	(3,233)
Net increase (decrease) in cash and equivalents .....	(87,249)	(208,744)	541,594
Cash and equivalents at beginning of year.....	<u>401,883</u>	<u>610,627</u>	<u>69,033</u>
Cash and equivalents at end of year .....	<u>\$ 314,634</u>	<u>\$ 401,883</u>	<u>\$ 610,627</u>

**Supplemental Cash Flow Information:**

Cash paid during the year for:			
Interest, net of amount capitalized .....	<u>\$ 37,055</u>	<u>\$ 42,885</u>	<u>\$ 48,268</u>
Income taxes .....	<u>\$ 453,287</u>	<u>\$ 337,590</u>	<u>\$ 165,570</u>

See Notes to Consolidated Financial Statements.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies**

*Basis of presentation*

The consolidated financial statements include the accounts of Pulte Homes, Inc., all of its direct and indirect subsidiaries (the “Company”) and variable interest entities in which the Company is deemed to be the primary beneficiary. The direct subsidiaries of Pulte Homes, Inc. include Pulte Diversified Companies, Inc., Del Webb Corporation (“Del Webb”) and other subsidiaries that are engaged in the homebuilding business. Pulte Diversified Companies, Inc.’s operating subsidiaries include Pulte Home Corporation, Pulte International Corporation (“International”) and other subsidiaries that are engaged in the homebuilding business. Pulte Diversified Companies, Inc.’s non-operating thrift subsidiary, First Heights Bank, fsb (“First Heights”), is classified as a discontinued operation (See Note 3). The Company also has a mortgage banking company, Pulte Mortgage LLC (“Pulte Mortgage”), which is a subsidiary of Pulte Home Corporation.

In January 2005, the Company sold all of its Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements (See Note 3).

Certain amounts previously reported in the 2003 and 2002 financial statements and notes thereto were reclassified to conform to the 2004 presentation.

*Use of estimates*

The preparation of financial statements in conformity with United States generally accepted accounting principles 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.

*Foreign currency*

The financial statements of the Company’s foreign subsidiaries in Argentina and Mexico are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates in effect during the year. The resulting cumulative translation adjustment for Mexico has been recorded in other comprehensive income. The cumulative translation adjustment of \$25.1 million for Argentina was recognized in December 2004 in connection with the classification of those operations as held for sale. Realized foreign currency transaction gains and losses are included in the Consolidated Statements of Operations. Realized foreign currency transaction (gains) losses were \$300 thousand, \$(70) thousand, and \$600 thousand for the years ended December 31, 2004, 2003 and 2002, respectively.

*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.

*Investments in unconsolidated entities*

The equity method of accounting is used for joint ventures and associated entities over which the Company has significant influence; generally this represents partnership equity or common stock ownership interests of at least 20% and not more than 50% (See Note 4). Under the equity method of accounting, the Company recognizes its pro rata share of the profits and losses of these entities. Certain of these entities sell lots and provide construction services to the Company. Profits from such activities are deferred by the Company until which time the related homes are sold.

The cost method of accounting is used for investments in which the Company has less than a 20% ownership interest and does not have the ability to exercise significant influence.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**1. Summary of significant accounting policies (continued)**

*Goodwill*

On January 1, 2002, Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets” became effective. In accordance with SFAS No. 142, the Company does not record amortization expense related to goodwill, but reviews it annually for impairment.

At December 31, 2004, the majority of goodwill, which represents the cost of acquired companies in excess of the fair value of the net assets at the acquisition date, resulted from the acquisition of Del Webb in 2001. All goodwill relates to the Homebuilding segment, except for \$700 thousand, which relates to the Financial Services segment. In accordance with SFAS No. 142, annually and when events or changes in circumstances indicate the carrying amount may not be recoverable, management evaluates the recoverability of goodwill by comparing the carrying value of the Company’s reporting units to their fair value. Fair value is determined based on discounted future cash flows. The Company performed its annual impairment test during the fourth quarter of 2004 and determined there to be no impairment of goodwill.

*Intangible assets*

Intangible assets consist primarily of trademarks and tradenames acquired in connection with the 2001 acquisition of Del Webb and are included in the assets of the Homebuilding segment. These intangible assets were valued at the acquisition date utilizing proven valuation procedures and are being amortized on a straight-line basis over a 20-year life. The acquired cost and accumulated amortization of the Company’s intangible assets was \$163.5 million and \$28.1 million, respectively, at December 31, 2004, and \$163.5 million and \$19.8 million, respectively, at December 31, 2003. Amortization expense for the years ended December 31, 2004 and 2003 was \$8.3 million, and 2002 amortization expense was \$8.2 million, and is expected to be approximately \$8.2 million in each of the next 5 years.

Intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. If impairment indicators exist, an assessment of undiscounted future cash flows for the assets related to these intangibles is evaluated accordingly. If the results of the analysis indicate impairment, the assets are adjusted to fair market value. During the years ended December 31, 2004, 2003 and 2002, there were no impairments of intangible assets.

*Fixed assets and depreciation*

Fixed assets are recorded at cost. Maintenance and repair costs are charged to earnings as incurred. Depreciation is computed principally by the straight-line method based upon estimated useful lives as follows: Vehicles, three to five years, model and office furniture, two to five years, and equipment, three to ten years. Fixed assets are included in Other Assets and totaled \$130.7 million net of accumulated depreciation of \$105.3 million at December 31, 2004 and \$91.3 million net of accumulated depreciation of \$87.7 million at December 31, 2003. Total depreciation expense for the years ended December 31, 2004, 2003 and 2002 was \$38 million, \$31.2 million, and \$30.8 million, respectively.

*Advertising cost*

The Company expenses advertising costs as incurred. For the years ended December 31, 2004, 2003 and 2002, the Company incurred advertising costs of approximately \$87.6 million, \$80.6 million and \$78.2 million, 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 \$15 million, \$9.5 million and \$7 million for the years ended December 31, 2004, 2003 and 2002, respectively.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**1. Summary of significant accounting policies (continued)**

*Insurance*

The Company has, and requires the majority of its subcontractors to have general liability and workers compensation insurance. These insurance policies protect the Company against a portion of its risk of loss from claims, subject to certain self-insured retentions, deductibles, and other coverage limits. The Company reserves for costs to cover its self-insured and deductible amount under those policies and for any costs of claims and lawsuits in excess of its coverage limits or not covered by such policies, based on an analysis of the Company's historical claims, which includes an estimate of claims incurred but not yet reported. The Company's total reserves for such items were \$115.6 million and \$81.1 million at December 31, 2004 and 2003, respectively. Expenses related to such claims were approximately \$58.4 million, \$40.9 million, and \$25.8 million for the years ended December 31, 2004, 2003, and 2002, respectively.

*Earnings 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 and nonvested shares of restricted stock. Any options that have an exercise price greater than the average market price are excluded from the diluted earnings per share calculation. For the years ended December 31, 2004, 2003 and 2002, 64,695, 78,316 and 267,272, respectively, of the outstanding stock options were excluded from this calculation.

*Fair values of financial instruments*

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. Fair value exceeded cost by approximately \$6.9 million and \$5.8 million at December 31, 2004 and 2003, respectively.

Carrying amounts for financial derivative instruments reported in the balance sheet approximate fair value as the amounts reported are based on current market prices. 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. Changes in the fair value of these instruments would not have a significant impact on the Company's results of operations. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. At December 31, 2004, derivative assets, included in other assets, in the balance sheet, totaled \$3.8 million and derivative liabilities, included in accrued and other liabilities, totaled \$3.5 million. At December 31, 2003, derivative assets totaled \$2.7 million and derivative liabilities totaled \$3.9 million.

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, 2004. 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.

*Stock-based compensation*

The Company currently has several stock-based employee compensation plans. Effective January 1, 2003, the Company adopted the preferable fair value recognition provisions of SFAS No. 123, "Accounting for Stock Issued to Employees." The Company selected the prospective method of adoption as permitted by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." Under the prospective method, the Company recognizes compensation expense on an accelerated basis over the vesting period based on the fair value provisions of SFAS No. 123.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**1. Summary of significant accounting policies (continued)**

*Stock-based compensation (continued)*

Grants made prior to January 1, 2003 continue to be accounted for under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. With the exception of certain variable stock option grants, no stock-based employee compensation cost is reflected in net income for grants made prior to January 1, 2003, as all options granted in those years had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to all stock-based employee compensation. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2004, 2003 and 2002, respectively: weighted-average dividend yields of .33%, .44% and .32%, expected volatility of 36.6%, 35.3% and 34.9%, weighted-average risk-free interest rates of 3.80%, 3.57% and 3.45%, and weighted-average expected lives of 5.92 years, 6.76 years and 6.82 years.

	<b>Years Ended December 31,</b> <b>(\$000's omitted, except per share data)</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Net income, as reported .....	\$ 986,541	\$ 624,634	\$ 453,645
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects .....	9,922	8,972	3,096
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects .....	<u>(15,245)</u>	<u>(11,456)</u>	<u>(11,986)</u>
Pro forma net income .....	<u>\$ 981,218</u>	<u>\$ 622,150</u>	<u>\$ 444,755</u>
Earnings per share:			
Basic-as reported.....	<u>\$ 7.81</u>	<u>\$ 5.11</u>	<u>\$ 3.75</u>
Basic-pro forma.....	<u>\$ 7.77</u>	<u>\$ 5.09</u>	<u>\$ 3.68</u>
Diluted-as reported.....	<u>\$ 7.58</u>	<u>\$ 4.97</u>	<u>\$ 3.67</u>
Diluted-pro forma .....	<u>\$ 7.54</u>	<u>\$ 4.95</u>	<u>\$ 3.60</u>

The Company also recorded compensation expense for restricted stock awards, net of related tax effects, of \$4.4 million, \$9.9 million, and \$3.2 million for the years ended December 31, 2004, 2003 and 2002, respectively. These amounts have been excluded from the reconciliation above as they would have no impact on pro forma net income as presented.

*New accounting pronouncements*

On December 15, 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), Share-Based Payment, which amends SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) requires that all share-based payments to employees, including grants of employee stock options, be accounted for at fair value. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. Under SFAS No. 123(R), the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The Company previously adopted the fair-value-based method of accounting for share-based payments under SFAS No. 123 effective January 1, 2003 using the prospective method described in SFAS No. 148, Accounting for Stock-Based Compensation—Transition and Disclosure. Currently, the Company uses the Black-Scholes model to estimate the value of stock options granted to employees and is considering the preferred lattice model. Because SFAS No. 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date, and because the company adopted SFAS No. 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date), compensation cost for some previously granted awards that were not recognized under SFAS No. 123 will be recognized under SFAS No. 123(R). SFAS No. 123(R) also amends SFAS No. 95, Statement of Cash Flows, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. As originally issued, SFAS No. 95 required all income tax payments to be classified as operating cash outflows. This statement is effective for fiscal periods beginning after June 15, 2005. The Company is still evaluating the impact of adopting SFAS No. 123(R).

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**1. Summary of significant accounting policies (continued)**

*New accounting pronouncements (continued)*

In March 2004, the Securities and Exchange Commission ("SEC") released SEC Staff Accounting Bulletin No. 105 ("SAB 105"), Application of Accounting Principles to Loan Commitments. SAB 105 provides the SEC staff position regarding the application of accounting principles generally accepted in the United States to loan commitments that relate to the origination of mortgage loans held for resale. SAB 105 contains specific guidance on the inputs to a valuation-recognition model to measure loan commitments accounted for at fair value. Current accounting guidance requires commitments to be recognized on the balance sheet at fair value from inception through expiration or funding. SAB 105 requires that fair-value measurement include only differences between the guaranteed interest rate in the loan commitment and a market interest rate, excluding any expected future cash flows related to the customer relationship or loan servicing. In addition, SAB 105 requires the disclosure of both the accounting policy for loan commitments including the methods and assumptions used to estimate the fair value of loan commitments and any associated hedging strategies. SAB 105 is effective for all loan commitments accounted for as derivatives and entered into subsequent to March 31, 2004. The issuance of SAB 105 did not have a material impact on the Company's results of operations, financial position, or cash flows.

**Homebuilding**

*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. Under the specific identification basis, cost of sales includes the construction cost of the home, an average lot cost by project based on land acquisition and development costs, and closing costs and commissions. Construction cost of the home includes amounts paid through the closing date of the home, plus an accrual for costs incurred but not yet paid, based on an analysis of budgeted construction cost. This accrual is reviewed for accuracy based on actual payments made after closing compared to the amount accrued, and adjustments are made if needed. Total project land acquisition and development costs are based on an analysis of budgeted costs compared to actual costs incurred to date and estimates to complete. Adjustments to estimated total project land acquisition and development costs for the project affect the amount of future lots costed.

The Company capitalizes interest cost into homebuilding inventories. Each layer of capitalized interest is amortized over a period that approximates the average life of communities under development. Interest expense is allocated over the period based on the cyclical timing of unit settlements. The Company capitalized interest in the amount of \$156.1 million, \$136.3 million and \$123.1 million and expensed to home cost of sales \$133 million, \$78.7 million and \$48.7 million in 2004, 2003 and 2002, respectively.

Major components of the Company's inventory at December 31, 2004 and 2003 were (\$000's omitted):

	<u>2004</u>	<u>2003</u>
Homes under construction.....	\$ 2,616,027	\$ 2,111,968
Land under development.....	4,089,878	2,870,856
Land held for future development.....	<u>684,886</u>	<u>527,932</u>
Total.....	<u>\$ 7,390,791</u>	<u>\$ 5,510,756</u>



**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**1. Summary of significant accounting policies (continued)**

**Homebuilding (continued)**

*Land, not owned, under option agreements*

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," as amended by FIN 46-R issued in December 2003 (collectively referred to as "FIN 46"). Until this interpretation was issued, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the expected losses from the variable interest entity's activities or is entitled to receive a majority of the entity's expected residual returns. FIN 46 applied immediately to all variable interest entities created after January 31, 2003 and was effective in the first interim period ending after December 31, 2003 for variable interest entities created prior to February 1, 2003.

In the ordinary course of business, the Company enters into land option agreements in order to procure land for the construction of homes in the future. Pursuant to these land option agreements, the Company will provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Under FIN 46, if the entity holding the land under option is a variable interest entity, the Company's deposit represents a variable interest in that entity. Creditors of the variable interest entities have no recourse against the Company.

In applying the provisions of FIN 46, the Company evaluated all land option agreements (including those created prior to February 1, 2003) and determined that the Company was subject to a majority of the expected losses or entitled to receive a majority of the expected residual returns under a limited number of these agreements. As the primary beneficiary under these agreements, the Company is required to consolidate variable interest entities at fair value. At December 31, 2004 and 2003, the Company classified \$106.4 million and \$73.3 million, respectively, as land, not owned, under option agreements on the balance sheet, representing the fair value of land under contract, including deposits of \$18.9 million and \$13.9 million, respectively. The corresponding liability has been classified within accrued and other liabilities on the balance sheet. The adoption of FIN 46 had no impact on the Company's results of operations or cash flows.

Land option agreements that did not require consolidation under FIN 46 at December 31, 2004 and 2003, had a total purchase price of \$6.3 billion and \$4.6 billion, respectively. In connection with these agreements, the Company had deposits and advanced costs of \$311.7 million and \$172.9 million, included in other assets, as well as letters of credit and surety bonds posted in lieu of cash deposits at December 31, 2004 and 2003, respectively.

*Land held for sale*

At December 31, 2004 and 2003, the Company had approximately \$230.7 million and \$251.2 million of land held for sale related to the Company's Homebuilding segment. Land held for sale is recorded at the lower of cost or fair value less costs to sell.

*Allowance for warranties*

Home purchasers are provided with warranties against certain building defects. The specific terms and conditions of those warranties vary geographically. Most warranties cover different aspects of the home's construction and operating systems for a period of up to ten years. The Company estimates the costs to be incurred under these warranties and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded allowance for warranties and adjusts the amount as necessary.

Changes to the Company's allowance for warranties for the years ended December 31, 2004 and 2003, are as follows (\$000's omitted):

	<u>2004</u>	<u>2003</u>
January 1.....	\$ 62,091	\$ 51,878
Warranty reserves provided.....	111,962	84,467
Payments and other adjustments.....	<u>(90,401)</u>	<u>(74,254)</u>
December 31 .....	<u>\$ 83,652</u>	<u>\$ 62,091</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**1. Summary of significant accounting policies (continued)**

**Homebuilding (continued)**

*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.

*Start-up costs*

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

**Financial Services**

*Mortgage servicing rights*

The Company allocates the cost of mortgage loans originated and purchased between the mortgage loans and the right to service those mortgage loans, based on relative fair value, on the date the loan is sold.

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, generally less than four months, the Company does not amortize the servicing asset. Furthermore, there are no impairment issues since the servicing rights are recorded based on the value in the servicing sales contracts. The servicing sales contracts provide for the reimbursement of payments made when loans prepay within specified periods of time, usually 90 days after sale or securitization. The Company established reserves for this liability of \$3.8 million and \$4.1 million at December 31, 2004 and 2003, respectively, included in accrued and other liabilities, at the time the sale was recorded. During 2004, 2003 and 2002, total servicing rights recognized were \$25.3 million, \$36.7 million, and \$35.7 million, 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 \$2.1 million and \$1.6 million at December 31, 2004 and 2003, respectively. These discounts are not amortized as interest revenue during the period the loans are held for sale.

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. Gains and losses from closed commitments and futures contracts are matched against the related gains and losses on the sale of mortgage loans. During 2004, 2003 and 2002, net gains from the sale of mortgages were \$50.3 million, \$64.4 million and \$62.4 million, respectively, which have been included in Financial Services revenue.

*Interest income on mortgage loans*

Interest income is accrued from the date a mortgage loan is originated until the loan is sold.

*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, or a contracted set fee in the case of certain sub-servicing, and are credited to income when 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.

*Derivative instruments and hedging activities*

The Company recognizes all of its derivative instruments as either assets or liabilities in the balance sheet 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.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**1. Summary of significant accounting policies (continued)**

***Financial Services (continued)***

***Derivative instruments and hedging activities (continued)***

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 hedges.

Market risks arise from commitments to lend, 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. A commitment to lend at a specified interest rate is a derivative instrument (interest rate is locked to the borrower). When the Company commits to lend to the borrower, the Company enters into one of the aforementioned derivative financial instruments to economically hedge the rate lock derivative. The changes in the value of the loan commitment and the derivative financial instrument are recognized in current earnings during the period of change. At December 31, 2004, commitments by the Company to originate mortgage loans totaled \$235.2 million at interest rates prevailing at the date of commitment.

Since the Company 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. The Company evaluates the creditworthiness of these transactions through its normal credit policies.

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. Options on treasury futures 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. Whole loan investor commitments are obligations of the investor to buy loans at a specified price within a specified time period. At December 31, 2004, the Company had unexpired cash forward contracts and whole loan investor commitments of \$815.8 million. 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. There were no outstanding options on treasury futures contracts at December 31, 2004.

The Company enters into derivative instruments to economically hedge portions of its forecasted cash flow from sales of mortgage-backed securities with derivative financial instruments. At December 31, 2004, the maximum length of time that the Company was exposed to the variability in future cash flows of derivative instruments was approximately 75 days. During the year ended December 31, 2004, the Company did not recognize any material net gains or losses related to an ineffective portion of the hedging instrument. In addition, the Company did not recognize any material net gains or losses during the year ended December 31, 2004 for cash flow hedges that were discontinued because the forecasted transaction did not occur. At December 31, 2004, the Company expects to reclassify \$138 thousand, net of taxes, of net gains on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months from sales of mortgage-backed securities.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2. Segment information**

The Company's operations are classified into two reportable segments, Homebuilding and Financial Services and one non-operating segment, Corporate.

The Company's Homebuilding segment consists of the following operations:

- 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 and Puerto Rico.

The Company's Financial Services segment consists principally of mortgage banking and title operations conducted through Pulte Mortgage and other Company subsidiaries.

Corporate is a non-operating segment that supports the operations of the Company's subsidiaries by acting as the internal source of financing, developing and implementing strategic initiatives centered on new business development and operating efficiencies, and providing the necessary administrative functions to support the Company as a publicly traded entity listed on the New York Stock Exchange.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2. Segment information (continued)**

<i>Operating Data by Segment (\$000's omitted)</i>			
<b>Years Ended December 31,</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Revenues:			
Homebuilding .....	\$11,596,748	\$8,892,786	\$7,338,110
Financial Services.....	112,719	115,847	106,628
Corporate .....	<u>1,749</u>	<u>3,281</u>	<u>1,202</u>
Total revenues .....	<u>11,711,216</u>	<u>9,011,914</u>	<u>7,445,940</u>
Cost of sales (a):			
Homebuilding .....	<u>8,948,112</u>	<u>7,037,694</u>	<u>5,898,213</u>
Selling, general and administrative:			
Homebuilding .....	1,002,088	855,210	693,981
Financial Services.....	64,287	45,867	38,826
Corporate .....	<u>43,078</u>	<u>45,235</u>	<u>29,417</u>
Total selling, general and administrative .....	<u>1,109,453</u>	<u>946,312</u>	<u>762,224</u>
Interest (a):			
Financial Services.....	7,241	7,386	6,753
Corporate .....	<u>49,121</u>	<u>42,645</u>	<u>39,416</u>
Total interest .....	<u>56,362</u>	<u>50,031</u>	<u>46,169</u>
Other (income) expense, net:			
Homebuilding .....	56,631	27,269	28,291
Corporate .....	<u>235</u>	<u>(9,248)</u>	<u>(5,663)</u>
Total other expense, net .....	<u>56,866</u>	<u>18,021</u>	<u>22,628</u>
Total costs and expenses .....	<u>10,170,793</u>	<u>8,052,058</u>	<u>6,729,234</u>
Equity income:			
Homebuilding .....	53,876	32,511	6,744
Financial Services.....	<u>6,238</u>	<u>6,252</u>	<u>5,674</u>
Total equity income .....	<u>60,114</u>	<u>38,763</u>	<u>12,418</u>
Income (loss) before income taxes:			
Homebuilding .....	1,643,793	1,005,124	724,369
Financial Services.....	47,429	68,846	66,723
Corporate .....	<u>(90,685)</u>	<u>(75,351)</u>	<u>(61,968)</u>
Total income before income taxes.....	<u>\$ 1,600,537</u>	<u>\$ 998,619</u>	<u>\$ 729,124</u>

(a) Total interest incurred was \$212.4 million, \$186.3 million and \$169.3 million for the years ended December 31, 2004, 2003 and 2002, respectively. Homebuilding interest expense, which represents the amortization of capitalized interest, of \$133 million, \$78.7 million, and \$48.7 million for the years ended December 31, 2004, 2003, and 2002, respectively, is included as part of homebuilding cost of sales.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2. Segment information (continued)**

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

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Revenues:			
Domestic United States .....	\$11,514,476	\$8,820,789	\$7,275,745
International .....	<u>196,740</u>	<u>191,125</u>	<u>170,195</u>
Total revenues .....	<u>11,711,216</u>	<u>9,011,914</u>	<u>7,445,940</u>
Cost of sales:			
Domestic United States .....	8,789,140	6,885,249	5,761,468
International .....	<u>158,972</u>	<u>152,445</u>	<u>136,745</u>
Total cost of sales .....	<u>8,948,112</u>	<u>7,037,694</u>	<u>5,898,213</u>
Selling, general and administrative:			
Domestic United States .....	1,081,921	912,639	734,408
International .....	<u>27,532</u>	<u>33,673</u>	<u>27,816</u>
Total selling, general and administrative .....	<u>1,109,453</u>	<u>946,312</u>	<u>762,224</u>
Interest:			
Domestic United States .....	<u>56,362</u>	<u>50,031</u>	<u>46,169</u>
Other (income) expense, net:			
Domestic United States .....	51,262	16,436	19,570
International .....	<u>5,604</u>	<u>1,585</u>	<u>3,058</u>
Total other expense, net .....	<u>56,866</u>	<u>18,021</u>	<u>22,628</u>
Total costs and expenses .....	<u>10,170,793</u>	<u>8,052,058</u>	<u>6,729,234</u>
Equity income:			
Domestic United States .....	49,462	30,913	3,897
International .....	<u>10,652</u>	<u>7,850</u>	<u>8,521</u>
Total equity in income of joint ventures .....	<u>60,114</u>	<u>38,763</u>	<u>12,418</u>
Income before income taxes .....	<u>\$ 1,600,537</u>	<u>\$ 998,619</u>	<u>\$ 729,124</u>

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

	<b>Homebuilding</b>	<b>Financial Services</b>	<b>Corporate</b>	<b>Total</b>
<b>At December 31, 2004:</b>				
Inventory .....	\$ 7,390,791	-	-	<u>\$ 7,390,791</u>
Total assets .....	\$ 9,448,050	719,505	239,342	<u>\$ 10,406,897</u>
<b>At December 31, 2003:</b>				
Inventory .....	\$ 5,510,756	-	-	<u>\$ 5,510,756</u>
Total assets .....	\$ 7,279,239	584,973	207,939	<u>\$ 8,072,151</u>

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

	<b>Domestic United States</b>	<b>International</b>	<b>Total</b>
<b>At December 31, 2004:</b>			
Inventory .....	\$ 7,226,622	\$ 164,169	<u>\$ 7,390,791</u>
Total assets .....	10,193,033	213,864	<u>\$ 10,406,897</u>
<b>At December 31, 2003:</b>			
Inventory .....	\$ 5,354,460	\$ 156,296	<u>\$ 5,510,756</u>
Total assets .....	7,869,401	202,750	<u>\$ 8,072,151</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**3. Discontinued operations**

*First Heights*

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 expected to complete the plan of disposal within a reasonable period of time, contractual disputes precluded the Company from completing the disposal in accordance with its original plan.

First Heights' day-to-day activities have been principally devoted to supporting residual regulatory compliance matters and the litigation with the United States government (See Note 11), 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.

Revenues of these discontinued operations were \$8 thousand, \$6 thousand and \$17 thousand for the years ended December 31, 2004, 2003 and 2002, respectively. For the years ended December 31, 2004, 2003 and 2002, discontinued thrift operations reported after-tax gains of \$10.5 million, \$7.3 million and \$9 million, respectively. The after-tax gains for the years ended December 31, 2004, 2003 and 2002 include approximately \$10.8 million, \$7.9 million and \$10 million, respectively, of income related to the recognition of income tax benefits resulting from the favorable resolution of certain tax matters.

*Argentina Operations*

In January 2005, the Company sold all of its Argentina operations to an Argentine company involved in residential and commercial real estate development. The disposition of these operations was the chosen action to improve the Company's overall returns. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements. Previously, the Argentina operations were included in the Homebuilding segment.

Total assets to be disposed of at December 31, 2004 were \$15.4 million. These assets consisted primarily of cash and inventories and have been included in Other Assets. Total liabilities to be disposed of at December 31, 2004 were \$13.7 million and consisted primarily of accounts payable and other accrued liabilities. The liabilities associated with the disposal have been classified in accrued and other liabilities.

Revenues of these discontinued operations were \$24.6 million, \$37 million and \$25.9 million for the years ended December 31, 2004, 2003 and 2002, respectively. For the years ended December 31, 2004, 2003 and 2002, discontinued Argentine operations reported pre-tax losses of \$1.4 million, \$1.9 million and \$200 thousand, respectively. In addition, the Company recognized a pre-tax loss of \$33.2 million (\$20.6 million after-tax) on the write-down of the Argentina operations to fair value less costs to sell. The pre-tax loss includes the accounting recognition of the economic losses related to accumulated foreign currency translation adjustments of \$25.1 million (\$15.6 million after-tax), which have previously been reported in other comprehensive income.



**PULTE HOMES, INC.**  
***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)***

**4. Investments in unconsolidated entities**

The Company participates in a number of joint ventures with independent third parties. Many of these joint ventures purchase, develop and/or sell land and homes in the United States, Mexico and Puerto Rico. If additional capital infusions are required and approved, the Company would need to contribute its pro-rata portion of those capital needs in order not to dilute its ownership in the joint ventures. During 2004, the Company invested approximately \$117.8 million in three new joint ventures that develop and/or sell land within the United States.

During January 2004, the Company invested \$35 million for a 50% ownership interest in an entity that supplies and installs basic building components and operating systems, with an option to purchase the remaining 50% interest in the entity in July 2006 or earlier under certain circumstances. The Company has certain commitments to the entity under operating and supply agreements, including: funding additional working capital, as determined by the entity's operating committee on which the Company has 50% representation; and utilization of products and services of this entity for new homes built within certain markets in the western United States.

At December 31, 2004 and 2003, outstanding debt of these joint ventures amounted to \$58.1 million and \$72.6 million, respectively. The Company has not guaranteed any of this outstanding indebtedness.

For the year ended December 31, 2004, we made additional capital contributions to these joint ventures totaling approximately \$44.2 million and received cash distributions from these entities totaling approximately \$66.1 million. At December 31, 2004 and 2003, the Company had approximately \$237.6 million and \$52 million, respectively, invested in these joint ventures. These investments are included in the assets of the Company's Homebuilding segment.

The Company also owns 22.2% of the capital stock of a mortgage banking company in Mexico. At December 31, 2004 and 2003, the Company's investment in this entity, which is included in the assets of the Financial Services segment, was approximately \$21.1 million and \$17.2 million, respectively. The Company does not have any purchase or investment commitments to this entity. Furthermore, the Company has not guaranteed any of the indebtedness of this entity, which approximated \$1.7 billion and \$1.3 billion at December 31, 2004 and 2003, respectively.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**5. Senior notes and subordinated notes**

The Company's senior notes and subordinated notes at book value are summarized as follows (\$000's omitted):

	<b>December 31,</b>	
	<b>2004</b>	<b>2003</b>
10.25% senior subordinated notes, issued by Del Webb Corporation, redeemed in February 2004.....	-	77,283
8.375% unsecured senior notes, issued by Pulte Homes, Inc., redeemed in August 2004.....	-	111,983
7.3% unsecured senior notes, issued by Pulte Homes, Inc. due 2005, not redeemable prior to maturity, guaranteed on a senior basis by Pulte Homes, Inc. and certain of its 100% owned subsidiaries .....	124,991	124,981
4.875% unsecured senior notes, issued by Pulte Homes, Inc. due 2009, not redeemable prior to maturity, guaranteed on a senior basis by Pulte Homes, Inc. and certain of its 100% owned subsidiaries .....	399,060	-
8.125% unsecured senior notes, issued by Pulte Homes, Inc. due 2011, not redeemable prior to maturity, guaranteed on a senior basis by Pulte Homes, Inc. and certain of its 100% owned subsidiaries .....	199,249	199,127
7.875% unsecured senior notes, issued by Pulte Homes, Inc. due 2011, callable prior to maturity, guaranteed on a senior basis by Pulte Homes, Inc. and certain of its 100% owned subsidiaries .....	495,571	495,117
6.25% unsecured senior notes, issued by Pulte Homes, Inc. due 2013, callable prior to maturity, guaranteed on a senior basis by Pulte Homes, Inc. and certain of its 100% owned subsidiaries .....	297,675	297,390
5.25% unsecured senior notes, issued by Pulte Homes, Inc. due 2014, callable prior to maturity, guaranteed on a senior basis by Pulte Homes, Inc. and certain of its 100% owned subsidiaries .....	499,687	-
7.625% unsecured senior notes, issued by Pulte Homes, Inc. due 2017, not redeemable prior to maturity, guaranteed on a senior basis by Pulte Homes, Inc. and certain of its 100% owned subsidiaries .....	148,613	148,505
7.875% unsecured senior notes, issued by Pulte Homes, Inc. due 2032, callable prior to maturity, guaranteed on a senior basis by Pulte Homes, Inc. and certain of its 100% owned subsidiaries .....	298,804	298,760
6.375% unsecured senior notes, issued by Pulte Homes, Inc. due 2033, callable prior to maturity, guaranteed on a senior basis by Pulte Homes, Inc. and certain of its 100% owned subsidiaries .....	<u>397,900</u>	<u>397,826</u>
	<u>\$2,861,550</u>	<u>\$2,150,972</u>
Estimated fair value	<u>\$3,124,413</u>	<u>\$2,387,945</u>

Refer to Note 12 for supplemental consolidating financial information of the Company.

Total senior note and subordinated note principal maturities during the five years after 2004 are as follows: 2005 - \$125 million; 2006 - \$0; 2007 - \$0; 2008 - \$0; 2009 - \$400 million and thereafter - \$2.3 billion.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**5. Senior notes and subordinated notes (continued)**

Our \$125 million, 7.3% unsecured senior notes are due in October 2005. We anticipate repaying these notes by issuing new unsecured senior notes and/or by using cash flows provided by operations in 2005.

In July 2004, we sold \$400 million of 4.875% senior notes, which mature on July 15, 2009 and are guaranteed by Pulte Homes, Inc. and certain of its 100%-owned subsidiaries. These notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness. Proceeds from this offering were used for the repayment of expiring notes due on August 15, 2004 of approximately \$112 million and for general corporate purposes, including continued investment in our business.

In January 2004, we sold \$500 million of 5.25% senior notes, which mature on January 15, 2014 and are guaranteed by Pulte Homes, Inc. and certain of its 100%-owned subsidiaries. These notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness. Proceeds from the sale were used to retire the \$77 million outstanding Del Webb 10.25% senior subordinated notes and for general corporate purposes, including continued investment in our business.

Subsequent to December 31, 2004, we sold \$350 million of 5.2% senior notes, which mature on February 15, 2015, and \$300 million of 6% senior notes, which mature on February 15, 2035, which are guaranteed by Pulte Homes, Inc. and certain of its 100%-owned subsidiaries. These notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness. Proceeds from the sale were used to repay the indebtedness of our revolving credit facility and for general corporate purposes, including continued investment in our business.

**6. Other financing arrangements**

*Corporate/Homebuilding*

In September 2004, the Company restructured and amended the 5-year unsecured revolving credit facility, increasing the borrowing availability from \$850 million to \$1.31 billion, extending the maturity date from September 30, 2008 to September 15, 2009, with pricing more favorable to the Company. The credit facility includes an uncommitted accordion feature, under which the credit facility may be increased to \$1.5 billion. The Company has the capacity to issue letters of credit up to \$750 million. Borrowing availability is reduced by the amount of letters of credit outstanding. The credit facility contains restrictive covenants, the most restrictive of which requires the Company not to exceed a debt-to-total capitalization ratio of 50% as defined in the agreement.

The following is a summary of aggregate borrowing information related to this facility (\$000's omitted):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Available credit lines at year-end .....	\$ 1,310,000	\$ 850,000	\$ 570,000
Unused credit lines at year-end (a) .....	\$ 994,000	\$ 693,000	\$ 570,000
Maximum amount outstanding at the end of any month (b)...	\$ 631,000	\$ -	\$ 245,000
Average monthly indebtedness (c) .....	\$ 187,000	\$ 2,000	\$ 92,000
Range of interest rates during the year .....	2.08 to 5.25%	2.08 to 4.25%	2.56 to 4.75%
Weighted-average rate at year-end .....	2.91%	2.22%	2.78%

(a) Reduced by letters of credit outstanding of \$316 million and \$157 million at December 31, 2004 and 2003, respectively.

(b) Excludes letters of credit outstanding of \$309 million for 2004.

(c) Excludes letters of credit outstanding of \$241 million and \$149 million for 2004 and 2003, respectively.

At December 31, 2004, other financing included limited recourse collateralized financing arrangements totaling \$81.9 million. These financing arrangements have maturities ranging primarily from one to four years, a weighted average interest rate of 1.87%, are generally collateralized by certain land positions and have no recourse to any other assets. These arrangements have been classified as accrued and other liabilities in the Consolidated Balance Sheets.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**6. Other financing arrangements (continued)**

*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 value.

Pulte Mortgage supports its operations through the use of a revolving credit facility and an asset-backed commercial paper conduit. In July 2004, Pulte Mortgage expanded the capacity on its revolving credit facility from \$355 million to \$390 million. The revolving credit facility expires in June 2006. In September 2004, Pulte Mortgage amended its commercial paper conduit, which is a \$550 million committed line of credit. The amendment increased a sub-limit for eligible collateral, eliminated the \$50 million quarterly accordion feature, and made pricing more favorable to Pulte Mortgage. Pulte Mortgage can extend the asset-backed commercial paper conduit to August 2006, subject to approval by the administrative agent. The bank credit agreements contain restrictive covenants, the most restrictive of which requires Pulte Mortgage to maintain a minimum tangible net worth of \$30 million and adjusted liabilities cannot exceed 12 times adjusted net worth.

During the three years ended December 31, 2004, Pulte Mortgage provided compensating balances, in the form of escrows and other custodial funds, in order to further reduce interest rates.

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Available credit lines at year-end .....	\$ 940,000	\$ 860,000	\$ 600,000
Unused credit lines at year-end .....	\$ 324,000	\$ 381,000	\$ 41,000
Maximum amount outstanding at the end of any month .....	\$ 616,000	\$ 483,000	\$ 559,000
Average monthly indebtedness .....	\$ 297,000	\$ 391,000	\$ 290,000
Range of interest rates during the year .....	0.65 to 3.06%	0.45 to 2.31%	0.45 to 2.75%
Weighted-average rate at year-end .....	2.74%	1.59%	1.91%

**7. Shareholders' equity**

On December 11, 2003 the Company announced a two-for-one stock split effected in the form of a 100 percent stock dividend. The distribution was made on January 2, 2004.

In October 2002, the Company's Board of Directors authorized the repurchase of \$100 million of Pulte Homes, Inc. common stock in open-market transactions or otherwise. As of December 31, 2004, the Company has repurchased a total of 1,256,400 shares for a total of \$37.2 million. At December 31, 2004, the Company had remaining authorization to purchase common stock aggregating \$62.8 million.

*Accumulated other comprehensive income (loss)*

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

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Foreign currency translation adjustments:		
Argentina .....	\$ -	\$ (24,982)
Mexico .....	(14,518)	(13,962)
Fair value of derivatives, net of income taxes		
of \$(84) in 2004 and \$122 in 2003 .....	138	(198)
	<u>\$ (14,380)</u>	<u>\$ (39,142)</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**8. 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 Plan"); information related to the active plans is as follows:

<u>Plan Name</u>	<u>Shares Authorized</u>
<i>Employee Plans</i>	
Pulte Homes, Inc. 2004 Stock Incentive Plan.....	6,000,000
Pulte Homes, Inc. 2002 Stock Incentive Plan.....	6,000,000
Pulte Corporation 2000 Stock Incentive Plan for Key Employees .....	5,000,000
Pulte Corporation 1995 Stock Incentive Plan for Key Employees .....	8,000,000
<i>Director Plan</i>	
2000 Stock Plan for Nonemployee Directors .....	500,000

As of December 31, 2004, 7,894,052 stock options remain available for grant under the Employee Plans and 117,800 stock options remain available for grant under the Director Plan.

The Employee Plans primarily 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 ten years. Options granted under the Employee Plans vest incrementally in periods ranging from six months to four years. Under the Director Plan, nonemployee directors are entitled to an annual distribution of 1,800 shares of common stock and options to purchase an additional 8,000 shares. All options granted under the Director Plan are non-qualified, vest immediately and are exercisable on the date of grant. Options granted under the Director Plan are exercisable for ten years from the grant date.

A summary of the status of the Company's stock options for the years ended December 31, 2004, 2003 and 2002 is presented below (000's omitted except per share data):

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>Weighted-Average Per Share</u>		<u>Weighted-Average Per Share</u>		<u>Weighted-Average Per Share</u>	
	<u>Shares</u>	<u>Exercise Price</u>	<u>Shares</u>	<u>Exercise Price</u>	<u>Shares</u>	<u>Exercise Price</u>
Outstanding, beginning						
of year .....	10,777	\$ 23	12,288	\$ 17	13,078	\$ 14
Granted .....	1,119	56	2,001	43	2,780	23
Exercised .....	(2,590)	(17)	(3,135)	(12)	(3,454)	(9)
Forfeited.....	(405)	(30)	(377)	(22)	(116)	(20)
Outstanding, end of year .....	<u>8,901</u>	<u>\$ 29</u>	<u>10,777</u>	<u>\$ 23</u>	<u>12,288</u>	<u>\$ 17</u>
Options exercisable at						
year-end.....	<u>4,610</u>	<u>\$ 20</u>	<u>4,718</u>	<u>\$ 17</u>	<u>5,640</u>	<u>\$ 14</u>
Weighted-average per share						
fair value of options						
granted during the year .....	<u>\$22.75</u>		<u>\$17.59</u>		<u>\$9.68</u>	

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**8. Stock compensation plans and management incentive compensation (continued)**

The following table summarizes information about fixed stock options outstanding at December 31, 2004:

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
\$ 0.00 to 12.99	799	4.0	\$ 10	799	\$ 10
\$13.00 to 20.00	849	4.8	\$ 17	849	\$ 17
\$ 20.01 to 31.00	4,321	6.9	\$ 22	2,842	\$ 22
\$31.01 to 44.00	1,847	8.9	\$ 43	64	\$ 33
\$44.01 to 60.00	1,085	9.9	\$ 57	56	\$ 53

Exclusive of the Employee Plans and Director Plan above, the Company awarded 400,518, 544,354 and 482,482 shares of restricted stock to certain key employees during 2004, 2003, and 2002, respectively. In connection with the restricted stock awards, which cliff vest at the end of three years, the Company recorded compensation expense of \$7.1 million, \$16 million and \$5.3 million during 2004, 2003, and 2002, respectively.

**9. Income taxes**

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Income taxes at federal statutory rate.....	35.00%	35.00%	35.00%
Effect of state and local income taxes, net of federal tax .....	1.97	2.04	3.20
Settlement of state tax issues and other.....	.68	.96	.80
Effective rate	<u>37.65%</u>	<u>38.00%</u>	<u>39.00%</u>

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

	<u>At December 31,</u>	
	<u>2004</u>	<u>2003</u>
Deferred tax liabilities:		
Capitalized items, principally real estate basis differences, deducted for tax, net .....	\$ (82,210)	\$ (89,949)
Trademarks and tradenames.....	(51,359)	(54,456)
	<u>(133,569)</u>	<u>(144,405)</u>
Deferred tax assets:		
Non-deductible reserves and other.....	121,110	104,437
Adjustments to the fair value of acquired senior subordinated notes .....	-	4,106
Foreign and state net operating loss carryforwards.....	20,557	18,643
State credit carryforwards .....	11,230	10,779
	<u>152,897</u>	<u>137,965</u>
Asset valuation allowance.....	(3,148)	(2,781)
Net deferred tax asset (liability).....	<u>\$ 16,180</u>	<u>\$ (9,221)</u>

Various state net operating losses aggregating \$71.7 million expire in years 2013 through 2023. International net operating losses of \$50.4 million will expire in years 2008 through 2014. Net operating losses are generally available to offset the Company's taxable income in future years. State credit carryforwards include a state credit voucher of \$10.8 million that is expected to be realized by the Company no later than 2006. Realization of the net deferred tax asset, in certain jurisdictions, 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.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**9. Income taxes (continued)**

The Company has not provided income taxes on undistributed earnings of its foreign subsidiaries as they are considered to be permanently reinvested. Although the Company is evaluating the potential repatriation of the earnings of its foreign subsidiaries in the future in the context of new IRC Section 965, the range of income tax effects of such repatriation, if any, cannot be reasonably estimated at this time. The evaluation is expected to be completed during 2005.

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

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Year ended December 31, 2004			
Federal .....	\$ 581,853	\$ (20,531)	\$ 561,322
State and other .....	46,077	(4,870)	41,207
	<u>\$ 627,930</u>	<u>\$ (25,401)</u>	<u>\$ 602,529</u>
Year ended December 31, 2003			
Federal .....	\$ 335,774	\$ 15,067	\$ 350,841
State and other .....	22,965	5,570	28,535
	<u>\$ 358,739</u>	<u>\$ 20,637</u>	<u>\$ 379,376</u>
Year ended December 31, 2002			
Federal .....	\$ 221,284	\$ 36,545	\$ 257,829
State and other .....	23,820	2,690	26,510
	<u>\$ 245,104</u>	<u>\$ 39,235</u>	<u>\$ 284,339</u>

**10. 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,**

2005 .....	\$ 46,337
2006 .....	38,035
2007 .....	32,929
2008 .....	28,737
2009 .....	24,581
After 2009 .....	<u>43,621</u>
Total minimum lease payments .....	<u>\$ 214,240</u>

Net rental expense for the years ended December 31, 2004, 2003 and 2002 was \$57.1 million, \$49.6 million and \$48.8 million, respectively. Certain leases contain purchase options and generally provide that the Company shall pay for insurance, taxes and maintenance.

**11. Commitments and contingencies**

In the normal course of business, the Company 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 that has been approved for purchase approximated \$4.1 billion and \$2.6 billion at December 31, 2004 and 2003, respectively. The total purchase price applicable to land under option that has not been approved for purchase approximated \$2.4 billion and \$2.1 billion at December 31, 2004 and 2003, respectively.

At December 31, 2004 and 2003, the Company, in the normal course of business, had outstanding letters of credit and performance bonds of \$1.8 billion and \$1.4 billion, respectively.



**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**11. Commitments and contingencies (continued)**

The Company could be required to repurchase loans sold to investors that have not been underwritten in accordance with the investor guidelines (“defective loans”). The Company, in the normal course of business, indemnifies investors for defective loans that they have purchased. As of December 31, 2004 and 2003, the Company had been notified of \$6.6 million and \$8.6 million of defective loans, respectively. The Company assesses the risk of loss on these indemnifications and establishes reserves for them. At December 31, 2004 and 2003, reserves for indemnification on defective loans are reflected in accrued and other liabilities and amounted to \$400 thousand and \$300 thousand, 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.

*Storm Water Discharge Practices*

In April 2004, the Company received a request for information from the United States Environmental Protection Agency (“EPA”) pursuant to Section 308 of the Clean Water Act. The request seeks information about storm water discharge practices in connection with homebuilding projects completed or underway by the Company. The Company has provided the EPA with this information. Although the matter has since been referred to the United States Department of Justice (“DOJ”) for enforcement, the EPA has asked that the Company engage in “pre-filing” negotiations to resolve the matter short of litigation. The Company is actively engaged in these negotiations. If the negotiations fail and the DOJ alleges that the Company has violated regulatory requirements applicable to storm water discharges, the government may seek injunctive relief and penalties. The Company believes that it has defenses to any such allegations. At this time, however, the Company can neither predict the outcome of this inquiry, nor can it currently estimate the costs that may be associated with its eventual resolution.

*First Heights-related litigation*

Pulte Homes, Inc. is a party to a lawsuit 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 lawsuit (the Court of Federal Claims Case) was filed on December 26, 1996, in the United States Court of Federal Claims (Washington, D.C.) by Pulte Homes, Inc., Pulte Diversified Companies, Inc. and First Heights (collectively, the Pulte Parties) against the United States.

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 other claims concerning the contract, including 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 Pulte Parties for breach of contract by enacting Section 13224 of OBRA. In September 2003, the United States Court of Federal Claims issued final judgment that the Pulte Parties had been damaged by approximately \$48.7 million as a result of the United States government’s breach of contract with them. The United States government and the Pulte Parties appealed the final judgment to the United States Court of Appeals for the Federal Circuit in October 2003. Accordingly, any gain related to this litigation will be recognized only upon final resolution.

**12. Supplemental Guarantor information**

At December 31, 2004, Pulte Homes, Inc. had the following outstanding senior note obligations: (1) \$125 million, 7.3%, due 2005, (2) \$400 million, 4.875% due 2009, (3) \$200 million, 8.125%, due 2011, (4) \$499 million, 7.875%, due 2011, (5) \$300 million, 6.25%, due 2013, (6) \$500 million, 5.25%, due 2014, (7) \$150 million, 7.625%, due 2017, (8) \$300 million, 7.875%, due 2032, and (9) \$400 million, 6.375%, due 2033. Such obligations to pay principal, premium, if any, and interest are guaranteed jointly and severally on a senior basis by Pulte Homes, Inc.’s 100%-owned Domestic Homebuilding subsidiaries (collectively, the Guarantors). Such guarantees are full and unconditional.

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.

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2004**  
**(\$000's omitted)**

	Unconsolidated				
	Pulte Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated Pulte Homes, Inc.
ASSETS					
Cash and equivalents .....	\$	\$ 185,375	\$ 129,259	\$ -	\$ 314,634
Unfunded settlements .....	-	158,795	(40,324)	-	118,471
House and land inventories.....	-	7,224,777	166,014	-	7,390,791
Land held for sale.....	-	230,086	657	-	230,743
Land, not owned, under option agreements	-	106,380	-	-	106,380
Residential mortgage loans available-for-sale .....	-	-	697,077	-	697,077
Investments in unconsolidated entities .....	44	222,358	36,466	-	258,868
Goodwill.....	-	306,993	700	-	307,693
Intangible assets .....	-	135,454	-	-	135,454
Other assets .....	33,770	663,847	117,403	-	815,020
Deferred income tax asset.....	31,037	120	609	-	31,766
Investment in subsidiaries.....	8,725,758	75,162	2,201,365	(11,002,285)	-
	<u>\$ 8,790,609</u>	<u>\$ 9,309,347</u>	<u>\$ 3,309,226</u>	<u>\$ (11,002,285)</u>	<u>\$ 10,406,897</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Accounts payable, accrued and other liabilities .....	\$ 154,958	\$ 1,758,644	\$ 273,913	\$ -	\$ 2,187,515
Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets .....	-	-	617,415	-	617,415
Income taxes .....	203,806	-	(1,249)	-	202,557
Deferred income tax liability .....	-	-	15,586	-	15,586
Senior notes and subordinated notes .....	2,861,550	-	-	-	2,861,550
Advances (receivable) payable - subsidiaries .....	1,048,021	(1,239,413)	191,392	-	-
Total liabilities .....	<u>4,268,335</u>	<u>519,231</u>	<u>1,097,057</u>	<u>-</u>	<u>5,884,623</u>
Shareholders' Equity:					
Common stock .....	1,279	182	3,383	(3,565)	1,279
Additional paid-in capital .....	1,116,018	6,421,208	1,471,290	(7,892,498)	1,116,018
Unearned compensation.....	(44)	-	-	-	(44)
Accumulated other comprehensive loss .....	(14,380)	(2,145)	(14,380)	16,525	(14,380)
Retained earnings.....	3,419,401	2,370,871	751,876	(3,122,747)	3,419,401
Total shareholders' equity .....	<u>4,522,274</u>	<u>8,790,116</u>	<u>2,212,169</u>	<u>(11,002,285)</u>	<u>4,522,274</u>
	<u>\$ 8,790,609</u>	<u>\$ 9,309,347</u>	<u>\$ 3,309,226</u>	<u>\$ (11,002,285)</u>	<u>\$ 10,406,897</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2003**  
**(\$000's omitted)**

	<b>Pulte Homes, Inc.</b>	<b>Unconsolidated Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated Pulte Homes, Inc.</b>
<b>ASSETS</b>					
Cash and equivalents .....	\$ 2,949	\$ 305,356	\$ 93,578	\$ -	\$ 401,883
Unfunded settlements .....	-	140,431	(18,160)	-	122,271
House and land inventories .....	-	5,354,460	156,296	-	5,510,756
Land held for sale .....	-	251,237	-	-	251,237
Land, not owned, under option agreements	-	73,256	-	-	73,256
Residential mortgage loans available-for-sale .....	-	-	541,502	-	541,502
Investments in unconsolidated entities .....	4,495	34,165	30,842	-	69,502
Goodwill .....	-	306,993	700	-	307,693
Intangible assets .....	-	143,704	-	-	143,704
Other assets .....	76,650	466,887	98,011	-	641,548
Deferred income tax asset .....	8,799	-	-	-	8,799
Investment in subsidiaries .....	6,618,888	74,738	1,352,274	(8,045,900)	-
	<u>\$ 6,711,781</u>	<u>\$ 7,151,227</u>	<u>\$ 2,255,043</u>	<u>\$ (8,045,900)</u>	<u>\$ 8,072,151</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Liabilities:</b>					
Accounts payable, accrued and other liabilities .....	\$ 149,572	\$ 1,547,241	\$ 199,545	\$ -	\$ 1,896,358
Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets .....	-	-	479,287	-	479,287
Income taxes .....	79,391	-	-	-	79,391
Deferred income tax liability .....	-	-	18,020	-	18,020
Senior notes and subordinated notes .....	2,073,689	77,283	-	-	2,150,972
Advances (receivable) payable - subsidiaries	961,006	(1,124,437)	163,431	-	-
Total liabilities .....	<u>3,263,658</u>	<u>500,087</u>	<u>860,283</u>	<u>-</u>	<u>4,624,028</u>
<b>Shareholders' Equity:</b>					
Common stock .....	1,252	-	7,823	(7,823)	1,252
Additional paid-in capital .....	1,015,991	5,381,553	1,170,349	(6,551,902)	1,015,991
Unearned compensation .....	(656)	-	-	-	(656)
Accumulated other comprehensive loss .....	(39,142)	(2,706)	(39,142)	41,848	(39,142)
Retained earnings .....	2,470,678	1,272,293	255,730	(1,528,023)	2,470,678
Total shareholders' equity .....	<u>3,448,123</u>	<u>6,651,140</u>	<u>1,394,760</u>	<u>(8,045,900)</u>	<u>3,448,123</u>
	<u>\$ 6,711,781</u>	<u>\$ 7,151,227</u>	<u>\$ 2,255,043</u>	<u>\$ (8,045,900)</u>	<u>\$ 8,072,151</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF OPERATIONS**  
**For the year ended December 31, 2004**  
**(\$000's omitted)**

	<b>Unconsolidated</b>			<b>Eliminating</b>	<b>Consolidated</b>
	<b>Pulte Homes, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Entries</b>	<b>Pulte Homes, Inc.</b>
<b>Revenues:</b>					
Homebuilding.....	\$ -	\$11,400,008	\$ 196,740	\$ -	\$ 11,596,748
Financial Services .....	-	21,521	91,198	-	112,719
Corporate .....	<u>103</u>	<u>1,330</u>	<u>316</u>	<u>-</u>	<u>1,749</u>
Total revenues.....	<u>103</u>	<u>11,422,859</u>	<u>288,254</u>	<u>-</u>	<u>11,711,216</u>
<b>Expenses:</b>					
Homebuilding:					
Cost of sales.....	-	8,789,140	158,972	-	8,948,112
Selling, general and administrative and other expense .....	8,908	1,008,464	41,347	-	1,058,719
Financial Services, principally interest....	1,088	5,885	64,555	-	71,528
Corporate, net .....	99,288	(2,584)	(4,270)	-	92,434
Intercompany interest.....	<u>102,416</u>	<u>(102,416)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses .....	<u>211,700</u>	<u>9,698,489</u>	<u>260,604</u>	<u>-</u>	<u>10,170,793</u>
<b>Other Income:</b>					
Equity income .....	-	49,462	10,652	-	60,114
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries.....	(211,597)	1,773,832	38,302	-	1,600,537
Income taxes (benefit) .....	<u>(79,870)</u>	<u>669,527</u>	<u>12,872</u>	<u>-</u>	<u>602,529</u>
Income (loss) from continuing operations before equity in income of subsidiaries .....	(131,727)	1,104,305	25,430	-	998,008
Income (loss) from discontinued operations	<u>23,220</u>	<u>-</u>	<u>(34,687)</u>	<u>-</u>	<u>(11,467)</u>
Income (loss) before equity in net income of subsidiaries.....	<u>(108,507)</u>	<u>1,104,305</u>	<u>(9,257)</u>	<u>-</u>	<u>986,541</u>
Equity in net income (loss) of subsidiaries:					
Continuing operations .....	1,129,735	19,128	409,072	(1,557,935)	-
Discontinued operations.....	<u>(34,687)</u>	<u>-</u>	<u>-</u>	<u>34,687</u>	<u>-</u>
	<u>1,095,048</u>	<u>19,128</u>	<u>409,072</u>	<u>(1,523,248)</u>	<u>-</u>
Net income .....	<u>\$ 986,541</u>	<u>\$ 1,123,433</u>	<u>\$ 399,815</u>	<u>\$ (1,523,248)</u>	<u>\$ 986,541</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF OPERATIONS**

**For the year ended December 31, 2003**

(\$000's omitted)

	<u>Pulte Homes, Inc.</u>	<u>Unconsolidated Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated Pulte Homes, Inc.</u>
<b>Revenues:</b>					
Homebuilding .....	\$ -	\$8,701,661	\$ 191,125	\$ -	\$ 8,892,786
Financial Services .....	-	16,491	99,356	-	115,847
Corporate .....	<u>42</u>	<u>2,602</u>	<u>637</u>	<u>-</u>	<u>3,281</u>
Total revenues .....	<u>42</u>	<u>8,720,754</u>	<u>291,118</u>	<u>-</u>	<u>9,011,914</u>
<b>Expenses:</b>					
Homebuilding:					
Cost of sales .....	-	6,885,249	152,445	-	7,037,694
Selling, general and administrative and other expense .....	10,910	829,871	41,698	-	882,479
Financial Services, principally interest....	-	4,851	48,402	-	53,253
Corporate, net .....	<u>83,637</u>	<u>(4,816)</u>	<u>(189)</u>	<u>-</u>	<u>78,632</u>
Total expenses .....	<u>94,547</u>	<u>7,715,155</u>	<u>242,356</u>	<u>-</u>	<u>8,052,058</u>
<b>Other Income:</b>					
Equity income .....	<u>-</u>	<u>30,913</u>	<u>7,850</u>	<u>-</u>	<u>38,763</u>
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries .....	(94,505)	1,036,512	56,612	-	998,619
Income taxes (benefit) .....	<u>(38,234)</u>	<u>396,090</u>	<u>21,520</u>	<u>-</u>	<u>379,376</u>
Income (loss) from continuing operations before equity in income of subsidiaries .....	(56,271)	640,422	35,092	-	619,243
Income (loss) from discontinued operations	<u>7,543</u>	<u>-</u>	<u>(2,152)</u>	<u>-</u>	<u>5,391</u>
Income (loss) before equity in net income of subsidiaries .....	<u>(48,728)</u>	<u>640,422</u>	<u>32,940</u>	<u>-</u>	<u>624,634</u>
Equity in net income (loss) of subsidiaries:					
Continuing operations .....	675,514	34,481	231,826	(941,821)	-
Discontinued operations .....	<u>(2,152)</u>	<u>-</u>	<u>-</u>	<u>2,152</u>	<u>-</u>
	<u>673,362</u>	<u>34,481</u>	<u>231,826</u>	<u>(939,669)</u>	<u>-</u>
Net income .....	<u>\$ 624,634</u>	<u>\$ 674,903</u>	<u>\$ 264,766</u>	<u>\$ (939,669)</u>	<u>\$ 624,634</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF OPERATIONS**  
**For the year ended December 31, 2002**  
(\$000's omitted)

	<u>Pulte Homes, Inc.</u>	<u>Unconsolidated Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated Pulte Homes, Inc.</u>
<b>Revenues:</b>					
Homebuilding.....	\$ -	\$7,167,915	\$ 170,195	\$ -	\$ 7,338,110
Financial Services .....	-	15,004	91,624	-	106,628
Corporate .....	<u>164</u>	<u>1,038</u>	<u>-</u>	<u>-</u>	<u>1,202</u>
Total revenues.....	<u>164</u>	<u>7,183,957</u>	<u>261,819</u>	<u>-</u>	<u>7,445,940</u>
<b>Expenses:</b>					
Homebuilding:					
Cost of sales.....	-	5,761,468	136,745	-	5,898,213
Selling, general and administrative and other expense .....	8,278	682,737	31,257	-	722,272
Financial Services, principally interest....	-	4,445	41,134	-	45,579
Corporate, net .....	<u>63,036</u>	<u>281</u>	<u>(147)</u>	<u>-</u>	<u>63,170</u>
Total expenses .....	<u>71,314</u>	<u>6,448,931</u>	<u>208,989</u>	<u>-</u>	<u>6,729,234</u>
<b>Other Income:</b>					
Equity income.. .....	<u>-</u>	<u>3,897</u>	<u>8,521</u>	<u>-</u>	<u>12,418</u>
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries.....	(71,150)	738,923	61,351	-	729,124
Income taxes (benefit) .....	<u>(28,023)</u>	<u>288,111</u>	<u>24,251</u>	<u>-</u>	<u>284,339</u>
Income (loss) from continuing operations before equity in income of subsidiaries .....	(43,127)	450,812	37,100	-	444,785
Income (loss) from discontinued operations	<u>8,938</u>	<u>-</u>	<u>(78)</u>	<u>-</u>	<u>8,860</u>
Income (loss) before equity in net income of subsidiaries.....	<u>(34,189)</u>	<u>450,812</u>	<u>37,022</u>	<u>-</u>	<u>453,645</u>
Equity in net income (loss) of subsidiaries:					
Continuing operations .....	487,912	33,310	297,229	(818,451)	-
Discontinued operations.....	<u>(78)</u>	<u>-</u>	<u>-</u>	<u>78</u>	<u>-</u>
	<u>487,834</u>	<u>33,310</u>	<u>297,229</u>	<u>(818,373)</u>	<u>-</u>
Net income .....	<u>\$ 453,645</u>	<u>\$ 484,122</u>	<u>\$ 334,251</u>	<u>\$ (818,373)</u>	<u>\$ 453,645</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2004**  
(\$000's omitted)

	<b>Unconsolidated</b>			<b>Eliminating Entries</b>	<b>Consolidated Pulte Homes, Inc.</b>
	<b><u>Pulte Homes, Inc.</u></b>	<b><u>Guarantor Subsidiaries</u></b>	<b><u>Non-Guarantor Subsidiaries</u></b>		
Cash flows from operating activities:					
Net income .....	\$ 986,541	\$1,123,433	\$ 399,815	\$(1,523,248)	\$ 986,541
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:					
Equity in income of subsidiaries ..	(1,095,048)	(19,128)	(409,072)	1,523,248	-
Loss on Argentina write-down .....	-	-	33,150	-	33,150
Amortization and depreciation .....	-	39,191	7,105	-	46,296
Stock-based compensation expense .....	23,303	-	-	-	23,303
Deferred income taxes .....	(22,238)	(120)	(3,043)	-	(25,401)
Undistributed earnings of affiliates	-	(10,972)	(10,653)	-	(21,625)
Other, net .....	1,246	501	1,585	-	3,332
Increase (decrease) in cash due to:					
Inventories .....	-	(2,065,563)	(7,025)	-	(2,072,588)
Residential mortgage loans available-for-sale .....	-	-	(155,575)	-	(155,575)
Other assets .....	47,332	(17,996)	(581)	-	28,755
Accounts payable, accrued and other liabilities .....	5,386	227,809	60,974	-	294,169
Income taxes .....	<u>(107,608)</u>	<u>261,912</u>	<u>7,059</u>	<u>-</u>	<u>161,363</u>
Net cash provided by (used in) operating activities .....	<u>(161,086)</u>	<u>(460,933)</u>	<u>(76,261)</u>	<u>-</u>	<u>(698,280)</u>
Distributions from unconsolidated entities .....	-	62,000	4,067	-	66,067
Investments in unconsolidated entities ....	-	(196,488)	(509)	-	(196,997)
Dividends received from subsidiaries .....	8,526	21,000	-	(29,526)	-
Investment in subsidiaries .....	(995,074)	(1,905)	(533,816)	1,530,795	-
Proceeds from sale of fixed assets .....	-	7,070	24	-	7,094
Capital expenditures .....	-	(62,783)	(12,436)	-	(75,219)
Other net .....	<u>-</u>	<u>-</u>	<u>500</u>	<u>-</u>	<u>500</u>
Net cash provided by (used in) investing activities .....	<u>(986,548)</u>	<u>(171,106)</u>	<u>(542,170)</u>	<u>1,501,269</u>	<u>(198,555)</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF CASH FLOWS (continued)**  
**For the year ended December 31, 2004**  
(\$000's omitted)

	<u>Pulte</u>	<u>Unconsolidated</u>			
	<u>Homes, Inc.</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Eliminating</u>	<u>Consolidated</u>
		<u>Subsidiaries</u>	<u>Subsidiaries</u>	<u>Entries</u>	<u>Pulte Homes, Inc.</u>
Cash flows from financing activities:					
Payment of senior notes and subordinated notes .....	\$(112,000)	\$ (77,270)	\$ -	\$ -	\$ (189,270)
Proceeds from borrowings .....	898,615	-	141,334	-	1,039,949
Repayment of borrowings .....	-	(44,648)	(244)	-	(44,892)
Capital contributions from parent .....	-	1,019,926	510,869	(1,530,795)	-
Advances (to) from affiliates .....	354,225	(377,424)	23,199	-	-
Issuance of common stock .....	43,959	-	-	-	43,959
Stock repurchases .....	(14,687)	-	-	-	(14,687)
Dividends paid .....	(25,427)	(8,526)	(21,000)	29,526	(25,427)
Net cash provided by (used in) financing activities .....	<u>1,144,685</u>	<u>512,058</u>	<u>654,158</u>	<u>(1,501,269)</u>	<u>809,632</u>
Effect of exchange rate changes on cash and cash equivalents .....	-	-	(46)	-	(46)
Net increase (decrease) in cash and equivalents .....	(2,949)	(119,981)	35,681	-	(87,249)
Cash and equivalents at beginning of year ..	<u>2,949</u>	<u>305,357</u>	<u>93,577</u>	<u>-</u>	<u>401,883</u>
Cash and equivalents at end of year .....	<u>\$ -</u>	<u>\$ 185,376</u>	<u>\$ 129,258</u>	<u>\$ -</u>	<u>\$ 314,634</u>



**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2003**  
(\$000's omitted)

	<b>Unconsolidated</b>			<b>Eliminating Entries</b>	<b>Consolidated Pulte Homes, Inc.</b>
	<b><u>Pulte Homes, Inc.</u></b>	<b><u>Guarantor Subsidiaries</u></b>	<b><u>Non-Guarantor Subsidiaries</u></b>		
Cash flows from operating activities:					
Net income .....	\$ 624,634	\$ 674,903	\$ 264,766	\$(939,669)	\$ 624,634
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:					
Equity in income of subsidiaries ..	(673,362)	(34,481)	(231,826)	939,669	-
Amortization and depreciation .....	-	36,410	3,009	-	39,419
Stock-based compensation expense .....	30,515	-	-	-	30,515
Deferred income taxes .....	18,985	-	1,652	-	20,637
Undistributed earnings of affiliates	-	(28,964)	(7,222)	-	(36,186)
Other, net.....	1,150	(2,413)	2,038	-	775
Increase (decrease) in cash due to:					
Inventories.....	-	(1,377,875)	(36,419)	-	(1,414,294)
Residential mortgage loans available-for-sale .....	-	-	59,000	-	59,000
Other assets .....	(26,850)	9,393	11,779	-	(5,678)
Accounts payable, accrued and other liabilities .....	18,222	253,714	59,823	-	331,759
Income taxes .....	<u>(145,718)</u>	<u>162,014</u>	<u>1,828</u>	<u>-</u>	<u>18,124</u>
Net cash provided by (used in) operating activities .....	<u>(152,424)</u>	<u>(307,299)</u>	<u>128,428</u>	<u>-</u>	<u>(331,295)</u>
Distributions from unconsolidated entities .....	-	42,005	1,601	-	43,606
Investments in unconsolidated entities....	-	(9,627)	(4,200)	-	(13,827)
Dividends received from subsidiaries .....	1,107,549	16,000	1,069,503	(2,193,052)	-
Investment in subsidiaries.....	(3,497,651)	(1,910)	-	3,499,561	-
Advances from affiliates .....	106,461	-	-	(106,461)	-
Proceeds from sale of fixed assets .....	-	5,023	-	-	5,023
Capital expenditures.....	<u>-</u>	<u>(28,405)</u>	<u>(10,715)</u>	<u>-</u>	<u>(39,120)</u>
Net cash provided by (used in) investing activities .....	<u>(2,283,641)</u>	<u>23,086</u>	<u>1,056,189</u>	<u>1,200,048</u>	<u>(4,318)</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF CASH FLOWS (continued)**  
**For the year ended December 31, 2003**  
**(\$000's omitted)**

	<u><b>Pulte</b></u>	<u><b>Unconsolidated</b></u>			
	<u><b>Homes, Inc.</b></u>	<u><b>Guarantor</b></u>	<u><b>Non-Guarantor</b></u>	<u><b>Eliminating</b></u>	<u><b>Consolidated</b></u>
		<u><b>Subsidiaries</b></u>	<u><b>Subsidiaries</b></u>	<u><b>Entries</b></u>	<u><b>Pulte Homes, Inc.</b></u>
Cash flows from financing activities:					
Payment of senior notes and subordinated notes .....	\$(275,000)	\$ (182,511)	\$ -	\$ -	\$ (457,511)
Proceeds from borrowings .....	694,937	-	2,028	-	696,965
Repayment of borrowings .....	-	(35,230)	(82,938)	-	(118,168)
Capital contributions from parent .....	-	3,472,607	26,954	(3,499,561)	-
Advances (to) from affiliates .....	2,011,500	(2,098,843)	(19,118)	106,461	-
Issuance of common stock .....	39,493	-	-	-	39,493
Stock repurchases .....	(18,304)	-	-	-	(18,304)
Dividends paid .....	(13,612)	(1,107,549)	(1,085,503)	2,193,052	(13,612)
Net cash provided by (used in) financing activities .....	<u>2,439,014</u>	<u>48,474</u>	<u>(1,158,577)</u>	<u>(1,200,048)</u>	<u>128,863</u>
Effect of exchange rate changes on cash and cash equivalents .....	-	-	(1,994)	-	(1,994)
Net increase (decrease) in cash and equivalents .....	2,949	(235,739)	24,046	-	(208,744)
Cash and equivalents at beginning of year ..	<u>-</u>	<u>541,095</u>	<u>69,532</u>	<u>-</u>	<u>610,627</u>
Cash and equivalents at end of year .....	<u>\$ 2,949</u>	<u>\$ 305,356</u>	<u>\$ 93,578</u>	<u>\$ -</u>	<u>\$ 401,883</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2002**  
(\$000's omitted)

	<b>Unconsolidated</b>			<b>Eliminating Entries</b>	<b>Consolidated Pulte Homes, Inc.</b>
	<b><u>Pulte Homes, Inc.</u></b>	<b><u>Guarantor Subsidiaries</u></b>	<b><u>Non-Guarantor Subsidiaries</u></b>		
Cash flows from operating activities:					
Net income .....	\$ 453,645	\$ 484,122	\$ 334,251	\$(818,373)	\$ 453,645
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:					
Equity in income of subsidiaries ..	(487,834)	(33,310)	(297,229)	818,373	-
Amortization and depreciation ....	-	36,542	2,383	-	38,925
Stock based compensation expense .....	10,387	-	-	-	10,387
Deferred income taxes .....	39,235	-	-	-	39,235
Undistributed earnings of affiliates	-	-	(7,716)	-	(7,716)
Other, net.....	1,042	(3,410)	(1,433)	-	(3,801)
Increase (decrease) in cash due to:					
Inventories.....	-	(465,051)	(51,128)	-	(516,179)
Residential mortgage loans available-for-sale .....	-	-	(165,727)	-	(165,727)
Other assets .....	(926)	47,861	(3,337)	-	43,598
Accounts payable, accrued and other liabilities .....	(6,359)	157,754	39,746	-	191,141
Income taxes .....	<u>(52,405)</u>	<u>122,421</u>	<u>5,229</u>	<u>-</u>	<u>75,245</u>
Net cash provided by (used in) operating activities .....	<u>(43,215)</u>	<u>346,929</u>	<u>(144,961)</u>	<u>-</u>	<u>158,753</u>
Distributions from unconsolidated entities.....	-	-	50	-	50
Investments in unconsolidated entities....	-	(8,607)	(832)	-	(9,439)
Dividends received from subsidiaries .....	232,000	23,500	-	(255,500)	-
Investment in subsidiaries.....	(1,228,780)	(1,331)	-	1,230,111	-
Advances (to) from affiliates .....	1,844,046	248,458	33,946	(2,126,450)	-
Proceeds from sale of fixed assets .....	-	45,502	(304)	-	45,198
Capital expenditures.....	<u>-</u>	<u>(18,863)</u>	<u>(4,837)</u>	<u>-</u>	<u>(23,700)</u>
Net cash provided by (used in) investing activities .....	<u>847,266</u>	<u>288,659</u>	<u>28,023</u>	<u>(1,151,839)</u>	<u>12,109</u>

**PULTE HOMES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**12. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF CASH FLOWS (continued)**  
**For the year ended December 31, 2002**  
(\$000's omitted)

	<u><b>Pulte</b></u>	<u><b>Unconsolidated</b></u>			
	<u><b>Homes, Inc.</b></u>	<u><b>Guarantor</b></u>	<u><b>Non-Guarantor</b></u>	<u><b>Eliminating</b></u>	<u><b>Consolidated</b></u>
		<u><b>Subsidiaries</b></u>	<u><b>Subsidiaries</b></u>	<u><b>Entries</b></u>	<u><b>Pulte Homes, Inc.</b></u>
Cash flows from financing activities:					
Payment of senior notes and subordinated notes .....	\$ (1,437)	\$(106,139)	\$ -	\$ -	\$ (107,576)
Proceeds from borrowings .....	298,707	132,599	147,011	-	578,317
Repayment of borrowings .....	(110,000)	-	(7,256)	-	(117,256)
Capital contributions from parent .....	-	1,196,038	34,073	(1,230,111)	-
Advances (to) from affiliates .....	(1,027,422)	(1,118,634)	19,606	2,126,450	-
Issuance of common stock .....	34,597	-	-	-	34,597
Stock repurchases .....	(4,344)	-	-	-	(4,344)
Dividends paid .....	(9,773)	(232,000)	(23,500)	255,500	(9,773)
Net cash provided by (used in) financing activities .....	<u>(819,672)</u>	<u>(128,136)</u>	<u>169,934</u>	<u>1,151,839</u>	<u>373,965</u>
Effect of exchange rate changes on cash and cash equivalents .....	-	-	(3,233)	-	(3,233)
Net increase (decrease) in cash and equivalents .....	(15,621)	507,452	49,763	-	541,594
Cash and equivalents at beginning of year ..	<u>15,621</u>	<u>33,643</u>	<u>19,769</u>	<u>-</u>	<u>69,033</u>
Cash and equivalents at end of year .....	<u>\$ -</u>	<u>\$ 541,095</u>	<u>\$ 69,532</u>	<u>\$ -</u>	<u>\$ 610,627</u>

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Pulte Homes, Inc.

We have audited the accompanying consolidated balance sheets of Pulte Homes, Inc. (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pulte Homes, Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Pulte Homes, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 31, 2005 expressed an unqualified opinion thereon.

As discussed in Note 1 to the consolidated financial statements, the Company changed in 2003 its method of accounting for stock options.

/s/ Ernst & Young LLP

Detroit, Michigan  
January 31, 2005

**PULTE HOMES, INC.**  
**UNAUDITED QUARTERLY INFORMATION**  
(000's omitted, except per share data)

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Total</u>
<b>2004</b>					
<b>Homebuilding:</b>					
Revenues.....	\$2,006,263	\$2,490,722	\$2,931,974	\$4,167,789	\$11,596,748
Income before income taxes.....	223,312	319,458	431,245	669,778	1,643,793
<b>Financial Services:</b>					
Revenues.....	\$ 24,572	\$ 23,874	\$ 27,706	\$ 36,567	\$ 112,719
Income before income taxes.....	10,089	8,369	11,294	17,677	47,429
<b>Corporate:</b>					
Revenues.....	\$ 897	\$ 562	\$ 125	\$ 165	\$ 1,749
Loss before income taxes.....	(20,228)	(23,868)	(24,570)	(22,019)	(90,685)
<b>Consolidated results:</b>					
Revenues.....	\$2,031,732	\$2,515,158	\$2,959,805	\$4,204,521	\$11,711,216
Income from continuing operations					
before income taxes .....	213,173	303,959	417,969	665,436	1,600,537
Income taxes .....	80,996	115,489	158,845	247,199	602,529
Income from continuing operations .....	132,177	188,470	259,124	418,237	998,008
Income (loss) from discontinued operations (a) .	(548)	(867)	10,812	(20,864)	(11,467)
Net income.....	\$ 131,629	\$ 187,603	\$ 269,936	\$ 397,373	\$ 986,541
<b>Per share data :</b>					
Basic:					
Income from continuing operations.....	\$ 1.05	\$ 1.49	\$ 2.05	\$ 3.29	\$ 7.90
Income (loss) from discontinued					
operations (a) .....	-	-	.08	(.16)	(.09)
Net income .....	\$ 1.05	\$ 1.49	\$ 2.13	\$ 3.13	\$ 7.81
Weighted-average common					
shares outstanding .....	125,301	126,254	126,566	127,107	126,295
Assuming dilution:					
Income from continuing operations.....	\$ 1.02	\$ 1.45	\$ 1.99	\$ 3.20	\$ 7.67
Income (loss) from discontinued					
operations (a) .....	-	-	.08	(.16)	(.09)
Net income .....	\$ 1.02	\$ 1.45	\$ 2.07	\$ 3.04	\$ 7.58
Adjusted weighted-average common					
shares and effect of dilutive securities .....	128,829	129,356	130,485	130,706	130,117

(a) In January 2005, the Company sold all of its Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements (See Note 3). All prior periods have been reclassified to conform to the 2004 presentation.

**PULTE HOMES, INC.**  
**UNAUDITED QUARTERLY INFORMATION**  
(000's omitted, except per share data)

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Total</u>
<b>2003</b>					
<b>Homebuilding:</b>					
Revenues.....	\$ 1,516,700	\$ 1,917,871	\$ 2,364,809	\$ 3,093,406	\$ 8,892,786
Income before income taxes.....	138,038	198,539	264,842	403,705	1,005,124
<b>Financial Services:</b>					
Revenues.....	\$ 27,596	\$ 31,774	\$ 25,851	\$ 30,626	\$ 115,847
Income before income taxes.....	17,116	20,858	13,381	17,491	68,846
<b>Corporate:</b>					
Revenues.....	\$ 1,555	\$ 700	\$ 588	\$ 438	\$ 3,281
Loss before income taxes.....	(15,369)	(22,046)	(17,601)	(20,335)	(75,351)
<b>Consolidated results:</b>					
Revenues.....	\$ 1,545,851	\$ 1,950,345	\$ 2,391,248	\$ 3,124,470	\$ 9,011,914
Income from continuing operations before income taxes .....	139,785	197,351	260,622	400,861	998,619
Income taxes .....	53,096	74,945	98,994	152,341	379,376
Income from continuing operations .....	86,689	122,406	161,628	248,520	619,243
Income (loss) from discontinued operations (a) ..	(552)	(689)	7,258	(626)	5,391
Net income.....	\$ 86,137	\$ 121,717	\$ 168,886	\$ 247,894	\$ 624,634
<b>Per share data:</b>					
Basic:					
Income from continuing operations.....	\$ .71	\$ 1.01	\$ 1.32	\$ 2.01	\$ 5.07
Income (loss) from discontinued operations (a) .....	-	(.01)	.06	(.01)	.04
Net income .....	\$ .71	\$ 1.00	\$ 1.38	\$ 2.01	\$ 5.11
Weighted-average common shares outstanding .....	121,426	121,506	122,248	123,444	122,162
Assuming dilution:					
Income from continuing operations.....	\$ .70	\$ .98	\$ 1.29	\$ 1.95	\$ 4.93
Income (loss) from discontinued operations (a) .....	-	(.01)	.06	-	.04
Net income .....	\$ .69	\$ .97	\$ 1.34	\$ 1.94	\$ 4.97
Adjusted weighted-average common shares and effect of dilutive securities .....	124,078	124,994	125,777	127,463	125,730

(a) In January 2005, the Company sold all of its Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements (See Note 3). All prior periods have been reclassified to conform to the 2004 presentation.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

This Item is not applicable.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Management, including our President & Chief Executive Officer and Executive Vice President & Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2004. Based upon, and as of the date of that evaluation, our President & Chief Executive Officer and Executive Vice President & Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required.

#### **Internal Control Over Financial Reporting**

##### ***(a) Management's Annual Report on Internal Control Over Financial Reporting***

Management is responsible for the preparation and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles and reflect management's judgments and estimates concerning events and transactions that are accounted for or disclosed.

Management is also responsible for establishing and maintaining effective internal control over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report reliable financial data. Management recognizes that there are inherent limitations in the effectiveness of any internal control and effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Additionally, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

In order to ensure that the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2004. Management's assessment was based on criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management asserts that the Company has maintained effective internal control over financial reporting as of December 31, 2004.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this annual report, has issued an attestation report on management's assertion with respect to the effectiveness of the Company's internal control over financial reporting as of December 31, 2004.



## **Internal Control Over Financial Reporting (continued)**

### ***b) Report of Independent Registered Public Accounting Firm***

The Board of Directors and Shareholders  
Pulte Homes, Inc.

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Pulte Homes, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Pulte Homes, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Pulte Homes, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Pulte Homes, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pulte Homes, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004 of Pulte Homes, Inc. and our report dated January 31, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Detroit, Michigan  
January 31, 2005

### ***(c) Changes in Internal Control Over Financial Reporting***

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 9B. CEO/CFO CERTIFICATIONS**

The Company has filed the certification of our chief executive officer with the New York Stock Exchange (“NYSE”) for 2004 as required pursuant to Section 303A.12(a) of the NYSE Listed Company Manual, and we have filed the Sarbanes-Oxley Section 302 certifications of our chief executive officer and chief financial officer with the Securities and Exchange Commission, which are attached hereto as exhibits 31(a) and 31(b).

## **PART III**

## **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information required by this Item with respect to our executive officers is set forth in Item 4A. Information required by this Item with respect to members of our Board of Directors is contained in the Proxy Statement for the 2005 Annual Meeting of Shareholders (“2005 Proxy Statement”) under the caption “Election of Directors” and under the caption “Board of Directors” incorporated herein by this reference. Information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is contained in the 2005 Proxy Statement under the caption “Section 16(a) Beneficial Ownership Reporting Compliance,” incorporated herein by this reference. Information required by this Item with respect to our code of ethics is contained in the 2005 Proxy Statement under the caption “Code of Ethics / Business Practices Policy,” incorporated herein by this reference.

## **ITEM 11. EXECUTIVE COMPENSATION**

Information required by this Item is contained in the 2005 Proxy Statement under the caption “Compensation of Named Executive Officers” incorporated herein by this reference.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this Item is contained in the 2005 Proxy Statement under the caption “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” incorporated herein by this reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is contained in the 2005 Proxy Statement under the caption “Compensation of Named Executive Officers” incorporated herein by this reference.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this Item is contained in the 2005 Proxy Statement under the captions “Approval Policies for Services Provided by the Independent Auditors” and “Other Important Committee Activities” incorporated herein by reference.

## PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following documents are filed as part of this Annual Report on Form 10-K.

### (a) Financial Statements and Schedules

<b>(1) Financial Statements</b>	<b><u>Page Herein</u></b>
Consolidated Balance Sheets at December 31, 2004 and 2003 .....	29
Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002 .....	30
Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2004, 2003 and 2002 .....	31
Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 .....	32
Notes to Consolidated Financial Statements .....	33

All schedules are omitted since the required information is not present, is not present in amounts sufficient to require submission of the schedule or because the required information is included in the financial statements or notes thereto.

### (2) Exhibits

#### **Exhibit Number and Description**

(2) and (10)	(a)	Plan and Agreement of merger dated as of April 30, 2001, among Del Webb Corporation, Pulte Corporation and Pulte Acquisition Corporation (Incorporated by reference to Exhibit 2.1 of our Registration Statement on Form S-4, Registration No. 333-62518)
(3)	(a)	Articles of Incorporation, as amended, of Pulte Homes, Inc. (Incorporated by reference to Exhibit 3.1 of our Registration Statement on Form S-4, Registration No. 333-62518)
	(b)	By-laws, as amended, of Pulte Homes, Inc. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K dated September 15, 2004)
(4)	(a)	Senior Note Indenture dated as of October 24, 1995, among Pulte Corporation, certain of its subsidiaries, as Guarantors, and The First National Bank of Chicago, as Trustee, covering Pulte Corporation's 7.3% unsecured senior notes due 2005 (\$125,000,000 aggregate principal amount outstanding) and 7.625% unsecured senior notes due 2017 (\$150,000,000 aggregate principal amount outstanding). (Incorporated by reference to Exhibit (c) 1 of our Current Report on Form 8-K dated October 20, 1995).
	(b)	Indenture Supplement dated as of August 27, 1997, among Pulte Corporation, Bank One Trust Company, National Association (as successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Corporation (Incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K dated October 6, 1997)

- (4) (c) Indenture Supplement dated August 27, 1997, among Pulte Corporation, The Bank of New York (as successor Trustee to NationsBank of Georgia, National Association), Pulte Home Corporation and certain subsidiaries of Pulte Corporation (Incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K dated October 6, 1997)
- (d) Indenture Supplement dated as of March 20, 1998, among Pulte Corporation, Bank One Trust Company, National Association (as successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Corporation (Incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K dated March 24, 1998)
- (e) Indenture Supplement dated as of March 20, 1998, among Pulte Corporation, The Bank of New York (as successor Trustee to NationsBank of Georgia, National Association), Pulte Home Corporation and certain subsidiaries of Pulte Corporation (Incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K dated March 24, 1998)
- (f) Indenture Supplement dated January 31, 1999, among Pulte Corporation, Bank One Trust Company, National Association (as successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Corporation (Incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K dated March 3, 1999)
- (g) Indenture Supplement dated January 31, 1999, among Pulte Corporation, The Bank of New York (as successor Trustee to NationsBank of Georgia, National Association), Pulte Home Corporation and certain subsidiaries of Pulte Corporation (Incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K dated March 3, 1999)
- (h) Indenture Supplement dated February 21, 2001, among Pulte Homes, Inc., Bank One Trust Company, National Association (as successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Homes, Inc. (Incorporated by reference to Exhibit 4(j) to our Annual Report on Form 10-K for the year ended December 31, 2003)
- (i) Indenture Supplement dated August 6, 2001, among Pulte Homes, Inc., Bank One Trust Company, National Association (as successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Homes, Inc. (Incorporated by reference to Exhibit 4.8 of our Registration Statement on Form S-4, Registration No. 333-70786)
- (j) Indenture Supplement dated June 12, 2002, among Pulte Homes, Inc., Bank One Trust Company, National Association (as successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Homes, Inc. (Incorporated by reference to Exhibit 4(m) to our Annual Report on Form 10-K for the year ended December 31, 2003)
- (k) Indenture Supplement dated February 3, 2003, among Pulte Homes, Inc., Bank One Trust Company, National Association (as successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Homes, Inc. (Incorporated by reference to Exhibit 4(n) to our Annual Report on Form 10-K for the year ended December 31, 2003)
- (l) Indenture Supplement dated May 22, 2003, among Pulte Homes, Inc., Bank One Trust Company, National Association (as successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Homes, Inc. (Incorporated by reference to Exhibit 4(o) to our Annual Report on Form 10-K for the year ended December 31, 2003)
- (m) Indenture Supplement dated January 16, 2004, among Pulte Homes, Inc., J.P. Morgan Trust Company, National Association (as successor Trustee to Bank One Trust Company, National Association, which was successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Homes, Inc. (Incorporated by reference to Exhibit 4(p) to our Annual Report on Form 10-K for the year ended December 31, 2003)

- (4)
  - (n) Indenture Supplement dated July 9, 2004, among Pulte Homes, Inc., J.P. Morgan Trust Company, National Association (as successor Trustee to Bank One Trust Company, National Association, which was successor Trustee to The First National Bank of Chicago), and certain subsidiaries of Pulte Homes, Inc. (filed herewith)
  - (o) Indenture Supplement dated February 10, 2005, among Pulte Homes, Inc., J.P. Morgan Trust Company, National Association (as successor Trustee to Bank One Trust Company, National Association, which was successor Trustee to the First National Bank of Chicago), and certain subsidiaries of Pulte Homes, Inc. (filed herewith)
  - (p) Registration Rights Agreement dated August 6, 2001, among Pulte Homes, Inc. and Solomon Smith Barney, Inc. as the Initial Purchaser Representative (Incorporated by reference to Exhibit 4.23 of our Registration Statement on Form S-4, Registration No. 333-70786)
  - (q) Form of Pulte Homes, Inc. Guarantee Agreement (Incorporated by reference to Exhibit 4.32 of our Registration Statement on Form S-3, Registration No. 333-86806)
- (10)
  - (a) 1990 Stock Incentive Plan for Key Employees (Filed with the Proxy Statement dated April 3, 1990 and as an exhibit of our Registration Statement on Form S-8, Registration No. 33-40102)
  - (b) 1994 Stock Incentive Plan for Key Employees (Incorporated by reference to our Proxy Statement dated March 31, 1994, and as Exhibit 4.1 of our Registration Statement on Form S-8, Registration No. 33-98944)
  - (c) 1995 Stock Incentive Plan for Key Employees (Incorporated by reference to our Proxy Statement dated March 31, 1995, and as Exhibit 4.1 of our Registration Statement on Form S-8, Registration No. 33-99218)
  - (d) 1997 Stock Plan for Nonemployee Directors (Incorporated by reference to our Proxy Statement dated March 27, 1998, and as Exhibit 4.3 of our Registration Statement on Form S-8, Registration No. 333-52047)
  - (e) Pulte Homes, Inc. 401(k) Plan (Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, No. 333-115570)
  - (f) Pulte Affiliates 401(k) Plan (Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, No. 333-102255)
  - (g) Credit Agreement among Pulte Homes, Inc. as Borrower, the Lenders Identified Herein, and Bank One, NA, as Administrative Agent, dated as of October 1, 2003 (Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
  - (h) Amended and Restated Credit Agreement among Pulte Homes, Inc., as Borrower, The Lenders Identified Herein, Bank One, NA, as Administrative Agent, and Citicorp North America, INC., as Syndication Agent and Barclays Bank PLC, BNP Paribas, Comerica Bank Deutsche Bank Trust Company Americas, Merrill Lynch Bank USA, SunTrust Bank, The Royal Bank of Scotland PLC, UBS Loan Finance LLC and Wachovia Bank, National Association, as Documentation Agents and Bank of America, N.A. Calyon New York Branch, Guaranty Bank, Mizuho Corporate Bank, LTD., PNC Bank, National Association, and The Bank of Tokyo-Mitsubishi, LTD., Chicago Branch as Managing Agents and Fifth Third Bank, Eastern Michigan, Standard Federal Bank N.A., and Washington Mutual Bank, FA as Co-Agents dated as of September 16, 2004 and J.P. Morgan Securities Inc., as Lead Arranger and Sole Bookrunner (Incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)
  - (i) Intercreditor and Subordination Agreement, dated October 1, 2003, among Asset Seven Corp., Pulte Realty Corporation, certain subsidiaries of Pulte Homes, Inc., Bank One, NA, as Administrative Agent, and Bank One Trust Company, National Association, as Trustee (Incorporated by reference to Exhibit 10(f) to our Annual Report on Form 10-K for the year ended December 31, 2003)

- (10)
- (j) Long-Term Incentive Plan (Incorporated by reference to our Proxy Statement dated March 31, 2000)
  - (k) Pulte Corporation 2000 Stock Plan for Nonemployee Directors (Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, Registration No. 333-66286)
  - (l) Pulte Corporation 2000 Incentive Plan for Key Employees (Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, Registration No. 333-66284)
  - (m) Pulte Homes, Inc. 2002 Stock Incentive Plan (Incorporated by reference to our Proxy Statement dated April 3, 2002 and as Exhibit 4.3 of our Registration Statement on Form S-8, No. 333-123223)
  - (n) Pulte Homes, Inc. Senior Management Annual Incentive Plan (Incorporated by reference to our Proxy Statement dated March 27, 2003)
  - (o) Pulte Homes, Inc. 2004 Stock Incentive Plan (Incorporated by reference to our Proxy Statement dated March 29, 2004 and as Exhibit 4.4 of our Registration Statement on Form S-8, No. 333-123223)
  - (p) Del Webb Corporation Director Stock Plan (Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, Registration No. 333-66322)
  - (q) Del Webb Corporation 1993 Executive Long-Term Incentive Plan (Incorporated by reference to Exhibit 4.7 of our Registration Statement on Form S-8, Registration No. 333-66322)
  - (r) Del Webb Corporation 1995 Director Stock Plan (Incorporated by reference to Exhibit 4.4 of our Registration Statement on Form S-8, Registration No. 333-66322)
  - (s) Del Webb Corporation 1995 Executive Long-Term Incentive Plan (Incorporated by reference to Exhibit 4.8 of our Registration Statement on Form S-8, Registration No. 333-66322)
  - (t) Employment Separation Agreement and Release of Liability, dated January 17, 2003, between Pulte Homes, Inc. and Michael A. O'Brien (Incorporated by reference to Exhibit 3(b) of our Annual Report on Form 10-K for the year ended December 31, 2002)
  - (u) Master Repurchase Agreement, dated as of December 22, 2000, between Pulte Mortgage Corporation and Pulte Funding, Inc. (Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
  - (v) Amended and Restated Addendum to Master Repurchase Agreement, dated as of August 23, 2002, between Pulte Mortgage Corporation and Pulte Funding, Inc. (Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
  - (w) Amended and Restated Loan Agreement, dated as of August 23, 2002, by and among Pulte Funding, Inc., Atlantic Asset Securitization Corp., Jupiter Securitization Corporation, Credit Lyonnais New York Branch, Bank One, NA (Main Office Chicago), Lloyds TSB Bank PLC and Pulte Mortgage Corporation (Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
  - (x) Amended and Restated Collateral Agency Agreement, dated as of August 23, 2002, by and among Pulte Funding, Inc., Credit Lyonnais New York Branch and LaSalle Bank National Association (Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
  - (y) Omnibus Amendment, dated as of December 31, 2002, by and among Pulte Funding, Inc., Pulte Mortgage Corporation, Pulte Homes, Inc., Atlantic Asset Securitization Corp., Credit Lyonnais New York Branch, Lloyds TSB Bank PLC, Bank One, NA (Main Office Chicago), Jupiter Securitization Corporation and LaSalle Bank National Association (Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

- (10)
  - (z) Second Omnibus Amendment, dated as of August 25, 2003, by and among Pulte Funding, Inc., Pulte Mortgage Corporation, Credit Lyonnais New York Branch, Atlantic Asset Securitization Corp., Bank One, NA (Main Office Chicago), Jupiter Securitization Corporation, Lloyds TSB Bank PLC and LaSalle Bank National Association (Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
  - (aa) Third Omnibus Amendment, dated as of September 30, 2003, by and among Pulte Funding, Inc., Pulte Mortgage LLC, Atlantic Asset Securitization Corp., Credit Lyonnais New York Branch, Lloyds TSB Bank PLC, Bank One, NA (Main Office Chicago), Jupiter Securitization Corporation and LaSalle Bank National Association (Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
  - (ab) Fourth Omnibus Amendment, dated as of September 20, 2004, entered into by and among Pulte Funding, Inc., as the borrower and as the buyer, Pulte Mortgage LLC, formerly known as Pulte Mortgage Corporation, as a seller and the servicer, Atlantic Asset Securitization Corp., as an issuer, Calyon New York Branch, successor in interest to Credit Lyonnais New York Branch, as a bank, as a managing agent and as the administrative agent, Lloyds TSB Bank PLC, as a bank, Danske Bank A/S, Cayman Islands Branch, as a bank, Bank One, NA (Main Office Chicago) and its successors, as a bank and as a managing agent, Jupiter Securitization Corporation, as an issuer, and LaSalle Bank National Association, as the collateral agent (Incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)
  - (ac) Third Amended and Restated Security and Collateral Agency Agreement, dated as of March 31, 2003, by and among Pulte Mortgage LLC, Bank One, NA and LaSalle Bank National Association (Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 )
  - (ad) Fifth Amended and Restated Revolving Credit Agreement by and among Pulte Mortgage LLC, The Lenders Party Hereto, and Bank One, NA, As Administrative Agent and Bank One Capital Markets, Inc. As Lead Arranger and Sole Book Runner And LaSalle Bank National Association, As Collateral Agent dated as of June 30, 2004 (Incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004)
  - (ae) Amendment For A Permanent Increase To The Aggregate Commitment to the Fifth Amended and Restated Revolving Credit Agreement made as of July 30, 2004 by and among Pulte Mortgage LLC, a Delaware limited liability company, Bank One, NA, as agent under the "Credit Agreement" and SunTrust Bank and The Bank of Tokyo-Mitsubishi, LTD., Chicago Branch (Incorporated by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)
- (12) Ratio of Earnings to Fixed Charges at December 31, 2004 (Filed herewith)
- (21) Subsidiaries of the Registrant (Filed herewith)
- (23) Consent of Independent Registered Public Accounting Firm (Filed herewith)
- (31)
  - (a) Rule 13a-14(a) Certification by Richard J. Dugas, Jr., President and Chief Executive Officer (Filed herewith)
  - (b) Rule 13a-14(a) Certification by Roger A. Cregg, Executive Vice President and Chief Financial Officer (Filed herewith)
- (32) Certification Pursuant to 18 United States Code § 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934 (Filed herewith)

- (99) (a) Settlement and Termination Agreement, dated October 12, 2001, between Federal Deposit Insurance Corporation, as Manager of the FSLIC Resolution Fund; First Heights Bank, a Federal Savings Bank; Pulte Diversified Companies, Inc.; and Pulte Homes, Inc. f/k/a Pulte Corporation (Incorporated by reference to Exhibit 99(a) of our Annual Report on Form 10-K for the year ended December 31, 2001)
- (b) Agreement dated October 6, 2004, between Pulte Homes, Inc. and Leo J. Taylor (Incorporated by reference to Exhibit 99.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)

**(b) Reports on Form 8-K**

On December 14, 2004, we filed a Current Report on Form 8-K, announcing that Michael Rossi had resigned from the board of directors of the Company, effective December 14, 2004.

On January 7, 2005, we filed a Current Report on Form 8-K, which included a press release dated the same day, announcing the sale of our Argentina operations.

On February 3, 2005, we filed a Current Report on Form 8-K, reporting the information required by Item 2.02 in connection with our press release dated February 2, 2005, announcing our earnings for the year ended December 31, 2004. No financial statements were filed, although we furnished financial information included in the press release with the Form 8-K.

On February 7, 2005, we filed a Current Report on Form 8-K, announcing the grant of shares of restricted stock pursuant to the 2004 Stock Incentive Plan and the Senior Management Annual Incentive Plan to the executive officers.

On March 1, 2005, we filed a Current Report on Form 8-K, which included a press release dated February 24, 2005, and provided presentation materials from an investor conference to discuss the Company's business opportunities.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PULTE HOMES, INC.  
(Registrant)

March 10, 2005

/s/ Roger A. Cregg

Roger A. Cregg  
Executive Vice President  
and Chief Financial Officer  
(Principal Financial Officer)

/s/ Vincent J. Frees

Vincent J. Frees  
Vice President and Controller  
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capabilities and on the dates indicated:

Signature	Title	Date
<u>/s/ William J. Pulte</u> William J. Pulte	Chairman of the Board of Directors	March 10, 2005
<u>/s/ Richard J. Dugas, Jr.</u> Richard J. Dugas, Jr.	President, Chief Executive Officer and Member of the Board of Directors (Principal Executive Officer)	March 10, 2005
<u>/s/ D. Kent Anderson</u> D. Kent Anderson	Member of Board of Directors	March 10, 2005
<u>/s/ Debra Kelly-Ennis</u> Debra Kelly-Ennis	Member of Board of Directors	March 10, 2005
<u>/s/ David N. McCammon</u> David N. McCammon	Member of Board of Directors	March 10, 2005
<u>/s/ Bernard W. Reznicek</u> Bernard W. Reznicek	Member of Board of Directors	March 10, 2005
<u>/s/ Alan E. Schwartz</u> Alan E. Schwartz	Member of Board of Directors	March 10, 2005
<u>/s/ Francis J. Sehn</u> Francis J. Sehn	Member of Board of Directors	March 10, 2005
<u>/s/ John J. Shea</u> John J. Shea	Member of Board of Directors	March 10, 2005
<u>/s/ William B. Smith</u> William B. Smith	Member of Board of Directors	March 10, 2005

**PULTE HOMES, INC.**  
**RATIO OF EARNINGS TO FIXED CHARGES**

	<b>Years Ended December 31,</b>				
	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001(a)</u></b>	<b><u>2000</u></b>
Earnings:					
Income from continuing operations before taxes .....	\$1,600,537	\$ 998,619	\$729,124	\$498,683	\$355,641
Add:					
Fixed Charges.....	231,252	202,716	185,372	137,982	78,599
Amortization of Capitalized Interest.....	133,049	78,708	48,697	36,006	28,019
Subtract:					
Capitalized Interest.....	(156,056)	(136,308)	(123,086)	(80,399)	(33,130)
Undistributed earnings of 50% or less owned affiliates...	<u>(21,625)</u>	<u>(36,186)</u>	<u>(7,716)</u>	<u>(13,546)</u>	<u>(9,628)</u>
Income as adjusted .....	<u>\$1,787,157</u>	<u>\$1,107,549</u>	<u>\$832,391</u>	<u>\$578,726</u>	<u>\$419,501</u>
Fixed Charges:					
Interest expensed and capitalized.....	212,418	186,339	169,255	125,949	70,228
Portion of rents representative of interest factor.....	<u>18,834</u>	<u>16,377</u>	<u>16,117</u>	<u>12,033</u>	<u>8,371</u>
Fixed charges.....	<u>\$ 231,252</u>	<u>\$ 202,716</u>	<u>\$185,372</u>	<u>\$137,982</u>	<u>\$ 78,599</u>
Ratio of earnings to fixed charges (b).....	<u>7.73</u>	<u>5.46</u>	<u>4.49</u>	<u>4.19</u>	<u>5.34</u>

Note: The ratios of earnings to fixed charges set forth above are computed on a total enterprise basis, except for our discontinued thrift operations and Argentina operations, which are excluded. Fixed charges include interest incurred and a portion of rent expense, which represents the estimated interest factor and amortization of debt expense.

- (a) Calculations for 2001 include the operations of Del Webb Corporation since July 31, 2001, the date on which our merger with Del Webb Corporation closed.
- (b) In January 2005, the Company sold all of its Argentina operations. At December 31, 2004, the Argentina operations have been classified as held for sale and presented as discontinued operations in the consolidated financial statements. All prior periods have been reclassified to conform to the 2004 presentation.

**PULTE HOMES, INC.**  
**SUBSIDIARIES OF THE REGISTRANT**  
**At December 31, 2004**

Pulte Homes, Inc. (the Company) owns 100% of the capital stock of Pulte Diversified Companies, Inc., Pulte Financial Companies, Inc. (PFCI), Radnor Homes, Inc., Pulte.com, Inc., PH1 Corporation, and Pulte Realty Holdings, Inc., Inc., all Michigan corporations, North American Builders Indemnity Company, a Colorado corporation, Marquette Title Insurance Company, a Vermont corporation, RN Acquisition 2 Corp., a Nevada corporation, Del Webb Corporation (Del Webb), a Delaware corporation and 100% of PB Venture L.L.C., Pulte Land Company, LLC, Pulte Michigan Services, LLC, Pulte Homes of Michigan, LLC, Pulte Homes of Ohio, LLC, Pulte Aviation I LLC, and Pulte Aviation II LLC, all Michigan limited liability companies. The Company is a member of the following corporation and limited liability companies:

<u>Entity Name</u>	<u>Place of Formation</u>	<u>Percentage Ownership</u>
Grayhaven Estates Limited, L.L.C.	Michigan	99%
City Homes Development L.L.C.	Michigan	50%
Shorepointe Village Homes, L.L.C.	Michigan	82.5%
Contractors Insurance Company of North America, Inc., a Risk Retention Group	Hawaii	.01%

Pulte Diversified Companies, Inc. owns 100% of the capital stock of Pulte International Corporation, Pulte Home Corporation (PHC) and American Title of the Palm Beaches Corporation, all Michigan corporations, First Heights Bank, a federal savings bank and PH5 Corporation, a Delaware corporation.

Pulte International Corporation owns 100% of the capital stock of Pulte International Caribbean Corp., Pulte Chile Corporation, Pulte SA Corporation, all Michigan corporations, PIMI Holdings LLC, a Michigan limited liability company and 99% of Pulte International Mexico Limited Partnership, a Michigan limited partnership. PIMI Holdings LLC owns 1% of Pulte International Mexico Limited Partnership, a Michigan limited partnership.

Pulte International Mexico Limited Partnership owns 100% of Pulte SRL Holdings, LLC, a Michigan limited liability company. Pulte International Mexico Limited Partnership and Pulte SRL Holding, LLC own 98% and 2%, respectively, of Pulte S.R.L., an Argentine limited partnership. Pulte International Mexico Limited Partnership and PHC own 99.99% and .01%, respectively, of the capital stock of Controladora PHC, S.A. de C.V. (Controladora), a Mexican corporation and Pulte International Mexico Limited Partnership owns 3.3% of Pulte Mexico Division Norte, S. de R.L. de C.V., also a Mexican corporation. Pulte International Mexico Limited Partnership owns .1% of Nantar S. de R.L. de C.V., .01% of Pulte Bajio Construcciones S. de R.L. de C.V., .01% of Pulte Mexico Division Centro Sur S. de R.L. de C.V., 1% of Pulte Internacional Mexico S. de R.L. de C.V., and .1% of Pulte Mexico Asesores Inmobiliarios, S. de R.L. de C.V., all Mexican limited liability companies. Controladora owns 99.9% of Nantar, S. de R.L. de C.V., a Mexican limited liability company, 63.8% of Pulte Mexico S. de R.L. de C.V. (Pulte Mexico), and 99% of Pulte Internacional Mexico S. de R.L. de C.V., both Mexican limited liability companies, 25% of Residencial Riviera, S.A. de C.V., a Mexican corporation, and 25% of Ciudad Riviera, S.A. de C.V., a Mexican corporation. Pulte Mexico owns 99.99% of Pulte Mexico Division Centro Sur S. de R.L. de C.V., 99.9% of Pulte Mexico Asesores Inmobiliarios, S. de R.L. de C.V. and 99.99% of Pulte Bajio Construcciones S. de R.L. de C.V., both Mexican limited liability companies, and 96.7% of Pulte Mexico Division Norte, S. de R.L. de C.V., a Mexican corporation.

Pulte International Caribbean Corp. owns 100% of the capital stock of Pulte International Building Corporation, a Michigan corporation. Pulte International Building Corporation owns 50% of Desarrolladores Urbanos (Canovanas) SE, 50% of Mayaguez Partners, S.E., and 50% of Andrea's Court, S.E., all Puerto Rican general partnerships.

Pulte Chile Corporation owns 99% and Pulte SA Corporation owns 1% of Pulte de Chile Limitada, a Chilean limited partnership. Pulte Chile Corporation owns 99.9% and Pulte SA Corporation owns .1% of Residencias del Norte Limitada, a Chilean limited liability company.

**PULTE HOMES, INC.**  
**SUBSIDIARIES OF THE REGISTRANT (continued)**

PH5 Corporation owns 100% of the capital stock of DiVosta Homes Holdings, LLC a Delaware limited liability company and 99% of DiVosta Homes, LP, a Delaware limited partnership. DiVosta Home Holdings, LLC owns 1% of DiVosta Homes, L.P., a Delaware limited liability company.

DiVosta Homes, L.P. owns 100% of the capital stock of DiVosta Homes Marketing, Inc., Florida Building Products, Inc., Florida Club Homes, Inc., , Island Walk Development Company, RiverWalk of the Palm Beaches Development Company, Inc., DiVosta Building Corporation, Village Walk Development Company, Inc., Island Walk Realty, Inc. and DiVosta Home Sales, Inc., all Florida corporations. DiVosta Homes, L.P. owns 100% of the capital stock of PH3 Corporation, a Michigan corporation.

PFCI owns 100% of the capital stock of Guaranteed Mortgage Corporation III, a Michigan corporation.

Radnor Homes, Inc. owns 25.6% and RN Acquisition 2 Corp. owns 74.4% of Pulte Homes Tennessee Limited Partnership, a Nevada limited partnership.

Pulte Realty Holdings, Inc. owns 100% of the capital stock of Pulte RC, LLC, a Michigan limited liability company, Pulte Realty Corporation, an Arizona corporation and 99% of Pulte International Caribbean II, Limited Partnership, a Michigan limited partnership. Pulte RC, LLC owns 1% of Pulte International Caribbean II, Limited Partnership, a Michigan limited partnership.

North American Builders Indemnity Company owns 99.99% of the capital stock of Contractors Insurance Company of North America, Inc., a Risk Retention Group, a Hawaii Corporation.

PB Venture L.L.C. owns 100% of PC/BRE Venture L.L.C., a Delaware limited liability company.

PC/BRE Venture L.L.C. owns 100% of PC/BRE Development L.L.C., PC/BRE Whitney Oaks L.L.C., PC/BRE Winfield L.L.C. and PC/BRE Springfield L.L.C., all Delaware limited liability companies.

PC/BRE Springfield L.L.C. owns 88% of Springfield Golf Resort, L.L.C., an Arizona limited liability company.

Marquette Title Insurance Company owns 100% of Pulte Services California, LLC, a Michigan limited liability company.

Pulte Homes of Michigan, LLC owns 100% of the capital stock of Pulte IN-Corporation and Sean/Christopher Homes, Inc., Pulte Purchasing Corporation, all Michigan corporations, 100% of Pulte Home Sciences, LLC, a Michigan limited liability company and 99% of Pulte Homes of Michigan I Limited Partnership, a Michigan limited partnership. Pulte In-Corporation and Sean/Christopher Homes, Inc. each own 50% of Pulte Homes of Indiana, LLC, an Indiana limited liability company.

Pulte Homes of Ohio, LLC owns 100% of the capital stock of Butterfield Properties, LLC, an Ohio limited liability company.

**PULTE HOMES, INC.**  
**SUBSIDIARIES OF THE REGISTRANT (continued)**

PHC owns 100% of the capital stock or is sole member of the following subsidiaries:

<b><u>Company Name</u></b>	<b><u>Place of Incorporation/Formation</u></b>
Pulte Mortgage LLC (1) .....	Delaware
Lexington Oaks Golf Club, Inc. ....	Florida
Preserve I, Inc. (2) .....	Michigan
Preserve II, Inc. (2) .....	Michigan
TVM Corporation (3) .....	Michigan
Pulte Homes of Minnesota Corporation .....	Minnesota
Pulte Home Corporation of The Delaware Valley (4) .....	Michigan
PBW Corporation (5) .....	Michigan
Wil Corporation (5) .....	Michigan
Homesite Solutions Corporation .....	Michigan
Pulte Homes of South Carolina, Inc. ....	Michigan
Pulte Lifestyle Communities, Inc. ....	Michigan
Pulte Payroll Corporation .....	Michigan
PHC Title Corporation (6) .....	Michigan
Pulte Land Development Corporation .....	Michigan
Pulte Homes of Greater Kansas City, Inc. ....	Michigan
PN I, Inc. (7) .....	Nevada
PN II, Inc. (7) .....	Nevada
PHT Title Corporation (8) .....	Michigan
Lone Tree Golf Club, LLC .....	Michigan
Pulte Michigan Holdings Corporation (9) .....	Michigan
Chandler Natural Resources Corporation (10) .....	Michigan
Edinburgh Realty Corporation .....	Michigan
Pulte Homes of New York, Inc. (14) .....	Michigan
PH2 Corporation .....	Michigan
PHNE Business Trust (11) .....	Massachusetts
Fox Glen Retreat, L.L.C. ....	Michigan
Gatestone, L.L.C. ....	Michigan
Pulte Development Corporation (12) .....	Michigan
Pulte Services Corporation .....	Michigan
Grand Place Hayward, LLC .....	California
Clairmont, L.L.C. ....	Michigan
Corte Bella Golf Club, LLC .....	Michigan
JNN Properties, LLC .....	Michigan
Pulte Development New Mexico, Inc. ....	Michigan
Pulte Homes of New Mexico, Inc. ....	Michigan
Pulte Realty of New York, Inc. ....	New York
Pulte Realty of South Jersey, Inc. ....	Michigan
Pulte Trades of North Carolina, LLC .....	Michigan
Pulte Georgia Holdings, LLC (14) .....	Michigan

**PULTE HOMES, INC.**  
**SUBSIDIARIES OF THE REGISTRANT (continued)**

- 1) Pulte Mortgage LLC owns 100% of the capital stock of PCIC Corporation and Pulte Funding, Inc., both Michigan corporations, Joliet Mortgage Reinsurance Company, a Vermont corporation, Del Webb Mortgage LLC, a Delaware limited liability company, 22.2% of the capital stock of Hipotecaria Su Casita, S.A. de C.V., a Mexican corporation, and 22.19% of Fideicomiso 102412, a Mexican business trust. Fideicomiso 102412 owns 55.15% of Interesa, S.A. de C.V., Sociedad Operadora de Sociados de Inversion, a Mexican corporation. Hipotecaria Su Casita S.A. de C.V. owns 99% of Consorcio Inmobiliario Su Casita, S.V. de C.V. and Corporacion Activa de Servicios De Administracion, S.A. de C.V., both Mexican corporations.
- 2) Preserve II, Inc. owns 99% and Preserve I, Inc. owns 1% of Pulte Communities NJ, Limited Partnership, a Michigan limited partnership. Preserve II, Inc. also owns 99% of Pulte Homes of NJ, Limited Partnership, 99% of Pulte Homes of PA, Limited Partnership, and 99% of Upper Gwynedd Development, Limited Partnership, all Michigan limited partnerships. Preserve I, Inc. also owns 100% of the capital stock of HydroSource Acquisitions, Inc., a Michigan corporation, and 100% of Pulte Urban Renewal, LLC and Jersey Meadows, LLC, both New Jersey limited liability companies.
- 3) TVM Corporation owns 63% of PHM Title Agency L.L.C., a Delaware limited liability company.
- 4) Pulte Home Corporation of The Delaware Valley owns 1% of Pulte Homes of NJ, Limited Partnership, 1% of Pulte Homes of PA, Limited Partnership, and 1% of Upper Gwynedd Development, Limited Partnership, all Michigan partnerships.
- 5) PBW Corporation owns 99% and Wil Corporation owns 1% of Wilben II Limited Partnership, a Maryland limited partnership. PBW Corporation owns 5% and Wil Corporation owns 95% of Wilben, LLLP, a Maryland limited partnership. PBW Corporation and Wil Corporation each own 50% of One Willowbrook, LLC, a Maryland limited liability company. Wil Corporation also owns 100% of Highlands One, H.D. Investments I, L.L.C., Bel North, LLC, William's Field at Perry Hall, L.L.C., Carr's Grant, LLC, Harrison Hills, LLC, Campus Lakes, LLC, August Woods, LLC and Lyons, LC, all Maryland limited liability companies.
- 6) PHC Title Corporation owns 80% of Pulte Title Agency of Minnesota, L.L.C., a Minnesota limited liability company, 99% of PHT Title Agency, L.P., a Texas limited partnership, 49% of Pulte Title Agency of Ohio, LLC, an Ohio limited liability company and 49% of Pulte Title Agency of Michigan, L.L.C., a Michigan limited liability company.
- 7) PN I, Inc. owns .1% and PN II, Inc. owns 99.9% of Devtex Land, L.P., a Texas limited partnership; PN II, Inc. also owns 100% of the capital stock of Pulte Texas Holdings, Inc., a Michigan corporation, 100% of Pratte Acquisition, LLC, a Michigan limited liability company, and 100% of PN III, LLC, a Delaware limited liability company. PN I, Inc. owns .1% and Pulte Texas Holdings, Inc. owns 99.9% of Pulte Homes of Texas, L.P., a Texas limited partnership. Pulte Homes of Texas, L.P. owns 100% of PHT Operating Company LLC, a Michigan limited liability company. Pulte Homes of Texas, L.P. owns 99.9% and PHT Operating Company LLC owns .1% of PHT Building Materials Limited Partnership, a Michigan limited partnership. PN II, Inc. and PHT Building Materials each own 14.29% of Pulte Purchasing Corporation. PN I, Inc. also owns 1% of Grayhaven Estates Limited, L.L.C., a Michigan limited liability company. PN II, Inc. owns 100% of Pratte Acquisition, LLC, a Michigan limited liability company. Pratte Acquisition, LLC owns 50% of Pratte Holding Company, L.L.C., a Nevada limited liability company. Pratte Holding Company, L.L.C. owns 100% of Pratte Building Systems, L.L.C. (AZ), an Arizona limited liability company; Pratte Building Systems, L.L.C. (NV), a Nevada limited liability company; and Pratte Building California LLC, a Michigan limited liability company. Pratte Holding Company also owns 99% and Pratte Building California LLC owns 1% of Pratte Building Systems, Limited Partnership, a Michigan limited liability company.
- 8) PHT Title Corporation owns 1% of PHT Title Agency, L.P., a Texas limited partnership.
- 9) Pulte Michigan Holdings Corporation owns 1% of Pulte Homes of Michigan I Limited Partnership, a Michigan limited partnership.
- 10) Chandler Natural Resources Corporation owns 100% of Chandler DJ Basin LLC, a Michigan limited liability company.
- 11) PHNE Business Trust owns 100% of Pulte Homes of New England LLC, PHS Virginia Holdings, LLC, and BMD Development, LLC, all Michigan limited liability companies, 100% of GI Development Business Trust, a Massachusetts business trust and 99% of PHS Virginia Limited Partnership, a Michigan limited partnership.

**PULTE HOMES, INC.**  
**SUBSIDIARIES OF THE REGISTRANT (continued)**

Pulte Homes of New England, LLC owns 100% of the capital stock of Coachman Development, LLC, Hilltop Farms Development, LLC, Oceanside Village, LLC and South Natick Hills, LLC, all Michigan limited liability companies. Pulte Homes of New England, LLC also owns 100% of Herring Pond Development Corporation and MALDP Development Corporation, both Michigan corporations, and 99% of Willow Brook Associates Limited Partnership, a Massachusetts limited partnership.

PHS Virginia Holdings, LLC owns 1% of PHS Virginia Limited Partnership, a Michigan limited partnership. PHS Virginia Limited Partnership owns 100% of Pulte Home Sciences of Virginia, LLC, a Michigan limited liability company.

GI Development Business Trust owns 100% of the capital stock of Great Island Community, LLC, a Michigan limited liability company.

- 12) Pulte Development Corporation owns 14.29% of Pulte Purchasing Corporation, a Michigan corporation, and 50% of PH Arizona LLC, a Michigan limited liability company. PH Arizona LLC owns 100% of the capital stock of Pulte Arizona Services, Inc., a Michigan corporation. Pulte Arizona Services, Inc. owns 100% of the capital stock of Dean Realty Company, Springfield Realty Corporation and PQL Realty Corporation, all Michigan corporations, and Del Webb Community Management Co., an Arizona Corporation. Dean Realty Company owns 100% of Pulte Real Estate Company, a Florida corporation.
- 13) Pulte Georgia Holdings, LLC, owns 100% of RCC Georgia Investor III, LLC, a Delaware limited liability company. RCC Georgia Investor III, LLC owns .003363% of Related Gordon Armstrong Associates LLC, which owns 99.98% of Gordon Armstrong, LP.; .00722% of Related Capital Oak Hill Partners LLC, which owns 99.98% of CMP CHP Oak Hill, LP; and .01% of Related Hollywood/Shawnee Associates LLC, that owns 99.98% of Hollywood/Shawnee Redevelopment Partnership I, L.P.
- 14) Pulte Homes of New York, Inc. owns 47.48% of Tallmadge Woods STP Associates LLC, both New York limited liability companies.

PHC is a member or owns capital stock in the following entities:

<b><u>Entity Name</u></b>	<b><u>Place of Formation</u></b>	<b><u>Percentage Ownership</u></b>
Spa L Builders LLC .....	California	38.60%
Fallsgrove Associates LLC.....	Maryland	35.36%
Chase Triple M, LLC.....	Delaware	51.61%
Fieldstone Estates, L.L.C.....	Arizona	50.00%
PH Arizona LLC.....	Michigan	50.00%
Stetson Venture II, LLC .....	Arizona	50.00%
PL Roseville, LLC .....	California	50.00%
Potomac Yard Development LLC.....	Delaware	50.00%
Pulte Purchasing Corporation.....	Michigan	14.29%
Controladora PHC, S.A. de C.V.....	Mexico	.01%
Fort Lincoln-Pulte Limited Liability Company.....	Dist. of Columbia	1.00%
Pulte/BP Murrieta Hills, LLC.....	California	70.00%
CP Sunridge, LLC.....	Delaware	50.00%
Rancho Diamante Investments, LLC .....	California	25.00%
LPC One Development Partners, LLC.....	Delaware	33.00%

**PULTE HOMES, INC.**  
**SUBSIDIARIES OF THE REGISTRANT (continued)**

Del Webb owns 100% of the capital stock or is sole member of the following subsidiaries:

<b><u>Company Name</u></b>	<b><u>Place of Incorporation/Formation</u></b>
Del Webb's Coventry Homes, Inc. (1) .....	Arizona
Del Webb's Spruce Creek Communities, Inc. (2) .....	Arizona
Sun City Homes, Inc. (3) .....	Nevada
Del Webb Construction Services Co. (4) .....	Arizona
Del Webb Commercial Properties Corporation (5) .....	Arizona
New Mexico Asset Corporation .....	Arizona
Del Webb Communities, Inc. (6) .....	Arizona
Asset One Corp. (7) .....	Arizona
Asset Five Corp .....	Arizona
Del Webb California Corp. (9) .....	Arizona
Del E. Webb Financial Corporation .....	Arizona
Del Webb Golf Corp .....	Arizona
Del Webb Homes, Inc .....	Arizona
Del Webb Purchasing Company of Illinois, Inc. ....	Arizona
Del Webb Property Corp .....	Arizona
Del Webb Title Company of Nevada, Inc. ....	Nevada
Del Webb MidAtlantic Corp .....	Arizona
DW Aviation Co .....	Arizona
DW Homebuilding Co .....	Arizona
Mountain View Two, LLC .....	Arizona
Pulte Midwest Title, Inc. ....	Arizona
Terravita Corp .....	Arizona
Terravita Home Construction Co. ....	Arizona
PH4 Corporation .....	Michigan
Del Webb Communities of Illinois, Inc. (8) .....	Arizona

Del Webb also owns 100% of Asset Seven Corp., an Arizona corporation, and 1% of New Mexico Asset Limited Partnership, an Arizona limited partnership.



**PULTE HOMES, INC.**  
**SUBSIDIARIES OF THE REGISTRANT (continued)**

- 1) Del Webb's Coventry Homes, Inc. owns 100% of the capital stock of Del Webb's Coventry Homes Construction Co., Del Webb's Coventry Homes of Nevada, Inc. and Del Webb communities of Virginia, Inc., all Arizona corporations and 50% of 56<sup>th</sup> and Lone Mountain, L.L.C. an Arizona limited liability company.
- 2) Del Webb's Spruce Creek Communities, Inc. owns 100% of the capital stock of Spruce Creek South Utilities, Inc., a Florida corporation.
- 3) Sun City Homes, Inc. owns 100% of the capital stock of Marina Operations Corp., an Arizona corporation.
- 4) Del Webb Construction Services, Co. owns 100% of the capital stock of Del Webb Southwest Co., an Arizona corporation and .1% of Del E. Webb Development Co., L.P., a Delaware limited partnership. Del Webb Southwest Co. owns 100% of the capital stock of Del Webb Texas Title Agency Co., an Arizona corporation and 1% of Del Webb Texas Limited Partnership, an Arizona limited partnership.
- 5) Del Webb Commercial Properties Corporation owns 100% of the capital stock of Del E. Webb Foothills Corporation, an Arizona corporation.
- 6) Del Webb Communities, Inc., owns 100% of the capital stock of Del Webb Limited Holding Co., Del Webb Home Construction, Inc., Thunderbird Lodge Holding Corp., Del Webb's Contracting Services, Inc., Sun City Title Agency Co., Sun State Insulation Co. Inc., Del Webb's Sunflower of Tucson, Inc., all Arizona corporations, and Sun City Sales Corporation, a Michigan corporation. Del Webb Communities, Inc. also owns 99.9% of Del E. Webb Development Co. L.P., a Delaware limited partnership, 50% of North Valley Enterprises, LLC, a Nevada limited liability company, 25% of Terravita Home Construction Co., and 14.29% of Pulte Purchasing. Del Webb Limited Holding Co. owns 99% of Del Webb Texas Limited Partnership, an Arizona limited partnership.
- 7) Asset One Corp. owns 50% of Mountain View One LLC, an Arizona limited liability company.
- 8) Del Webb Communities of Illinois, Inc. owns 100% of Anthem Arizona, LLC, an Arizona limited liability company.
- 9) Del Webb California Corp. owns 14.29% of Pulte Purchasing Corporation, a Michigan corporation.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-115570, Form S-8 No. 33-40102, Form S-8 No. 33-98944, Form S-8 No. 33-99218, Form S-8 No. 333-51019, Form S-8 No. 333-52047, Form S-8 No. 333-66284, Form S-8 No. 333-66286, Form S-8 No. 333-66322, Form S-8 No. 333-102255, Form S-3 No. 333-109029 and Form S-8 No. 333-123223) of Pulte Homes, Inc. and in the related Prospectuses of our reports dated January 31, 2005, with respect to the consolidated financial statements of Pulte Homes, Inc., Pulte Homes, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Pulte Homes, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/ Ernst & Young LLP

Detroit, Michigan  
March 8, 2005

## CHIEF EXECUTIVE OFFICER'S CERTIFICATION

I, Richard J. Dugas, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Pulte Homes, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2005

/s/ Richard J. Dugas, Jr.  
Richard J. Dugas, Jr.  
President and Chief Executive Officer

## CHIEF FINANCIAL OFFICER'S CERTIFICATION

I, Roger A. Cregg, certify that:

1. I have reviewed this annual report on Form 10-K of Pulte Homes, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2005

/s/ Roger A. Cregg

Roger A. Cregg  
Executive Vice President and  
Chief Financial Officer

**Certification**  
**Pursuant to 18 United States Code § 1350 and**  
**Rule 13a-14(b) of the Securities Exchange Act of 1934**

In connection with the Annual Report of Pulte Homes, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 10, 2005

/s/ Richard J. Dugas, Jr.  
Richard J. Dugas, Jr.  
President and Chief Executive Officer

/s/ Roger A. Cregg  
Roger A. Cregg  
Executive Vice President and  
Chief Financial Officer

# Corporate Information

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## Senior Executives

William J. Pulte  
*Chairman of the Board*

Richard J. Dugas, Jr.  
*President and Chief Executive Officer*

Steven C. Petruska  
*Executive Vice President and Chief Operating Officer*

Roger A. Clegg  
*Executive Vice President and Chief Financial Officer*

Debra W. Still  
*President and Chief Executive Officer*  
*Pulte Mortgage, LLC*

## Directors

D. Kent Anderson<sup>(2)(4)</sup>  
*Chairman, Beacon Management Corp.*

Richard J. Dugas, Jr.<sup>(4)</sup>  
*President and Chief Executive Officer*

Debra Kelly-Ennis<sup>(1)(3)</sup>  
*President and General Manager, Saab Cars USA,*  
*Division of General Motors Corporation*

David N. McCammon<sup>(1)(3)</sup>  
*Senior Partner*  
*Strength Capital Partners, LLC*  
*Retired Vice President of Finance*  
*Ford Motor Company*

William J. Pulte  
*Chairman of the Board & Founder*  
*Pulte Homes, Inc.*

Bernard W. Reznicek<sup>(1)(2)</sup>  
*President and Chief Executive Officer*  
*Premier Enterprises, Inc.*

Alan E. Schwartz<sup>(4)</sup>  
*Partner*  
*Honigman, Miller, Schwartz and Cohn, LLP*

Francis J. Sehn<sup>(2)(3)</sup>  
*Chairman*  
*The Fran Sehn Company*

John J. Shea<sup>(2)(3)</sup>  
*Retired Vice Chairman, President and*  
*Chief Executive Officer*  
*Spiegel, Inc.*

William B. Smith<sup>(2)(4)</sup>  
*Advisory Director*  
*Morgan Stanley & Co., Incorporated*

*(1) Audit Committee Member*

*(2) Compensation Committee Member*

*(3) Nominating and Governance Committee Member*

*(4) Finance Committee Member*

## Operating Subsidiaries

Pulte Homes, Inc.  
100 Bloomfield Hills Parkway  
Suite 300  
Bloomfield Hills, Michigan 48304

Pulte Mortgage, LLC  
7475 South Joliet Street  
Englewood, Colorado 80112

## 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 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:

EquiServe Trust Company, N.A.  
150 Royall Street  
Canton, MA 02021  
(877) 282-1168  
[www.equiserve.com](http://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 8:30 a.m. (EDT), Thursday, May 12, 2005, at the Hilton Northfield in 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 Homes is conducted on the Chicago Board of Exchange.

# Thanks for trusting our family with yours.



Together, Pulte Homes, Del Webb and DiVosta Homes form a family of builders dedicated to making you feel right at home. It's a commitment from all of us—our employees and our partners—to work toward a common goal of giving you the best homebuilding experience possible.

We're proud that our homeowners have shown their appreciation by honoring us with the homebuilding industry's first and only J.D. Power and Associates Platinum Award for Excellence in Customer Satisfaction. And we're pleased to welcome their families into ours.





*Del Webb*<sup>®</sup>



If you'd like to find a home for your family or become a part of ours,  
call 1-888-BUILT4U or visit [pultefamily.com](http://pultefamily.com).

Pulte Homes, Inc., is the 2004 Recipient of the J.D. Power and Associates Platinum Award for Excellence in Customer Satisfaction Among the Largest Homebuilder Corporations.

 Pulte Homes, Inc., received the highest overall average index score among the largest homebuilder corporations included in the J.D. Power and Associates 2004 New Homebuilder Customer Satisfaction Study. "Largest" is defined as those builders included in at least 50% of the markets surveyed. All divisions of Pulte Homes, Inc., scored above their individual market averages. Study based on a total of 64,502 buyers of newly constructed homes in 25 of the largest U.S. markets. [www.jdpower.com](http://www.jdpower.com).

 Pulte Homes, Del Webb and DiVosta Homes are Pulte Homes, Inc., brands. In some (mostly Del Webb) communities, at least one resident must be 55 or older and additional restrictions apply. Community Association fees required. Warning: The CA Dept. of Real Estate has not inspected, examined or qualified communities outside CA. Not an offer of out-of-state communities to CT, NJ, MA or NY residents. Void where prohibited. Pulte Homes, Inc., is an equal housing opportunity builder and an equal opportunity employer.

Pulte Homes, Inc. • 100 Bloomfield Hills Parkway • Bloomfield Hills, Michigan 48304 • [www.pulte.com](http://www.pulte.com)