

PULTEGROUP INC/MI/

Form 10-Q

April 23, 2019

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2019**

or

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

**Commission File Number 1-9804**

**PULTEGROUP, INC.**

(Exact name of registrant as specified in its charter)

**MICHIGAN 38-2766606**

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

**3350 Peachtree Road NE, Suite 150**

**Atlanta, Georgia 30326**

(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: (404) 978-6400**

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

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Number of common shares outstanding as of April 18, 2019: 277,137,113

**PULTEGROUP, INC.**  
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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**PULTEGROUP, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(\$000's omitted)

|   | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---|---------------------------|------------------------------|
|   | <b>(Unaudited)</b>        |                              |
| <b>ASSETS</b>                                     |                           |                              |
| Cash and equivalents                              | \$1,055,457               | \$ 1,110,088                 |
| Restricted cash                                   | 25,496                    | 23,612                       |
| Total cash, cash equivalents, and restricted cash | 1,080,953                 | 1,133,700                    |
| House and land inventory                          | 7,506,543                 | 7,253,353                    |
| Land held for sale                                | 39,431                    | 36,849                       |
| Residential mortgage loans available-for-sale     | 326,995                   | 461,354                      |
| Investments in unconsolidated entities            | 55,725                    | 54,590                       |
| Other assets                                      | 823,066                   | 830,359                      |
| Intangible assets                                 | 123,742                   | 127,192                      |
| Deferred tax assets, net                          | 250,881                   | 275,579                      |
|   | <b>\$10,207,336</b>       | <b>\$ 10,172,976</b>         |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|                               |                     |                      |
|-------------------------------|---------------------|----------------------|
| Liabilities:                  |                     |                      |
| Accounts payable              | \$444,322           | \$ 352,029           |
| Customer deposits             | 294,548             | 254,624              |
| Accrued and other liabilities | 1,270,367           | 1,360,483            |
| Income tax liabilities        | 18,108              | 11,580               |
| Financial Services debt       | 222,139             | 348,412              |
| Notes payable                 | 3,024,413           | 3,028,066            |
|                               | 5,273,897           | 5,355,194            |
| Shareholders' equity          | 4,933,439           | 4,817,782            |
|                               | <b>\$10,207,336</b> | <b>\$ 10,172,976</b> |

See accompanying Notes to Condensed Consolidated Financial Statements.

**PULTEGROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(000's omitted, except per share data)  
(Unaudited)

|  | <b>Three Months Ended</b> |              |
|--|---------------------------|--------------|
|  | <b>March 31,</b>          |              |
|  | <b>2019</b>               | <b>2018</b>  |
| <b>Revenues:</b>                                     |                           |              |
| Homebuilding   |                           |              |
| Home sale revenues                                   | \$1,949,856               | \$1,911,598  |
| Land sale and other revenues                         | 2,975                     | 12,557       |
|  | 1,952,831                 | 1,924,155    |
| Financial Services                                   | 43,862                    | 45,938       |
| Total revenues                                       | 1,996,693                 | 1,970,093    |
| <b>Homebuilding Cost of Revenues:</b>                |                           |              |
| Home sale cost of revenues                           | (1,492,791 )              | (1,459,940 ) |
| Land sale cost of revenues                           | (2,050 )                  | (11,548 )    |
|  | (1,494,841 )              | (1,471,488 ) |
| <b>Financial Services expenses</b>                   | (31,449 )                 | (32,213 )    |
| <b>Selling, general, and administrative expenses</b> | (252,727 )                | (240,893 )   |
| <b>Other expense, net</b>                            | (973 )                    | (1,308 )     |
| <b>Income before income taxes</b>                    | 216,703                   | 224,191      |
| <b>Income tax expense</b>                            | (49,946 )                 | (53,440 )    |
| <b>Net income</b>                                    | \$166,757                 | \$170,751    |
| <b>Per share:</b>                                    |                           |              |
| Basic earnings                                       | \$0.59                    | \$0.59       |
| Diluted earnings                                     | \$0.59                    | \$0.59       |
| Cash dividends declared                              | \$0.11                    | \$0.09       |
| <b>Number of shares used in calculation:</b>         |                           |              |
| Basic  | 277,637                   | 286,683      |
| Effect of dilutive securities                        | 1,003                     | 1,343        |
| Diluted  | 278,640                   | 288,026      |

See accompanying Notes to Condensed Consolidated Financial Statements.



**PULTEGROUP, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(\$000's omitted)  
(Unaudited)

|   | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2019</b>                                 | <b>2018</b> |
| Net income                              | \$166,757                                   | \$170,751   |
| Other comprehensive income, net of tax: |   |             |
| Change in value of derivatives          | 25  | 21          |
| Other comprehensive income              | 25  | 21          |
| Comprehensive income                    | \$166,782                                   | \$170,772   |

See accompanying Notes to Condensed Consolidated Financial Statements.

**PULTEGROUP, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(000's omitted)  
(Unaudited)

|   | Common Stock |         | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Total       |
|---|--------------|---------|----------------------------------|---|----------------------|-------------|
|   | Shares       | \$      |                                  |   |                      |             |
| <b>Shareholders' Equity, December 31, 2018</b>                          | 277,110      | \$2,771 | \$3,201,427                      | \$ (345 )   | \$1,613,929          | \$4,817,782 |
| Stock option exercises  | 118          | 1       | 1,444                            | —   | —                    | 1,445       |
| Share issuances, net of cancellations                                   | 1,337        | 12      | 5,792                            | —   | —                    | 5,804       |
| Dividends declared  | —            | —       | —                                | —   | (30,831 )            | (30,831 )   |
| Share repurchases   | (1,309 )     | (13 )   | —                                | —   | (35,340 )            | (35,353 )   |
| Share-based compensation  | —            | —       | 7,810                            | —   | —                    | 7,810       |
| Net income  | —            | —       | —                                | —   | 166,757              | 166,757     |
| Other comprehensive income  | —            | —       | —                                | 25  | —                    | 25          |
| <b>Shareholders' Equity, March 31, 2019</b>                             | 277,256      | \$2,771 | \$3,216,473                      | \$ (320 )   | \$1,714,515          | \$4,933,439 |
| <b>Shareholders' Equity, December 31, 2017</b>                          | 286,752      | \$2,868 | \$3,171,542                      | \$ (445 )   | \$980,061            | \$4,154,026 |
| Cumulative effect of accounting change<br>(see <a href="#">Note 1</a> ) | —            | —       | —                                | —   | 22,411               | 22,411      |
| Stock option exercises  | 284          | 3       | 2,720                            | —   | —                    | 2,723       |
| Share issuances, net of cancellations                                   | 783          | 8       | 3,477                            | —   | —                    | 3,485       |
| Dividends declared  | —            | —       | —                                | —   | (26,051 )            | (26,051 )   |
| Share repurchases   | (1,941 )     | (20 )   | —                                | —   | (59,471 )            | (59,491 )   |
| Share-based compensation  | —            | —       | 6,782                            | —   | —                    | 6,782       |
| Net income  | —            | —       | —                                | —   | 170,751              | 170,751     |
| Other comprehensive income  | —            | —       | —                                | 21  | —                    | 21          |
| <b>Shareholders' Equity, March 31, 2018</b>                             | 285,878      | \$2,859 | \$3,184,521                      | \$ (424 )   | \$1,087,701          | \$4,274,657 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**PULTEGROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(\$000's omitted)  
(Unaudited)

|  | <b>Three Months Ended</b> |              |
|--|---------------------------|--------------|
|  | <b>March 31,</b>          |              |
|  | <b>2019</b>               | <b>2018</b>  |
| <b>Cash flows from operating activities:</b>                               |                           |              |
| Net income   | \$ 166,757                | \$ 170,751   |
| Adjustments to reconcile net income to net cash from operating activities: |                           |              |
| Deferred income tax expense  | 24,690                    | 23,479       |
| Land-related charges   | 2,979                     | 3,419        |
| Depreciation and amortization  | 13,210                    | 11,890       |
| Share-based compensation expense   | 9,019                     | 8,451        |
| Other, net   | (39                       | ) (793 )     |
| Increase (decrease) in cash due to:  |                           |              |
| Inventories  | (259,865                  | ) (237,169 ) |
| Residential mortgage loans available-for-sale                              | 134,217                   | 185,147      |
| Other assets   | 64,533                    | (9,246 )     |
| Accounts payable, accrued and other liabilities                            | 3,408                     | 13,084       |
| Net cash provided by (used in) operating activities                        | 158,909                   | 169,013      |
| <b>Cash flows from investing activities:</b>                               |                           |              |
| Capital expenditures   | (16,070                   | ) (15,428 )  |
| Investments in unconsolidated entities                                     | (1,289                    | ) (1,000 )   |
| Other investing activities, net  | 291                       | 452          |
| Net cash provided by (used in) investing activities                        | (17,068                   | ) (15,976 )  |
| <b>Cash flows from financing activities:</b>                               |                           |              |
| Repayments of debt   | (3,605                    | ) (451 )     |
| Borrowings under revolving credit facility                                 | —                         | 768,000      |
| Repayments under revolving credit facility                                 | —                         | (768,000 )   |
| Financial Services borrowings (repayments)                                 | (126,273                  | ) (190,852 ) |
| Stock option exercises   | 1,445                     | 2,723        |
| Share repurchases  | (35,353                   | ) (59,491 )  |
| Dividends paid   | (30,802                   | ) (26,347 )  |
| Net cash provided by (used in) financing activities                        | (194,588                  | ) (274,418 ) |
| Net increase (decrease) in cash, cash equivalents, and restricted cash     | (52,747                   | ) (121,381 ) |
| Cash, cash equivalents, and restricted cash at beginning of period         | 1,133,700                 | 306,168      |
| Cash, cash equivalents, and restricted cash at end of period               | \$ 1,080,953              | \$ 184,787   |
| <b>Supplemental Cash Flow Information:</b>                                 |                           |              |
| Interest paid (capitalized), net   | \$ 17,164                 | \$ 30,109    |
| Income taxes paid (refunded), net  | \$(30,850                 | ) \$631      |

See accompanying Notes to Condensed Consolidated Financial Statements.

**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Basis of presentation**

PulteGroup, Inc. is one of the largest homebuilders in the United States ("U.S."), and our common shares trade on the New York Stock Exchange under the ticker symbol "PHM". Unless the context otherwise requires, the terms "PulteGroup", the "Company", "we", "us", and "our" used herein refer to PulteGroup, Inc. and its subsidiaries. While our subsidiaries engage primarily in the homebuilding business, we also engage in mortgage banking operations, conducted through Pulte Mortgage LLC ("Pulte Mortgage"), and title and insurance brokerage operations.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018.

*Use of estimates*

The preparation of financial statements in conformity with U.S. GAAP 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.

*Subsequent events*

We evaluated subsequent events up until the time the financial statements were filed with the Securities and Exchange Commission (the "SEC").

*Other expense, net*

Other expense, net consists of the following (\$000's omitted):

|  | <b>Three Months<br/>Ended<br/>March 31,<br/>2019      2018</b> |            |
|--|--|------------|
| Write-offs of deposits and pre-acquisition costs | \$(2,917 )   | \$(2,609 ) |
| Amortization of intangible assets                | (3,450 )   | (3,450 )   |
| Interest income                                  | 4,949  | 564        |
| Interest expense                                 | (144 )   | (143 )     |
| Equity in earnings of unconsolidated entities    | 37   | 961        |
| Miscellaneous, net                               | 552  | 3,369      |
| Total other expense, net                         | \$(973 )   | \$(1,308 ) |



**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

*Revenue recognition*

Home sale revenues - Home sale revenues and related profit are generally recognized when title to and possession of the home are transferred to the buyer at the home closing date. Our performance obligation to deliver the agreed-upon home is generally satisfied in less than one year from the original contract date. Home sale contract assets consist of cash from home closings held in escrow for our benefit, typically for less than five days, which are considered deposits in-transit and classified as cash. Contract liabilities include customer deposit liabilities related to sold but undelivered homes, which totaled \$294.5 million and \$254.6 million at March 31, 2019 and December 31, 2018, respectively. Substantially all of our home sales are scheduled to close and be recorded to revenue within one year from the date of receiving a customer deposit. See Note 8 for information on warranties and related obligations.

Land sale revenues - We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land sales are generally outright sales of specified land parcels with cash consideration due on the closing date, which is generally when performance obligations are satisfied.

Financial services revenues - Loan origination fees, commitment fees, and certain direct loan origination costs are recognized as incurred. Expected gains and losses from the sale of residential mortgage loans and their related servicing rights are included in the measurement of written loan commitments that are accounted for at fair value through Financial Services revenues at the time of commitment. Subsequent changes in the fair value of these loans are reflected in Financial Services revenues as they occur. Interest income is accrued from the date a mortgage loan is originated until the loan is sold. Mortgage servicing fees represent fees earned for servicing loans. Servicing fees are based on a contractual percentage of the outstanding principal balance and are credited to income when related mortgage payments are received.

Revenues associated with our title operations are recognized as closing services are rendered and title insurance policies are issued, both of which generally occur as each home is closed. Insurance brokerage commissions relate to commissions on homeowner and other insurance policies placed with third party carriers through various agency channels. Our performance obligations for policy renewal commissions are satisfied upon issuance of the initial policy, and related contract assets for estimated future renewal commissions are included in other assets and totaled \$31.4 million at March 31, 2019.

*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 outstanding, adjusted for unvested shares (the "Denominator") for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the Denominator is increased to include the dilutive effects of stock options, unvested restricted shares, unvested restricted share units, and other potentially dilutive instruments. Any stock options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation.

In accordance with Accounting Standards Codification ("ASC") 260, "Earnings Per Share", the two-class method determines earnings per share for each class of common stock and participating securities according to an earnings allocation formula that adjusts the Numerator for dividends or dividend equivalents and participation rights in undistributed earnings. Unvested share-based payment awards that contain non-forfeitable rights to dividends or

dividend equivalents are participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method. Our outstanding restricted share awards, restricted share units, and deferred shares are considered participating securities. The following table presents the earnings per common share (000's omitted, except per share data):

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**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

|  | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2019</b>                                 | <b>2018</b> |
| <b>Numerator:</b>  |   |             |
| Net income   | \$ 166,757                                  | \$ 170,751  |
| Less: earnings distributed to participating securities                 | (308 )                                      | (296 )      |
| Less: undistributed earnings allocated to participating securities     | (1,410 )                                    | (1,622 )    |
| Numerator for basic earnings per share                                 | \$ 165,039                                  | \$ 168,833  |
| Add back: undistributed earnings allocated to participating securities | 1,410                                       | 1,622       |
| Less: undistributed earnings reallocated to participating securities   | (1,407 )                                    | (1,614 )    |
| Numerator for diluted earnings per share                               | \$ 165,042                                  | \$ 168,841  |
| <b>Denominator:</b>  |   |             |
| Basic shares outstanding   | 277,637                                     | 286,683     |
| Effect of dilutive securities  | 1,003                                       | 1,343       |
| Diluted shares outstanding   | 278,640                                     | 288,026     |
| <b>Earnings per share:</b>   |   |             |
| Basic  | \$0.59                                      | \$0.59      |
| Diluted  | \$0.59                                      | \$0.59      |

*Residential mortgage loans available-for-sale*

Substantially all of the loans originated by us are sold in the secondary mortgage market within a short period of time after origination, generally within 30 days. At March 31, 2019 and December 31, 2018, residential mortgage loans available-for-sale had an aggregate fair value of \$327.0 million and \$461.4 million, respectively, and an aggregate outstanding principal balance of \$315.5 million and \$444.2 million, respectively. The net gain (loss) resulting from changes in fair value of these loans totaled \$(1.1) million and \$(0.1) million for the three months ended March 31, 2019 and 2018, respectively. These changes in fair value were substantially offset by changes in the fair value of corresponding hedging instruments. Net gains from the sale of mortgages were \$24.0 million and \$27.0 million for the three months ended March 31, 2019 and 2018, respectively, and are included in Financial Services revenues.

*Derivative instruments and hedging activities*

We are party to interest rate lock commitments ("IRLCs") with customers resulting from our mortgage origination operations. At March 31, 2019 and December 31, 2018, we had aggregate IRLCs of \$356.9 million and \$285.0 million, respectively, which were originated at interest rates prevailing at the date of commitment. Since we 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. We evaluate the creditworthiness of these transactions through our normal credit policies.

We hedge our exposure to interest rate market risk relating to residential mortgage loans available-for-sale and IRLCs using forward contracts on mortgage-backed securities, which are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price, and whole loan investor commitments, which are



obligations of an investor to buy loans at a specified price within a specified time period. Forward contracts on mortgage-backed securities are the predominant derivative financial instruments we use to minimize market risk during the period from the time we extend an interest rate lock to a loan applicant until the time the loan is sold to an investor. At March 31, 2019 and December 31, 2018, we had unexpired forward contracts of \$498.0 million and \$511.0 million, respectively, and whole loan investor commitments of \$146.4 million and \$187.8 million, respectively. Changes in the fair value of IRLCs and other derivative financial instruments are recognized in Financial Services revenues, and the fair values are reflected in other assets or other liabilities, as applicable.

**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

There are no credit-risk-related contingent features within our derivative agreements, and counterparty risk is considered minimal. Gains and losses on IRLCs and residential mortgage loans available-for-sale are substantially offset by corresponding gains or losses on forward contracts on mortgage-backed securities and whole loan investor commitments. We are generally not exposed to variability in cash flows of derivative instruments for more than approximately 60 days. The fair values of derivative instruments and their locations in the Condensed Consolidated Balance Sheets are summarized below (\$000's omitted):

|                                | <b>March 31, 2019</b> |                                      | <b>December 31, 2018</b> |                                      |
|--------------------------------|-----------------------|--------------------------------------|--------------------------|--------------------------------------|
|                                | <b>Other Assets</b>   | <b>Accrued and Other Liabilities</b> | <b>Other Assets</b>      | <b>Accrued and Other Liabilities</b> |
| Interest rate lock commitments | \$ 11,629             | \$ 297                               | \$ 9,196                 | \$ 161                               |
| Forward contracts              | 234                   | 4,107                                | 315                      | 7,229                                |
| Whole loan commitments         | 329                   | 614                                  | 393                      | 1,111                                |
|                                | \$ 12,192             | \$ 5,018                             | \$ 9,904                 | \$ 8,501                             |

*New accounting pronouncements*

On January 1, 2019, we adopted Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02") and related amendments using a modified retrospective approach with an effective date as of January 1, 2019. Prior year financial statements were not recast under the new standard and, therefore, have not been reflected as such on our balance sheet. ASU 2016-02 requires leases with durations greater than 12 months to be recorded on the balance sheet. We elected the package of transition practical expedients, which allowed us to carryforward our historical assessment of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. The adoption of ASU 2016-02 had no impact on retained earnings. See [Note 8](#) "Leases" for additional information about this adoption.

On January 1, 2018, we adopted ASC 606, "Revenue from Contracts with Customers", which requires revenue to be recognized in a manner to depict the transfer of goods or services and satisfaction of performance obligations to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. We applied the modified retrospective method to contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the previous accounting standards. We recorded a net increase to opening retained earnings of \$22.4 million, net of tax, as of January 1, 2018, due to the cumulative impact of adopting ASC 606, with the impact primarily related to the recognition of contract assets for insurance brokerage commission renewals. There was not a material impact to revenues as a result of applying ASC 606, and there were no significant changes to our business processes, systems, or internal controls as a result of implementing the standard.

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which changes the impairment model for most financial assets and certain other instruments from an "incurred loss" approach to a new "expected credit loss" methodology. The standard is effective for us for annual and interim periods beginning January 1, 2020, with early adoption permitted, and requires full retrospective application on adoption. We are currently evaluating the impact the standard will have on our financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment", which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Under the new standard, goodwill impairment will now be determined by evaluating the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The standard is effective for us for annual and interim periods beginning January 1, 2020, with early adoption permitted, and applied prospectively. We do not expect the standard to have a material impact on our financial statements.

**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**2. Inventory**

Major components of inventory were as follows (\$000's omitted):

|                          | <b>March 31,</b>   | <b>December 31,</b> |
|--------------------------|--------------------|---------------------|
|                          | <b>2019</b>        | <b>2018</b>         |
| Homes under construction | \$2,892,328        | \$ 2,630,158        |
| Land under development   | 4,161,168          | 4,129,225           |
| Raw land                 | 453,047            | 493,970             |
|                          | <b>\$7,506,543</b> | <b>\$ 7,253,353</b> |

We capitalize interest cost into inventory during the active development and construction of our communities. In all periods presented, we capitalized all Homebuilding interest costs into inventory because the level of our active inventory exceeded our debt levels. Information related to interest capitalized into inventory is as follows (\$000's omitted):

|  | <b>Three Months</b> |             |
|--|---------------------|-------------|
|  | <b>Ended</b>        |             |
|  | <b>March 31,</b>    |             |
|  | <b>2019</b>         | <b>2018</b> |
| Interest in inventory, beginning of period | \$227,495           | \$226,611   |
| Interest capitalized                       | 42,381              | 43,960      |
| Interest expensed                          | (34,563 )           | (30,558 )   |
| Interest in inventory, end of period       | \$235,313           | \$240,013   |

*Land option agreements*

We enter into land option agreements in order to procure land for the construction of homes in the future. Pursuant to these land option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Such contracts enable us to defer acquiring portions of properties owned by third parties or unconsolidated entities until we have determined whether and when to exercise our option, which reduces our financial risks associated with long-term land holdings. Option deposits and pre-acquisition costs (such as environmental testing, surveys, engineering, and entitlement costs) are capitalized if the costs are directly identifiable with the land under option, the costs would be capitalized if we owned the land, and acquisition of the property is probable. Such costs are reflected in other assets and are reclassified to inventory upon taking title to the land. We write off deposits and pre-acquisition costs when it becomes probable that we will not go forward with the project or recover the capitalized costs. Such decisions take into consideration changes in local market conditions, the timing of required land purchases, the availability and best use of necessary incremental capital, and other factors. We record any such write-offs of deposits and pre-acquisition costs within other expense, net.

If an entity holding the land under option is a variable interest entity ("VIE"), our deposit represents a variable interest in that entity. No VIEs required consolidation at either March 31, 2019 or December 31, 2018 because we determined that we were not the VIEs' primary beneficiary. Our maximum exposure to loss related to these VIEs is generally limited to our deposits and pre-acquisition costs under the land option agreements.



**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

The following provides a summary of our interests in land option agreements as of March 31, 2019 and December 31, 2018 (\$000's omitted):

|                        | <b>March 31, 2019</b>              |                          | <b>December 31, 2018</b>           |                          |
|------------------------|------------------------------------|--------------------------|------------------------------------|--------------------------|
|                        | Deposits and Pre-acquisition Costs | Remaining Purchase Price | Deposits and Pre-acquisition Costs | Remaining Purchase Price |
| Land options with VIEs | \$99,742                           | \$1,073,520              | \$90,717                           | \$1,079,507              |
| Other land options     | 138,597                            | 1,561,597                | 127,851                            | 1,522,903                |
|                        | \$238,339                          | \$2,635,117              | \$218,568                          | \$2,602,410              |

### 3. Segment information

Our Homebuilding operations are engaged in the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast: *Connecticut, Maryland, Massachusetts, New Jersey, Pennsylvania, Virginia*

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

Florida: *Florida*

Midwest: *Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio*

Texas: *Texas*

West: *Arizona, California, Nevada, New Mexico, Washington*

We also have a reportable segment for our Financial Services operations, which consist principally of mortgage banking and title operations and operate generally in the same markets as the Homebuilding segments.

**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

|   | <b>Operating Data by<br/>Segment<br/>(\$000's omitted)<br/>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2019</b>   | <b>2018</b> |
| <b>Revenues:</b>                          |   |             |
| Northeast                                 | \$110,492   | \$132,436   |
| Southeast                                 | 375,417   | 374,623     |
| Florida                                   | 396,443   | 348,709     |
| Midwest                                   | 293,590   | 297,506     |
| Texas                                     | 269,003   | 246,638     |
| West                                      | 507,886   | 524,243     |
|   | 1,952,831   | 1,924,155   |
| Financial Services                        | 43,862  | 45,938      |
| Consolidated revenues                     | \$1,996,693   | \$1,970,093 |
| <b>Income (loss) before income taxes:</b> |   |             |
| Northeast                                 | \$7,928   | \$9,312     |
| Southeast                                 | 37,856  | 40,457      |
| Florida                                   | 49,596  | 44,945      |
| Midwest                                   | 26,158  | 28,401      |
| Texas                                     | 30,971  | 30,536      |
| West                                      | 90,182  | 89,205      |
| Other homebuilding (a)                    | (38,397   | ) (32,498   |
|   | 204,294   | 210,358     |
| Financial Services                        | 12,409  | 13,833      |
| Consolidated income before income taxes   | \$216,703   | \$224,191   |

(a) *Other homebuilding includes the amortization of intangible assets and capitalized interest and other items not allocated to the operating segments.*

**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

|                               | <b>Operating<br/>Data by<br/>Segment<br/>(\$000's<br/>omitted)<br/>Three Months<br/>Ended<br/>March 31,<br/>2019 2018</b> |         |
|-------------------------------|---|---------|
| <b>Land-related charges*:</b> |   |         |
| Northeast                     | \$324   | \$1,185 |
| Southeast                     | 572   | 1,042   |
| Florida                       | 481   | 183     |
| Midwest                       | 1,103   | 746     |
| Texas                         | 68  | 50      |
| West                          | 431   | 213     |
| Other homebuilding            | —   | —       |
|                               | \$2,979   | \$3,419 |

\*Land-related charges include land impairments, net realizable value adjustments on land held for sale and write-offs of deposits and pre-acquisition costs for land option contracts we elected not to pursue.

|                        | <b>Operating Data by Segment<br/>(\$000's omitted)<br/>March 31, 2019</b> |                                   |                     |                            |                         |
|------------------------|---|-----------------------------------|---------------------|----------------------------|-------------------------|
|                        | <b>Homes Under<br/>Construction</b>                                       | <b>Land Under<br/>Development</b> | <b>Raw<br/>Land</b> | <b>Total<br/>Inventory</b> | <b>Total<br/>Assets</b> |
| Northeast              | \$328,021   | \$296,198                         | \$25,513            | \$649,732                  | \$738,662               |
| Southeast              | 462,382   | 676,532                           | 89,750              | 1,228,664                  | 1,372,245               |
| Florida                | 514,551   | 926,254                           | 76,340              | 1,517,145                  | 1,675,802               |
| Midwest                | 313,244   | 431,144                           | 29,151              | 773,539                    | 861,452                 |
| Texas                  | 326,344   | 436,409                           | 95,942              | 858,695                    | 936,709                 |
| West                   | 896,861   | 1,126,206                         | 118,589             | 2,141,656                  | 2,376,073               |
| Other homebuilding (a) | 50,925  | 268,425                           | 17,762              | 337,112                    | 1,801,106               |
|                        | 2,892,328   | 4,161,168                         | 453,047             | 7,506,543                  | 9,762,049               |
| Financial Services     | —   | —                                 | —                   | —                          | 445,287                 |
|                        | \$2,892,328   | \$4,161,168                       | \$453,047           | \$7,506,543                | \$10,207,336            |



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**Operating Data by Segment**

**(\$000's omitted)**

**December 31, 2018**

|                        | <b>Homes<br/>Under<br/>Construction</b> | <b>Land Under<br/>Development</b> | <b>Raw<br/>Land</b> | <b>Total<br/>Inventory</b> | <b>Total<br/>Assets</b> |
|------------------------|---|-----------------------------------|---------------------|----------------------------|-------------------------|
| Northeast              | \$268,900                               | \$291,467                         | \$52,245            | \$612,612                  | \$704,515               |
| Southeast              | 443,140                                 | 676,087                           | 90,332              | 1,209,559                  | 1,347,427               |
| Florida                | 467,625                                 | 892,669                           | 85,321              | 1,445,615                  | 1,601,906               |
| Midwest                | 314,442                                 | 433,056                           | 29,908              | 777,406                    | 849,596                 |
| Texas                  | 284,405                                 | 427,124                           | 98,415              | 809,944                    | 881,629                 |
| West                   | 805,709                                 | 1,131,841                         | 118,579             | 2,056,129                  | 2,208,092               |
| Other homebuilding (a) | 45,937                                  | 276,981                           | 19,170              | 342,088                    | 2,006,825               |
|                        | 2,630,158                               | 4,129,225                         | 493,970             | 7,253,353                  | 9,599,990               |
| Financial Services     | —                                       | —                                 | —                   | —                          | 572,986                 |
|                        | \$2,630,158                             | \$4,129,225                       | \$493,970           | \$7,253,353                | \$10,172,976            |

(a) *Other homebuilding primarily includes cash and equivalents, capitalized interest, intangibles, deferred tax assets, and other corporate items that are not allocated to the operating segments.*

**4. Debt**

*Notes payable*

Our senior notes are summarized as follows (\$000's omitted):

|   | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---|---------------------------|------------------------------|
| 4.250% unsecured senior notes due March 2021 (a)    | \$700,000                 | \$700,000                    |
| 5.500% unsecured senior notes due March 2026 (a)    | 700,000                   | 700,000                      |
| 5.000% unsecured senior notes due January 2027 (a)  | 600,000                   | 600,000                      |
| 7.875% unsecured senior notes due June 2032 (a)     | 300,000                   | 300,000                      |
| 6.375% unsecured senior notes due May 2033 (a)      | 400,000                   | 400,000                      |
| 6.000% unsecured senior notes due February 2035 (a) | 300,000                   | 300,000                      |
| Net premiums, discounts, and issuance costs (b)     | (13,295 )                 | (13,247 )                    |
| Total senior notes                                  | 2,986,705                 | 2,986,753                    |
| Other notes payable                                 | 37,708                    | 41,313                       |
| Notes payable                                       | \$3,024,413               | \$3,028,066                  |
| Estimated fair value                                | \$3,091,068               | \$2,899,143                  |

(a) *Redeemable prior to maturity; guaranteed on a senior basis by certain wholly-owned subsidiaries.*

(b) *The carrying value of senior notes reflects the impact of premiums, discounts, and issuance costs that are amortized to interest cost over the respective terms of the senior notes.*

Other notes payable include non-recourse and limited recourse collateralized notes with third parties that totaled \$37.7 million and \$41.3 million at March 31, 2019 and December 31, 2018, respectively. These notes have maturities ranging up to three years, are secured by the applicable land positions to which they relate, and have no recourse to any other assets. The stated interest rates on these notes range up to 5.17%.

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*Revolving credit facility*

In June 2018, we entered into the Second Amended and Restated Credit Agreement ("Revolving Credit Facility") which replaced the Company's previous credit agreement. The Revolving Credit Facility contains substantially similar terms to the previous credit agreement and extended the maturity date from June 2019 to June 2023. The Revolving Credit Facility has a maximum borrowing capacity of \$1.0 billion and contains an uncommitted accordion feature that could increase the capacity to \$1.5 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce the available borrowing capacity under the Revolving Credit Facility, with a sublimit of \$500.0 million at March 31, 2019. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate ("LIBOR") or a base rate plus an applicable margin, as defined therein. We had no borrowings outstanding at March 31, 2019 and December 31, 2018, and \$232.9 million and \$239.4 million of letters of credit issued under the Revolving Credit Facility at March 31, 2019 and December 31, 2018, respectively.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of March 31, 2019, we were in compliance with all covenants. Our available and unused borrowings

under the Revolving Credit Facility, net of outstanding letters of credit, amounted to \$767.1 million and \$760.6 million at March 31, 2019 and December 31, 2018, respectively.

*Joint venture debt*

At March 31, 2019, aggregate outstanding debt of unconsolidated joint ventures was \$35.2 million, of which \$34.4 million was related to one joint venture in which we have a 50% interest. In connection with this loan, we and our joint venture partner provided customary limited recourse guaranties under which our maximum financial loss exposure is limited to our pro rata share of the debt outstanding. The limited guaranties include, but are not limited to: (i) completion of certain aspects of the project, (ii) an environmental indemnity provided to the lender, and (iii) an indemnification of the lender from certain "bad boy acts" of the joint venture.

*Financial Services debt*

Pulte Mortgage maintains a master repurchase agreement (the "Repurchase Agreement") with third party lenders that matures in August 2019. The maximum aggregate commitment was \$350.0 million at March 31, 2019 and continues through maturity. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. Pulte Mortgage had \$222.1 million and \$348.4 million outstanding under the Repurchase Agreement at March 31, 2019 and December 31, 2018, respectively, and was in compliance with all of its covenants and requirements as of such dates.

**5. Shareholders' equity**

During the three months ended March 31, 2019, we declared cash dividends totaling \$30.8 million and repurchased 0.9 million shares under our repurchase authorization for \$25.0 million. For the three months ended March 31, 2018, we declared cash dividends totaling \$26.1 million and repurchased 1.7 million shares under our repurchase authorization for \$52.5 million. At March 31, 2019, we had remaining authorization to repurchase \$274.9 million of

common shares.

Under our share-based compensation plans, we accept shares as payment under certain conditions related to stock option exercises and vesting of shares, generally related to the payment of minimum tax obligations. During the three months ended March 31, 2019 and 2018, participants surrendered shares valued at \$10.4 million and \$7.0 million, respectively, under these plans. Such share transactions are excluded from the above noted share repurchase authorization.

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**6. Income taxes**

Our effective tax rate for the three months ended March 31, 2019 was 23.0%, compared to 23.8% for the same period in 2018. Our effective tax rate differed from the federal statutory rate primarily due to state income tax expense on current year earnings, tax benefits for equity compensation, and the favorable resolution of certain state income tax matters. Our effective tax rate for the three months ended March 31, 2019 is lower than the prior year period primarily due to the favorable resolution of certain state income tax matters.

At March 31, 2019 and December 31, 2018, we had deferred tax assets, net of deferred tax liabilities and valuation allowance, of \$250.9 million and \$275.6 million, respectively. The accounting for deferred taxes is based upon estimates of future results. Differences between estimated and actual results could result in changes in the valuation of deferred tax assets that could have a material impact on our consolidated results of operations or financial position. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. We had \$22.4 million and \$30.6 million of gross unrecognized tax benefits at March 31, 2019 and December 31, 2018, respectively. Additionally, we had accrued interest and penalties of \$5.8 million at both March 31, 2019 and December 31, 2018. It is reasonably possible within the next twelve months that our gross unrecognized tax benefits may decrease by up to \$8.4 million, excluding interest and penalties, primarily due to potential audit settlements.

**7. Fair value disclosures**

ASC 820, "Fair Value Measurements and Disclosures," provides a framework for measuring fair value in generally accepted accounting principles and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

Level 1 Fair value determined based on quoted prices in active markets for identical assets or liabilities.

Level 2 Fair value determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities or quoted prices in markets that are not active.

Level 3 Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows, or similar techniques.

Our assets and liabilities measured or disclosed at fair value are summarized below (\$000's omitted):

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| <b>Financial Instrument</b>                             | <b>Fair Value<br/>Hierarchy</b> | <b>Fair Value<br/>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---|---------------------------------|--|------------------------------|
| <b>Measured at fair value on a recurring basis:</b>     |                                 |  |                              |
| Residential mortgage loans available-for-sale           | Level 2                         | \$326,995                                | \$ 461,354                   |
| Interest rate lock commitments                          | Level 2                         | 11,332                                   | 9,035                        |
| Forward contracts                                       | Level 2                         | (3,873 )                                 | (6,914 )                     |
| Whole loan commitments                                  | Level 2                         | (285 )                                   | (718 )                       |
| <b>Measured at fair value on a non-recurring basis:</b> |                                 |  |                              |
| House and land inventory                                | Level 3                         | \$—                                      | \$ 18,253                    |
| Land held for sale                                      | Level 2                         | 1,330                                    | 17,813                       |
| <b>Disclosed at fair value:</b>                         |                                 |  |                              |
| Cash, cash equivalents, and restricted cash             | Level 1                         | \$ 1,080,953                             | \$ 1,133,700                 |
| Financial Services debt                                 | Level 2                         | 222,139                                  | 348,412                      |
| Other notes payable                                     | Level 2                         | 37,708                                   | 41,313                       |
| Senior notes payable                                    | Level 2                         | 3,053,360                                | 2,857,830                    |

Fair values for agency residential mortgage loans available-for-sale are determined based on quoted market prices for comparable instruments. Fair values for non-agency residential mortgage loans available-for-sale are determined based on purchase commitments from whole loan investors and other relevant market information available to management. Fair values for interest rate lock commitments, including the value of servicing rights, and forward contracts on mortgage-backed securities are valued based on market prices for similar instruments. Fair values for whole loan commitments are based on market prices for similar instruments from the specific whole loan investor.

Certain assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value may not be recoverable. The non-recurring fair values included in the above table represent only those assets whose carrying values were adjusted to fair value as of the respective balance sheet dates.

The carrying amounts of cash and equivalents, Financial Services debt, and other notes payable approximate their fair values due to their short-term nature and/or floating interest rate terms. The fair values of 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. The carrying value of senior notes was \$3.0 billion at both March 31, 2019 and December 31, 2018.

## **8. Commitments and contingencies**

### *Loan origination liabilities*

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to representations and warranties made by us that the loans met certain requirements, including representations as to underwriting standards, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. In addition, certain trustees

and investors continue to attempt to collect damages based on losses from loans that originated prior to 2009. Some of our mortgage subsidiaries are currently defendants in litigation related to such claims. If a loan is determined to be faulty, we either indemnify the investor for potential future losses, repurchase the loan from the investor, or reimburse the investor's actual losses.

CTX Mortgage Company, LLC ("CTX Mortgage") was the mortgage subsidiary of Centex and ceased originating loans in December 2009. In the matter *Lehman Brothers Holdings, Inc. ("Lehman")* in the U.S. Bankruptcy Court in the Southern District of New York, Lehman has initiated an adversary proceeding against CTX Mortgage seeking indemnity for loans sold to

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it by CTX Mortgage prior to 2009. This claim is part of a broader action by Lehman in U.S. Bankruptcy Court against more than 100 mortgage originators and brokers. On August 13, 2018, the court denied a motion to dismiss filed by CTX Mortgage and other defendants, and on December 17, 2018, Lehman filed an amended adversary complaint against CTX Mortgage. Lehman's complaint alleges claims for indemnifiable losses of up to \$261 million due from CTX Mortgage. We believe that CTX Mortgage has meritorious defenses and CTX Mortgage will continue to vigorously defend itself in this matter. We have recorded a liability for an amount that we consider to be the best estimate within a range of potential losses.

In addition, both CTX Mortgage and Pulte Mortgage sold certain loans originated prior to 2009 to financial institutions that were subsequently included in residential mortgage-backed securities or other securitizations issued by such financial institutions. In connection with such sales, CTX Mortgage and Pulte Mortgage have been put on notice of potential direct and / or third-party claims for indemnification arising out of litigation relating to certain of these residential mortgage-backed securities or other securitizations. Neither CTX Mortgage nor Pulte Mortgage is named as a defendant in these actions. We cannot yet quantify CTX Mortgage's or Pulte Mortgage's potential liability as a result of these indemnification obligations. We do not believe, however, that these matters will have a material adverse impact on the results of operations, financial position, or cash flows of the Company.

Our recorded liabilities for all such claims decreased from \$50.3 million at December 31, 2018 to \$25.5 million at March 31, 2019 as the result of funding previously settled claims. Determining the liabilities for anticipated losses requires a significant level of management judgment. Given the nature of these claims and the uncertainty regarding their ultimate resolution, actual costs could differ from our current estimates.

*Letters of credit and surety bonds*

In the normal course of business, we post letters of credit and surety bonds pursuant to certain performance-related obligations, as security for certain land option agreements, and under various insurance programs. The majority of these letters of credit and surety bonds are in support of our land development and construction obligations to various municipalities, other government agencies, and utility companies related to the construction of roads, sewers, and other infrastructure. We had outstanding letters of credit and surety bonds totaling \$232.9 million and \$1.3 billion, respectively, at March 31, 2019 and \$239.4 million and \$1.3 billion, respectively, at December 31, 2018. In the event any such letter of credit or surety bond is drawn, we would be obligated to reimburse the issuer of the letter of credit or surety bond. Our surety bonds generally do not have stated expiration dates; rather we are released from the surety bonds as the underlying contractual performance is completed. Because significant construction and development work has been performed related to projects that have not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed. We do not believe that a material amount, if any, of the letters of credit or surety bonds will be drawn.

*Litigation and regulatory matters*

We are involved in various litigation and legal claims in the normal course of our business operations, including actions brought on behalf of various classes of claimants. We are also subject to a variety of local, state, and federal laws and regulations related to land development activities, house construction standards, sales practices, mortgage lending operations, employment practices, and protection of the environment. As a result, we are subject to periodic examination or inquiry by various governmental agencies that administer these laws and regulations.



We establish liabilities for litigation, legal claims, and regulatory matters when such matters are both probable of occurring and any potential loss is reasonably estimable. We accrue for such matters based on the facts and circumstances specific to each matter and revise these estimates as the matters evolve. In such cases, there may exist an exposure to loss in excess of any amounts currently accrued. In view of the inherent difficulty of predicting the outcome of these legal and regulatory matters, we generally cannot predict the ultimate resolution of the pending matters, the related timing, or the eventual loss. While the outcome of such contingencies cannot be predicted with certainty, we do not believe that the resolution of such matters will have a material adverse impact on our results of operations, financial position, or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds the estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

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*Allowance for warranties*

Home purchasers are provided with a limited warranty against certain building defects, including a one-year comprehensive limited warranty and coverage for certain other aspects of the home's construction and operating systems for periods of up to and, in limited instances, exceeding 10 years. We estimate the costs to be incurred under these warranties and record liabilities in the amount of such costs at the time product revenue is recognized. Factors that affect our warranty liabilities include the number of homes sold, historical and anticipated rates of warranty claims, and the cost per claim. We periodically assess the adequacy of the warranty liabilities for each geographic market in which we operate and adjust the amounts as necessary. Actual warranty costs in the future could differ from the current estimates. Changes to warranty liabilities were as follows (\$000's omitted):

|   | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2019</b>                                 | <b>2018</b> |
| Warranty liabilities, beginning of period | \$79,154                                    | \$72,709    |
| Reserves provided                         | 12,262                                      | 11,916      |
| Payments                                  | (16,130 )                                   | (14,282 )   |
| Other adjustments                         | 4,461                                       | 643         |
| Warranty liabilities, end of period       | \$79,747                                    | \$70,986    |

*Self-insured risks*

We maintain, and require our subcontractors to maintain, general liability insurance coverage. We also maintain builders' risk, property, errors and omissions, workers' compensation, and other business insurance coverage. These insurance policies protect us against a portion of the risk of loss from claims. However, we retain a significant portion of the overall risk for such claims either through policies issued by our captive insurance subsidiaries or through our own self-insured per occurrence and aggregate retentions, deductibles, and claims in excess of available insurance policy limits.

Our general liability insurance includes coverage for certain construction defects. While construction defect claims can relate to a variety of circumstances, the majority of our claims relate to alleged problems with siding, plumbing, foundations and other concrete work, windows, roofing, and heating, ventilation and air conditioning systems. The availability of general liability insurance for the homebuilding industry and its subcontractors has become increasingly limited, and the insurance policies available require us to maintain significant per occurrence and aggregate retention levels. In certain instances, we may offer our subcontractors the opportunity to purchase insurance through one of our captive insurance subsidiaries or participate in a project-specific insurance program provided by us. Policies issued by our captive insurance subsidiaries represent self-insurance of these risks by us. This self-insured exposure is limited by reinsurance policies that we purchase. General liability coverage for the homebuilding industry is complex, and our coverage varies from policy year to policy year. Our insurance coverage requires a per occurrence deductible up to an overall aggregate retention level. Beginning with the first dollar, amounts paid to satisfy insured claims apply to our per occurrence and aggregate retention obligations. Any amounts incurred in excess of the occurrence or aggregate retention levels are covered by insurance up to our purchased coverage levels. Our insurance policies, including the captive insurance subsidiaries' reinsurance policies, are maintained with highly-rated underwriters for whom we believe counterparty default risk is not significant.

At any point in time, we are managing over 1,000 individual claims related to general liability, property, errors and omissions, workers' compensation, and other business insurance coverage. We reserve for costs associated with such claims (including expected claims management expenses) on an undiscounted basis at the time revenue is recognized for each home closing and evaluate the recorded liabilities based on actuarial analyses of our historical claims. The actuarial analyses calculate estimates of the ultimate net cost of all unpaid losses, including estimates for incurred but not reported losses ("IBNR"). IBNR represents losses related to claims incurred but not yet reported plus development on reported claims.

Our recorded reserves for all such claims totaled \$729.2 million and \$737.0 million at March 31, 2019 and December 31, 2018, respectively, the vast majority of which relate to general liability claims. The recorded reserves include loss estimates related to both (i) existing claims and related claim expenses and (ii) IBNR and related claim expenses. Liabilities related to IBNR and related claim expenses represented approximately 66% and 65% of the total general liability reserves at March 31, 2019 and December 31, 2018, respectively. The actuarial analyses that determine the IBNR portion of reserves consider a

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variety of factors, including the frequency and severity of losses, which are based on our historical claims experience supplemented by industry data. The actuarial analyses of the reserves also consider historical third party recovery rates and claims management expenses.

Housing market conditions can be volatile, and we believe such conditions can affect the frequency and cost of construction defect claims. Additionally, IBNR estimates comprise the majority of our liability and are subject to a high degree of uncertainty due to a variety of factors, including changes in claims reporting and resolution patterns, third party recoveries, insurance industry practices, the regulatory environment, and legal precedent. State regulations vary, but construction defect claims are typically reported and resolved over an extended period often exceeding ten years. Changes in the frequency and timing of reported claims and estimates of specific claim values can impact the underlying inputs and trends utilized in the actuarial analyses, which could have a material impact on the recorded reserves. Additionally, the amount of insurance coverage available for each policy period also impacts our recorded reserves. Because of the inherent uncertainty in estimating future losses and the timing of such losses related to these claims, actual costs could differ significantly from estimated costs. Adjustments to reserves are recorded in the period in which the change in estimate occurs.

Costs associated with our insurance programs are classified within selling, general, and administrative expenses. Changes in these liabilities were as follows (\$000's omitted):

|   | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2019</b>                                 | <b>2018</b> |
| Balance, beginning of period                | \$737,013                                   | \$758,812   |
| Reserves provided                           | 17,396                                      | 19,660      |
| Adjustments to previously recorded reserves | (3,875 )                                    | 2,461       |
| Payments, net <i>(a)</i>                    | (21,364 )                                   | (9,829 )    |
| Balance, end of period                      | \$729,170                                   | \$771,104   |

*(a) Includes net changes in amounts expected to be recovered from our insurance carriers, which are recorded in other assets (see below).*

In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable. Such receivables are recorded in other assets and totaled \$128.0 million and \$153.0 million at March 31, 2019 and December 31, 2018, respectively. The insurance receivables relate to costs incurred to perform corrective repairs, settle claims with customers, and other costs related to the continued progression of construction defect claims that we believe are insured. Given the complexity inherent with resolving construction defect claims in the homebuilding industry as described above, there generally exists a significant lag between our payment of claims and our reimbursements from applicable insurance carriers. In addition, disputes between homebuilders and carriers over coverage positions relating to construction defect claims are common. Resolution of claims with carriers involves the exchange of significant amounts of information and frequently involves legal action. During the three months ended March 31, 2019, we wrote-off \$11.6 million of insurance receivables in connection with the settlement of an arbitration with one of our carriers, pursuant to which we received the majority of the coverage under the policy.

*Leases*

We lease certain office space and equipment for use in our operations. We recognize lease expense for these leases on a straight-line basis over the lease term and combine lease and non-lease components for all leases. Right-of-use ("ROU") assets and lease liabilities are recorded on the balance sheet for all leases with an expected term of at least one year. Some leases include one or more options to renew. The exercise of lease renewal options is generally at our discretion. The depreciable lives of ROU assets and leasehold improvements are limited to the expected lease term. Certain of our lease agreements include rental payments based on a pro-rata share of the lessor's operating costs which are variable in nature. Our lease agreements do not contain any residual value guarantees or material restrictive covenants.

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ROU assets are classified within other assets on the balance sheet, while lease liabilities are classified within accrued and other liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. ROU assets and lease liabilities were \$73.3 million and \$98.5 million at March 31, 2019, respectively. During the three months ended March 31, 2019, we obtained an additional \$7.8 million of ROU assets under operating leases. Payments on lease liabilities during the three months ended March 31, 2019 totaled \$5.8 million.

Lease expense includes costs for leases with terms in excess of one year as well as short-term leases with terms of less than one year. For the three months ended March 31, 2019, our total lease expense was \$8.8 million, which includes variable lease costs of \$1.7 million. Short-term lease costs and external sublease income are de minimis.

The future minimum lease payments required under our leases as of March 31, 2019 are as follows (\$000's omitted):

**Years Ending December 31,**

|  |          |
|--|----------|
| 2019 (a)                               | \$17,903 |
| 2020                                   | 20,548   |
| 2021                                   | 18,262   |
| 2022                                   | 16,690   |
| 2023                                   | 15,085   |
| Thereafter                             | \$30,381 |
| Total lease payments (b)               | 118,869  |
| Less: Interest (c)                     | 20,407   |
| Present value of lease liabilities (d) | \$98,462 |

(a) Remaining payments are for the nine-months ending December 31, 2019.

(b) Lease payments include options to extend lease terms that are reasonably certain of being exercised. There were no legally binding minimum lease payments for leases signed but not yet commenced at March 31, 2019.

(c) Our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our discount rate for such leases to determine the present value of lease payments at the lease commencement date.

(d) The weighted average remaining lease term and weighted average discount rate used in calculating our lease liabilities were 6.3 years and 5.8%, respectively, at March 31, 2019.

**9. Supplemental Guarantor information**

All of our senior notes are guaranteed jointly and severally on a senior basis by certain of our wholly-owned Homebuilding subsidiaries and certain other wholly-owned subsidiaries (collectively, the "Guarantors"). Such guaranties are full and unconditional. Our subsidiaries comprising the Financial Services segment along with certain other subsidiaries (collectively, the "Non-Guarantor Subsidiaries") do not guarantee the senior notes. In accordance with Rule 3-10 of Regulation S-X, supplemental consolidating financial information of the Company, including such information for the Guarantors, is presented below. Investments in subsidiaries are presented using the equity method of accounting.

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**CONDENSED CONSOLIDATING BALANCE SHEET**  
**MARCH 31, 2019**  
**(\$000's omitted)**

|  | <b>Unconsolidated<br/>PulteGroup<br/>Inc.</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminating<br/>Entries</b> | <b>Consolidated<br/>PulteGroup,<br/>Inc.</b> |
|--|---|-----------------------------------|---------------------------------------|--------------------------------|--|
| <b>ASSETS</b>  |   |                                   |                                       |                                |  |
| Cash and equivalents   | \$—   | \$ 1,009,042                      | \$ 46,415                             | \$—                            | \$ 1,055,457                                 |
| Restricted cash  | —   | 24,117                            | 1,379                                 | —                              | 25,496                                       |
| Total cash, cash equivalents, and restricted cash                  | —   | 1,033,159                         | 47,794                                | —                              | 1,080,953                                    |
| House and land inventory   | —   | 7,423,308                         | 83,235                                | —                              | 7,506,543                                    |
| Land held for sale   | —   | 38,525                            | 906                                   | —                              | 39,431                                       |
| Residential mortgage loans available-for-sale                      | —   | —                                 | 326,995                               | —                              | 326,995                                      |
| Investments in unconsolidated entities                             | —   | 55,509                            | 216                                   | —                              | 55,725                                       |
| Other assets   | 15,985  | 642,824                           | 164,257                               | —                              | 823,066                                      |
| Intangible assets  | —   | 123,742                           | —                                     | —                              | 123,742                                      |
| Deferred tax assets, net   | 258,311                                       | —                                 | (7,430                                | ) —                            | 250,881                                      |
| Investments in subsidiaries and intercompany accounts, net         | 7,736,546                                     | 328,963                           | 8,686,446                             | (16,751,955                    | ) —  |
|  | \$8,010,842                                   | \$9,646,030                       | \$ 9,302,419                          | \$(16,751,955)                 | \$ 10,207,336                                |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                        |   |                                   |                                       |                                |  |
| Liabilities:   |   |                                   |                                       |                                |  |
| Accounts payable, customer deposits, accrued and other liabilities | \$72,590                                      | \$ 1,688,847                      | \$ 247,800                            | \$—                            | \$ 2,009,237                                 |
| Income tax liabilities   | 18,108  | —                                 | —                                     | —                              | 18,108                                       |
| Financial Services debt  | —   | —                                 | 222,139                               | —                              | 222,139                                      |
| Notes payable  | 2,986,705                                     | 37,708                            | —                                     | —                              | 3,024,413                                    |
| Total liabilities  | 3,077,403                                     | 1,726,555                         | 469,939                               | —                              | 5,273,897                                    |
| Total shareholders' equity   | 4,933,439                                     | 7,919,475                         | 8,832,480                             | (16,751,955                    | ) 4,933,439                                  |
|  | \$8,010,842                                   | \$9,646,030                       | \$ 9,302,419                          | \$(16,751,955)                 | \$ 10,207,336                                |

**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2018**  
**(\$000's omitted)**

|   | <b>Unconsolidated<br/>PulteGroup<br/>Inc.</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminating<br/>Entries</b> | <b>Consolidated<br/>PulteGroup,<br/>Inc.</b> |
|---|---|-----------------------------------|---------------------------------------|--------------------------------|--|
| <b>ASSETS</b>   |   |                                   |                                       |                                |  |
| Cash and equivalents  | \$—   | \$ 906,961                        | \$ 203,127                            | \$—                            | \$ 1,110,088                                 |
| Restricted cash   | —   | 22,406                            | 1,206                                 | —                              | 23,612                                       |
| Total cash, cash equivalents, and<br>restricted cash                  | —   | 929,367                           | 204,333                               | —                              | 1,133,700                                    |
| House and land inventory  | —   | 7,157,665                         | 95,688                                | —                              | 7,253,353                                    |
| Land held for sale  | —   | 36,849                            | —                                     | —                              | 36,849                                       |
| Residential mortgage loans available-<br>for-sale                     | —   | —                                 | 461,354                               | —                              | 461,354                                      |
| Investments in unconsolidated entities                                | —   | 54,045                            | 545                                   | —                              | 54,590                                       |
| Other assets  | 66,154  | 579,452                           | 184,753                               | —                              | 830,359                                      |
| Intangible assets   | —   | 127,192                           | —                                     | —                              | 127,192                                      |
| Deferred tax assets, net  | 282,874                                       | —                                 | (7,295                                | ) —                            | 275,579                                      |
| Investments in subsidiaries and<br>intercompany accounts, net         | 7,557,245                                     | 500,138                           | 8,231,342                             | (16,288,725 )                  | —  |
|   | \$7,906,273                                   | \$ 9,384,708                      | \$ 9,170,720                          | \$(16,288,725 )                | \$ 10,172,976                                |
| <b>LIABILITIES AND SHAREHOLDERS'<br/>EQUITY</b>                       |   |                                   |                                       |                                |  |
| Liabilities:  |   |                                   |                                       |                                |  |
| Accounts payable, customer deposits,<br>accrued and other liabilities | \$90,158                                      | \$ 1,598,265                      | \$ 278,713                            | \$—                            | \$ 1,967,136                                 |
| Income tax liabilities  | 11,580  | —                                 | —                                     | —                              | 11,580                                       |
| Financial Services debt   | —   | —                                 | 348,412                               | —                              | 348,412                                      |
| Notes payable   | 2,986,753                                     | 40,776                            | 537                                   | —                              | 3,028,066                                    |
| Total liabilities   | 3,088,491                                     | 1,639,041                         | 627,662                               | —                              | 5,355,194                                    |
| Total shareholders' equity  | 4,817,782                                     | 7,745,667                         | 8,543,058                             | (16,288,725 )                  | 4,817,782                                    |
|   | \$7,906,273                                   | \$ 9,384,708                      | \$ 9,170,720                          | \$(16,288,725 )                | \$ 10,172,976                                |



**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME**  
**For the three months ended March 31, 2019**  
**(\$000's omitted)**

|   | <b>Unconsolidated<br/>PulteGroup<br/>Inc.</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminating<br/>Entries</b> | <b>Consolidated<br/>PulteGroup,<br/>Inc.</b> |
|---|---|-----------------------------------|---------------------------------------|--------------------------------|--|
| <b>Revenues:</b>  |   |                                   |                                       |                                |  |
| Homebuilding  |   |                                   |                                       |                                |  |
| Home sale revenues  | \$—   | \$ 1,907,808                      | \$ 42,048                             | \$—                            | \$ 1,949,856                                 |
| Land sale and other revenues  | —   | 2,325                             | 650                                   | —                              | 2,975  |
|   | —   | 1,910,133                         | 42,698                                | —                              | 1,952,831                                    |
| Financial Services  | —   | —                                 | 43,862                                | —                              | 43,862                                       |
|   | —   | 1,910,133                         | 86,560                                | —                              | 1,996,693                                    |
| <b>Homebuilding Cost of Revenues:</b>   |   |                                   |                                       |                                |  |
| Home sale cost of revenues  | —   | (1,460,895 )                      | (31,896 )                             | —                              | (1,492,791 )                                 |
| Land sale cost of revenues  | —   | (944 )                            | (1,106 )                              | —                              | (2,050 )                                     |
|   | —   | (1,461,839 )                      | (33,002 )                             | —                              | (1,494,841 )                                 |
| Financial Services expenses   | —   | (132 )                            | (31,317 )                             | —                              | (31,449 )                                    |
| Selling, general, and administrative expenses                                 | —   | (234,118 )                        | (18,609 )                             | —                              | (252,727 )                                   |
| Other income (expense), net   | (122 )  | (4,986 )                          | 4,135 )                               | —                              | (973 )                                       |
| Intercompany interest   | (1,996 )                                      | —                                 | 1,996 )                               | —                              | —  |
| Income (loss) before income taxes and equity in income (loss) of subsidiaries | (2,118 )                                      | 209,058 )                         | 9,763 )                               | —                              | 216,703 )                                    |
| Income tax (expense) benefit  | 508 )   | (47,650 )                         | (2,804 )                              | —                              | (49,946 )                                    |
| Income (loss) before equity in income (loss) of subsidiaries                  | (1,610 )                                      | 161,408 )                         | 6,959 )                               | —                              | 166,757 )                                    |
| Equity in income (loss) of subsidiaries                                       | 168,367 )                                     | 18,304 )                          | 113,696 )                             | (300,367 )                     | —  |
| Net income (loss)   | 166,757 )                                     | 179,712 )                         | 120,655 )                             | (300,367 )                     | 166,757 )                                    |
| Other comprehensive income  | 25 )  | — )                               | — )                                   | — )                            | 25 )   |
| Comprehensive income (loss)   | \$ 166,782 )                                  | \$ 179,712 )                      | \$ 120,655 )                          | \$ (300,367 )                  | \$ 166,782 )                                 |

**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME**  
**For the three months ended March 31, 2018**  
**(\$000's omitted)**

|   | <b>Unconsolidated</b> |                     |                      |                    | <b>Consolidated</b> |
|---|-----------------------|---------------------|----------------------|--------------------|---------------------|
|   | <b>PulteGroup</b>     | <b>Guarantor</b>    | <b>Non-Guarantor</b> | <b>Eliminating</b> | <b>PulteGroup,</b>  |
|   | <b>Inc.</b>           | <b>Subsidiaries</b> | <b>Subsidiaries</b>  | <b>Entries</b>     | <b>Inc.</b>         |
| <b>Revenues:</b>  |                       |                     |                      |                    |                     |
| Homebuilding  |                       |                     |                      |                    |                     |
| Home sale revenues  | \$—                   | \$ 1,885,431        | \$ 26,167            | \$—                | \$ 1,911,598        |
| Land sale and other revenues  | —                     | 11,558              | 999                  | —                  | 12,557              |
|   | —                     | 1,896,989           | 27,166               | —                  | 1,924,155           |
| Financial Services  | —                     | —                   | 45,938               | —                  | 45,938              |
|   | —                     | 1,896,989           | 73,104               | —                  | 1,970,093           |
| <b>Homebuilding Cost of Revenues:</b>   |                       |                     |                      |                    |                     |
| Home sale cost of revenues  | —                     | (1,438,347 )        | (21,593 )            | —                  | (1,459,940 )        |
| Land sale cost of revenues  | —                     | (10,830 )           | (718 )               | —                  | (11,548 )           |
|   | —                     | (1,449,177 )        | (22,311 )            | —                  | (1,471,488 )        |
| Financial Services expenses   | —                     | (142 )              | (32,071 )            | —                  | (32,213 )           |
| Selling, general, and administrative expenses                                 | —                     | (231,418 )          | (9,475 )             | —                  | (240,893 )          |
| Other income (expense), net   | (142 )                | (7,601 )            | 6,435 )              | —                  | (1,308 )            |
| Intercompany interest   | (1,468 )              | —                   | 1,468 )              | —                  | —                   |
| Income (loss) before income taxes and equity in income (loss) of subsidiaries | (1,610 )              | 208,651             | 17,150               | —                  | 224,191             |
| Income tax (expense) benefit  | 387                   | (49,531 )           | (4,296 )             | —                  | (53,440 )           |
| Income before equity in income of subsidiaries                                | (1,223 )              | 159,120             | 12,854               | —                  | 170,751             |
| Equity in income (loss) of subsidiaries                                       | 171,974               | 12,564              | 110,671              | (295,209 )         | —                   |
| Net income (loss)   | 170,751               | 171,684             | 123,525              | (295,209 )         | 170,751             |
| Other comprehensive income  | 21                    | —                   | —                    | —                  | 21                  |
| Comprehensive income (loss)   | \$ 170,772            | \$ 171,684          | \$ 123,525           | \$ (295,209 )      | \$ 170,772          |



**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**CONSOLIDATING STATEMENT OF CASH FLOWS**

**For the three months ended March 31, 2019**

**(\$000's omitted)**

|   | <b>Unconsolidated<br/>PulteGroup,<br/>Inc.</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminating<br/>Entries</b> | <b>Consolidated<br/>PulteGroup, Inc.</b> |
|---|--|-----------------------------------|---------------------------------------|--------------------------------|--|
| <b>Net cash provided by (used in)<br/>operating activities</b>            | \$27,743                                       | \$(14,838 )                       | \$ 146,004                            | \$ —                           | —\$ 158,909                              |
| Cash flows from investing activities:                                     |  |                                   |                                       |                                |  |
| Capital expenditures  | —  | (13,216 )                         | (2,854 )                              | —                              | (16,070 )                                |
| Investments in unconsolidated entities                                    | —  | (1,183 )                          | (106 )                                | —                              | (1,289 )                                 |
| Other investing activities, net   | —  | 190                               | 101                                   | —                              | 291                                      |
| <b>Net cash provided by (used in)<br/>investing activities</b>            | —  | (14,209 )                         | (2,859 )                              | —                              | (17,068 )                                |
| Cash flows from financing activities:                                     |  |                                   |                                       |                                |  |
| Financial Services borrowing (repayments), net                            | —  | —                                 | (126,273 )                            | —                              | (126,273 )                               |
| Repayments of debt  | —  | (3,068 )                          | (537 )                                | —                              | (3,605 )                                 |
| Borrowings under revolving credit facility                                | —  | —                                 | —                                     | —                              | —  |
| Repayments under revolving credit facility                                | —  | —                                 | —                                     | —                              | —  |
| Debt issuance costs   | —  | —                                 | —                                     | —                              | —  |
| Stock option exercises  | 1,445  | —                                 | —                                     | —                              | 1,445                                    |
| Share repurchases   | (35,353 )                                      | —                                 | —                                     | —                              | (35,353 )                                |
| Dividends paid  | (30,802 )                                      | —                                 | —                                     | —                              | (30,802 )                                |
| Intercompany activities, net  | 36,967   | 135,907                           | (172,874 )                            | —                              | —  |
| <b>Net cash provided by (used in)<br/>financing activities</b>            | (27,743 )                                      | 132,839                           | (299,684 )                            | —                              | (194,588 )                               |
| Net increase (decrease) in cash, cash equivalents,<br>and restricted cash | —  | 103,792                           | (156,539 )                            | —                              | (52,747 )                                |
| Cash, cash equivalents, and restricted cash<br>at beginning of year       | —  | 929,367                           | 204,333                               | —                              | 1,133,700                                |
| Cash, cash equivalents, and restricted cash<br>at end of year             | \$—  | \$ 1,033,159                      | \$ 47,794                             | \$ —                           | —\$ 1,080,953                            |

**PULTEGROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**CONSOLIDATING STATEMENT OF CASH FLOWS**

**For the three months ended March 31, 2018**

**(\$000's omitted)**

|   | <b>Unconsolidated<br/>PulteGroup<br/>Inc.</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminating<br/>Entries</b> | <b>Consolidated<br/>PulteGroup, Inc.</b> |
|---|---|-----------------------------------|---------------------------------------|--------------------------------|--|
| <b>Net cash provided by (used in)<br/>operating activities</b>            | \$310,937                                     | \$(340,357 )                      | \$ 198,433                            | \$ —                           | —\$ 169,013                              |
| Cash flows from investing activities:                                     |   |                                   |                                       |                                |  |
| Capital expenditures  | —   | (13,537 )                         | (1,891 )                              | —                              | (15,428 )                                |
| Investments in unconsolidated entities                                    | —   | (1,000 )                          | —                                     | —                              | (1,000 )                                 |
| Other investing activities, net   | —   | —                                 | 452                                   | —                              | 452                                      |
| <b>Net cash provided by (used in)<br/>investing activities</b>            | —   | (14,537 )                         | (1,439 )                              | —                              | (15,976 )                                |
| Cash flows from financing activities:                                     |   |                                   |                                       |                                |  |
| Financial Services borrowings (repayments), net                           | —   | —                                 | (190,852 )                            | —                              | (190,852 )                               |
| Repayments of debt  | —   | —                                 | (451 )                                | —                              | (451 )                                   |
| Borrowings under revolving credit facility                                | 768,000                                       | —                                 | —                                     | —                              | 768,000                                  |
| Repayments under revolving credit facility                                | (768,000 )                                    | —                                 | —                                     | —                              | (768,000 )                               |
| Stock option exercises  | 2,723   | —                                 | —                                     | —                              | 2,723                                    |
| Share repurchases   | (59,491 )                                     | —                                 | —                                     | —                              | (59,491 )                                |
| Dividends paid  | (26,347 )                                     | —                                 | —                                     | —                              | (26,347 )                                |
| Intercompany activities, net  | (227,822 )                                    | 332,689                           | (104,867 )                            | —                              | —  |
| <b>Net cash provided by (used in)<br/>financing activities</b>            | (310,937 )                                    | 332,689                           | (296,170 )                            | —                              | (274,418 )                               |
| Net increase (decrease) in cash, cash equivalents,<br>and restricted cash | —   | (22,205 )                         | (99,176 )                             | —                              | (121,381 )                               |
| Cash, cash equivalents, and restricted cash<br>at beginning of year       | —   | 157,801                           | 148,367                               | —                              | 306,168                                  |
| Cash, cash equivalents, and restricted cash<br>at end of year             | \$—   | \$ 135,596                        | \$ 49,191                             | \$ —                           | —\$ 184,787                              |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

Demand conditions became more challenging across the U.S. new home industry beginning in mid-2018 as affordability concerns, driven in part by the combination of increased home prices and higher mortgage rates, caused homebuyers to become more cautious. However, we have experienced increased traffic to our communities relative to the same period in 2018 as mortgage rates have declined slightly. We continue to see U.S. housing demand being supported by a number of positive market dynamics, including an expanding economy, ongoing growth in jobs and wages, low unemployment, and high consumer confidence. In addition, there is generally limited supply of new homes across the markets we serve as land and labor resources remain constrained. Accordingly, we continue to maintain a positive view on the overall housing cycle and our competitive position in the markets in which we operate. Within this environment, we will remain disciplined in our business practices while looking to capitalize on market opportunities that can help deliver long-term growth and strong financial performance.

The following is a summary of our operating results by line of business (\$000's omitted, except per share data):

|                                     | <b>Three Months<br/>Ended<br/>March 31,<br/>2019      2018</b> |           |
|-------------------------------------|--|-----------|
| Income before income taxes:         |  |           |
| Homebuilding                        | \$204,294  | \$210,358 |
| Financial Services                  | 12,409   | 13,833    |
| Income before income taxes          | 216,703  | 224,191   |
| Income tax expense                  | (49,946 )  | (53,440 ) |
| Net income                          | \$166,757  | \$170,751 |
| Per share data - assuming dilution: |  |           |
| Net income                          | \$0.59   | \$0.59    |

Homebuilding income before income taxes for the three months ended March 31, 2019 decreased 3% compared to the three months ended March 31, 2018 primarily due to: lower gross margin; higher selling, general, and administrative expenses; partially offset by slightly higher revenues.

Financial Services income before income taxes decreased 10% for the three months ended March 31, 2019 compared with the three months ended March 31, 2018 primarily as the result of the competitive pricing environment within the mortgage industry, partially offset by slightly higher production volumes.

Our effective tax rate for the three months ended March 31, 2019 was 23.0% compared to 23.8% for the same period in 2018. Our effective tax rate for the three months ended March 31, 2019 was lower than the prior year period primarily due to the favorable resolution of certain state income tax matters.

**Homebuilding Operations**

The following presents selected financial information for our Homebuilding operations (\$000's omitted):

|  | <b>Three Months Ended</b> |                 |                |
|--|---------------------------|-----------------|----------------|
|  | <b>March 31,</b>          |                 |                |
|  | <b>2019</b>               | <b>2019 vs.</b> | <b>2018</b>    |
|  |                           | <b>2018</b>     |                |
| Home sale revenues                                     | \$1,949,856               | 2               | % \$1,911,598  |
| Land sale and other revenues                           | 2,975                     | (76             | )% 12,557      |
| Total Homebuilding revenues                            | 1,952,831                 | 1               | % 1,924,155    |
| Home sale cost of revenues (a)                         | (1,492,791 )              | 2               | % (1,459,940 ) |
| Land sale cost of revenues                             | (2,050 )                  | (82             | )% (11,548 )   |
| Selling, general, and administrative expenses ("SG&A") | (252,727 )                | 5               | % (240,893 )   |
| Other expense, net                                     | (969 )                    | (32             | )% (1,416 )    |
| Income before income taxes                             | \$204,294                 | (3              | )% \$210,358   |

**Supplemental data:**

|  |       |            |         |   |
|--|-------|------------|---------|---|
| Gross margin from home sales               | 23.4  | % (20) bps | 23.6    | % |
| SG&A as a percentage of home sale revenues | 13.0  | % 40 bps   | 12.6    | % |
| Closings (units)                           | 4,635 | —          | % 4,626 |   |
| Average selling price                      | \$421 | 2          | % \$413 |   |

**Net new orders (b):**

|                                |             |    |                |   |
|--------------------------------|-------------|----|----------------|---|
| Units                          | 6,463       | (6 | )% 6,875       |   |
| Dollars                        | \$2,735,852 | (5 | )% \$2,893,552 |   |
| Cancellation rate              | 12          | %  | 12             | % |
| Active communities at March 31 | 858         | 2  | % 844          |   |

**Backlog at March 31:**

|         |             |    |                |  |
|---------|-------------|----|----------------|--|
| Units   | 10,550      | (6 | )% 11,245      |  |
| Dollars | \$4,622,145 | (7 | )% \$4,961,018 |  |

(a) Includes the amortization of capitalized interest.

(b) Net new order dollars represent a composite of new order dollars combined with other movements of the dollars in backlog related to cancellations and change orders.

*Home sale revenues*

Home sale revenues for the three months ended March 31, 2019 were higher than the prior year by \$38.3 million. For the three months ended March 31, 2019, the 2% increase was attributable to a slight increase in closings and a 2% increase in average selling price. The increased closings occurred primarily as the result of a higher number of active communities. The higher average selling price primarily reflects shifts in product mix throughout the country.

*Home sale gross margins*

Home sale gross margins were 23.4% for the three months ended March 31, 2019, respectively, compared to 23.6% three months ended March 31, 2018, respectively. Gross margins for the three months ended March 31, 2019 remain strong relative to historical levels and reflect a combination of factors, including shifts in community mix. The supportive pricing environment that exists in many of our markets is allowing us to effectively manage ongoing

pressure in house and land costs and slightly higher amortized interest costs (1.8% for the three months ended March 31, 2019 compared to 1.6% for the same period in 2018), though sales discounts have increased moderately in response to the softening in demand.



*Land sale and other revenues*

We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land sale and other revenues and their related gains or losses vary between periods, depending on the timing of land sales and our strategic operating decisions. Land sales and other revenues contributed income of \$0.9 million for the three months ended March 31, 2019 compared to \$1.0 million for the three months ended March 31, 2018.

*SG&A*

SG&A as a percentage of home sale revenues was 13.0% for the three months ended March 31, 2019, compared with 12.6% for the three months ended March 31, 2018. The gross dollar amount of our SG&A increased \$11.8 million, or 5%, for the three months ended March 31, 2019 compared to March 31, 2018. The increase is primarily attributable to higher variable operating costs, including insurance, compensation, and sales commissions.

*Other expense, net*

Other expense, net includes the following (\$000's omitted):

|  | <b>Three Months<br/>Ended<br/>March 31,<br/>2019    2018</b> |            |
|--|--|------------|
| Write-offs of deposits and pre-acquisition costs       | \$ (2,917)   | \$ (2,609) |
| Amortization of intangible assets                      | (3,450 )   | (3,450 )   |
| Interest income  | 4,949  | 564        |
| Interest expense                                       | (144 )   | (143 )     |
| Equity in earnings (losses) of unconsolidated entities | 37   | 961        |
| Miscellaneous, net                                     | 556  | 3,261      |
| Total other expense, net                               | \$(969 )   | \$(1,416)  |

*Net new orders*

Net new orders in units decreased 6% while net new orders in dollars decreased 5% for the three months ended March 31, 2019, as compared with the prior year period. The lower order volume in 2019 resulted from the industry-wide softening that began in the second quarter of 2018. The cancellation rate (canceled orders for the period divided by gross new orders for the period) was 12% for both the three months ended March 31, 2019 and 2018. Ending backlog, which represents orders for homes that have not yet closed, decreased 6% in units at March 31, 2019 compared with March 31, 2018, primarily as a result of decreased net new order volume.

*Homes in production*

The following is a summary of our homes in production:

|                    | <b>March 31, 2019</b> | <b>March 31, 2018</b> |
|--------------------|-----------------------|-----------------------|
| Sold               | 7,152                 | 7,473                 |
| Unsold             |                       |                       |
| Under construction | 2,513                 | 1,871                 |
| Completed          | 662                   | 610                   |
|                    | 3,175                 | 2,481                 |
| Models             | 1,222                 | 1,189                 |
| Total              | 11,549                | 11,143                |

The number of homes in production at March 31, 2019 was 4% higher than at March 31, 2018. The increase in homes under production resulted from an increase in the number of unsold, or "spec", homes, which is a result of a strategic decision to allow spec production to run higher than in the prior year period to ensure access to construction suppliers and to position communities ahead of the spring selling season.

*Controlled lots*

The following is a summary of our lots under control at March 31, 2019 and December 31, 2018:

|           | <b>March 31, 2019</b> |                 |                   | <b>December 31, 2018</b> |                 |                   |
|-----------|-----------------------|-----------------|-------------------|--------------------------|-----------------|-------------------|
|           | <b>Owned</b>          | <b>Optioned</b> | <b>Controlled</b> | <b>Owned</b>             | <b>Optioned</b> | <b>Controlled</b> |
| Northeast | 5,726                 | 4,223           | 9,949             | 5,813                    | 3,694           | 9,507             |
| Southeast | 16,309                | 9,646           | 25,955            | 15,800                   | 11,806          | 27,606            |
| Florida   | 18,611                | 14,687          | 33,298            | 18,652                   | 15,855          | 34,507            |
| Midwest   | 10,091                | 10,687          | 20,778            | 10,097                   | 11,883          | 21,980            |
| Texas     | 15,159                | 12,543          | 27,702            | 14,380                   | 11,035          | 25,415            |
| West      | 24,679                | 6,337           | 31,016            | 24,788                   | 5,774           | 30,562            |
| Total     | 90,575                | 58,123          | 148,698           | 89,530                   | 60,047          | 149,577           |

Developed (%) 39    % 19    % 31    % 39    % 21    % 32    %

Of our controlled lots, 90,575 and 89,530 were owned and 58,123 and 60,047 were controlled under land option agreements at March 31, 2019 and December 31, 2018, respectively. While competition for well-positioned land is robust, we continue to pursue land investments that we believe can achieve appropriate risk-adjusted returns on invested capital. The remaining purchase price under our land option agreements totaled \$2.6 billion at March 31, 2019. These land option agreements generally may be canceled at our discretion and in certain cases extend over several years. Our maximum exposure related to these land option agreements is generally limited to our deposits and pre-acquisition costs, which totaled \$238.3 million, of which \$14.6 million is refundable, at March 31, 2019.

**Homebuilding Segment Operations**

As of March 31, 2019, we conducted our operations in 42 markets located throughout 23 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast: *Connecticut, Maryland, Massachusetts, New Jersey, Pennsylvania, Virginia*

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

Florida: *Florida*

Midwest: *Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio*

Texas: *Texas*

West: *Arizona, California, Nevada, New Mexico, Washington*

The following tables present selected financial information for our reportable Homebuilding segments:

**Operating Data by Segment**  
**(\$000's omitted)**  
**Three Months Ended**  
**March 31,**

|   | <b>2019</b> | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|-------------|
|   |             | <b>vs.</b>  |             |
|   |             | <b>2018</b> |             |
| <b>Home sale revenues:</b>                    |             |             |             |
| Northeast                                     | \$110,263   | (17)%       | \$132,339   |
| Southeast                                     | 374,455     | — %         | 373,443     |
| Florida                                       | 396,131     | 16 %        | 341,071     |
| Midwest                                       | 292,852     | (1 )%       | 296,895     |
| Texas   | 268,741     | 10 %        | 245,110     |
| West  | 507,414     | (3 )%       | 522,740     |
|   | \$1,949,856 | 2 %         | \$1,911,598 |
| <b>Income (loss) before income taxes (a):</b> |             |             |             |
| Northeast                                     | \$7,928     | (15)%       | \$9,312     |
| Southeast                                     | 37,856      | (6 )%       | 40,457      |
| Florida                                       | 49,596      | 10 %        | 44,945      |
| Midwest                                       | 26,158      | (8 )%       | 28,401      |
| Texas   | 30,971      | 1 %         | 30,536      |
| West  | 90,182      | 1 %         | 89,205      |
| Other homebuilding                            | (38,397 )   | (18)%       | (32,498 )   |
|   | \$204,294   | (3 )%       | \$210,358   |

(a) Includes land-related charges as summarized in the table below.

**Operating Data by Segment**  
**(\$000's omitted)**  
**Three Months Ended**  
**March 31,**

**2019**                      **2019**  
**vs.**                      **2018**  
**2018**

**Closings (units):**

|           |       |       |       |
|-----------|-------|-------|-------|
| Northeast | 219   | (13)% | 251   |
| Southeast | 897   | (3 )% | 924   |
| Florida   | 1,008 | 14 %  | 887   |
| Midwest   | 726   | (5 )% | 767   |
| Texas     | 849   | 5 %   | 809   |
| West      | 936   | (5 )% | 988   |
|           | 4,635 | — %   | 4,626 |

**Average selling price:**

|           |       |       |       |
|-----------|-------|-------|-------|
| Northeast | \$503 | (5 )% | \$527 |
| Southeast | 417   | 3 %   | 404   |
| Florida   | 393   | 2 %   | 385   |
| Midwest   | 403   | 4 %   | 387   |
| Texas     | 317   | 5 %   | 303   |
| West      | 542   | 2 %   | 529   |
|           | \$421 | 2 %   | \$413 |

**Net new orders - units:**

|           |       |       |       |
|-----------|-------|-------|-------|
| Northeast | 361   | (19)% | 448   |
| Southeast | 1,073 | (15)% | 1,259 |
| Florida   | 1,346 | (7 )% | 1,444 |
| Midwest   | 1,024 | (7 )% | 1,102 |
| Texas     | 1,366 | 3 %   | 1,323 |
| West      | 1,293 | — %   | 1,299 |
|           | 6,463 | (6 )% | 6,875 |

**Net new orders - dollars:**

|           |             |       |             |
|-----------|-------------|-------|-------------|
| Northeast | \$196,298   | (16)% | \$234,650   |
| Southeast | 454,388     | (13)% | 523,909     |
| Florida   | 550,305     | (4 )% | 572,775     |
| Midwest   | 425,642     | (6 )% | 450,526     |
| Texas     | 412,043     | 2 %   | 404,854     |
| West      | 697,176     | (1 )% | 706,838     |
|           | \$2,735,852 | (5 )% | \$2,893,552 |

**Operating Data by Segment**  
**(\$000's omitted)**  
**Three Months Ended**  
**March 31,**

**2019**                      **2019**  
**vs.**                      **2018**  
**2018**

**Cancellation rates:**

|           |    |   |    |   |
|-----------|----|---|----|---|
| Northeast | 10 | % | 6  | % |
| Southeast | 11 | % | 10 | % |
| Florida   | 11 | % | 12 | % |
| Midwest   | 11 | % | 10 | % |
| Texas     | 13 | % | 16 | % |
| West      | 14 | % | 13 | % |
|           | 12 | % | 12 | % |

**Unit backlog:**

|           |        |       |        |
|-----------|--------|-------|--------|
| Northeast | 612    | (14)% | 709    |
| Southeast | 1,786  | (13)% | 2,051  |
| Florida   | 2,227  | — %   | 2,235  |
| Midwest   | 1,700  | (7 )% | 1,822  |
| Texas     | 2,009  | 4 %   | 1,940  |
| West      | 2,216  | (11)% | 2,488  |
|           | 10,550 | (6 )% | 11,245 |

**Backlog dollars:**

|           |             |       |             |
|-----------|-------------|-------|-------------|
| Northeast | \$343,847   | (3 )% | \$355,961   |
| Southeast | 778,963     | (10)% | 868,632     |
| Florida   | 954,226     | 4 %   | 913,293     |
| Midwest   | 721,210     | (3 )% | 742,170     |
| Texas     | 629,514     | 3 %   | 609,542     |
| West      | 1,194,385   | (19)% | 1,471,420   |
|           | \$4,622,145 | (7 )% | \$4,961,018 |

**Operating  
Data by  
Segment  
(\$000's  
omitted)  
Three Months  
Ended  
March 31,  
2019 2018**

**Land-related charges\*:**

|                    |         |         |
|--------------------|---------|---------|
| Northeast          | \$324   | \$1,185 |
| Southeast          | 572     | 1,042   |
| Florida            | 481     | 183     |
| Midwest            | 1,103   | 746     |
| Texas              | 68      | 50      |
| West               | 431     | 213     |
| Other homebuilding | —       | —       |
|                    | \$2,979 | \$3,419 |

*Land-related charges include land inventory impairments, net realizable value adjustments on land held for sale, \*impairments of investments in unconsolidated entities, and write-offs of deposits and pre-acquisition costs for land option contracts we elected not to pursue. Other homebuilding consists primarily of write-offs of capitalized interest related to such land-related charges.*

*Northeast*

For the three months ended March 31, 2019, Northeast home sale revenues decreased by 17% when compared with the prior year period due to a 13% decrease in closings. The decrease in closings occurred across substantially all markets due to the softening in demand that began in mid-2018. Income before income taxes decreased 15% primarily due to the aforementioned decrease in closings. Net new orders decreased across all markets except New England, which saw a slight increase.

*Southeast*

For the three months ended March 31, 2019, Southeast home sale revenues increased slightly compared with the prior year as the result of a 3% increase in average selling price partially offset by a 3% decrease in closings. The increase in average selling price and decrease in closings occurred across the majority of markets. Income before income taxes decreased 6% primarily as a result of lower gross margin. Net new orders decreased across all markets.

*Florida*

For the three months ended March 31, 2019, Florida home sale revenues increased 16% compared with the prior year period due to a 14% increase in closings combined with a 2% increase in the average selling price. Income before income taxes increased 10% due to the higher revenues, partially offset by lower gross margin. Net new orders decreased across the majority of markets.

*Midwest*

For the three months ended March 31, 2019, Midwest home sale revenues decreased 1% compared with the prior year period due to a 5% decrease in closings, partially offset by a 4% increase in average selling price. The lower revenues were primarily the result of the wind down of our St. Louis operations in 2018. Results were mixed across the other

local markets. Income before income taxes decreased primarily due to the decreased revenues. Net new orders decreased across the majority of markets.

*Texas*

For the three months ended March 31, 2019, Texas home sale revenues increased 10% compared with the prior year period due to a 5% increase in closings combined with a 5% increase in the average selling price. The higher revenues were driven by increases in all markets except Houston, which was flat. Net new orders increased primarily in Central Texas.

*West*

For the three months ended March 31, 2019, West home sale revenues decreased 3% compared with the prior year period due to a 5% decrease in closings, partially offset by a 2% increase in average selling price. Revenues were higher in each market except for Northern California. The decline in Northern California reflects the completion, or near completion, of several high performing communities in Northern California that have been or will be replaced with smaller communities combined with a softening in demand. Net new orders were essentially flat across the West as we continue to see variation in results, with ongoing strength in Arizona offsetting slower demand in California.



## Financial Services Operations

We conduct our Financial Services operations, which include mortgage banking, title, and insurance brokerage operations, through Pulte Mortgage and other subsidiaries. In originating mortgage loans, we initially use our own funds, including funds available pursuant to credit agreements with third parties. Substantially all of the loans we originate are sold in the secondary market within a short period of time after origination, generally within 30 days. We also sell the servicing rights for the loans we originate through fixed price servicing sales contracts to reduce the risks and costs inherent in servicing loans. This strategy results in owning the loans and related servicing rights for only a short period of time. Operating as a captive business model primarily targeted to supporting our Homebuilding operations, the business levels of our Financial Services operations are highly correlated to Homebuilding. Our Homebuilding customers continue to account for substantially all loan production. We believe that our capture rate, which represents loan originations from our Homebuilding operations as a percentage of total loan opportunities from our Homebuilding operations, excluding cash closings, is an important metric in evaluating the effectiveness of our captive mortgage business model. The following tables present selected financial information for our Financial Services operations (\$000's omitted):

|                                   | <b>Three Months Ended</b> |             |             |
|-----------------------------------|---------------------------|-------------|-------------|
|                                   | <b>March 31,</b>          |             |             |
|                                   | <b>2019</b>               | <b>vs.</b>  | <b>2018</b> |
|                                   |                           | <b>2018</b> |             |
| Mortgage revenues                 | \$31,873                  | (9 )%       | \$35,027    |
| Title services revenues           | 9,842                     | 10 %        | 8,937       |
| Insurance brokerage commissions   | 2,147                     | 9 %         | 1,974       |
| Total Financial Services revenues | 43,862                    | (5 )%       | 45,938      |
| Expenses                          | (31,449 )                 | (2 )%       | (32,213 )   |
| Other income (expense), net       | (4 )                      | (104)%      | 108         |
| Income before income taxes        | \$12,409                  | (10 )%      | \$13,833    |
| <b><u>Total originations:</u></b> |                           |             |             |
| Loans                             | 2,998                     | — %         | 2,992       |
| Principal                         | \$914,711                 | 1 %         | \$909,800   |

|   | <b>Three Months Ended</b> |             |   |
|---|---------------------------|-------------|---|
|   | <b>March 31,</b>          |             |   |
|   | <b>2019</b>               | <b>2018</b> |   |
| <b><u>Supplemental data:</u></b>            |                           |             |   |
| Capture rate                                | 79.7                      | % 77.7      | % |
| Average FICO score                          | 752                       | 750         |   |
| Loan application backlog                    | \$2,508,561               | \$2,765,386 |   |
| <b><u>Funded origination breakdown:</u></b> |                           |             |   |
| Government (FHA, VA, USDA)                  | 18                        | % 21        | % |
| Other agency                                | 71                        | % 67        | % |
| Total agency                                | 89                        | % 88        | % |
| Non-agency                                  | 11                        | % 12        | % |
| Total funded originations                   | 100                       | % 100       | % |

### *Revenues*

Total Financial Services revenues for the three months ended March 31, 2019 decreased 5%, compared with the same period in 2018. This decrease occurred primarily as the result of the competitive pricing environment within the mortgage industry, partially offset by slightly higher production volume.



*Income before income taxes*

Income before income taxes for the three months ended March 31, 2019 decreased 10% compared with the prior year period. The decrease versus the prior year was due primarily to the aforementioned decrease in revenues.

**Income Taxes**

Our effective tax rate for the three months ended March 31, 2019 was 23.0%, compared with 23.8% for the same period in 2018. Our effective tax rate for the three months ended March 31, 2019 is lower than the prior year period primarily due to the favorable resolution of certain state income tax matters.

**Liquidity and Capital Resources**

We finance our land acquisition, development, and construction activities and financial services operations using internally-generated funds supplemented by credit arrangements with third parties and capital market financing. We routinely monitor current and expected operational requirements and financial market conditions to evaluate accessing other available financing sources, including revolving bank credit and securities offerings.

At March 31, 2019, we had unrestricted cash and equivalents of \$1.1 billion, restricted cash balances of \$25.5 million, and \$767.1 million available under our Revolving Credit Facility. We follow a diversified investment approach for our cash and equivalents by maintaining such funds with a broad portfolio of banks within our group of relationship banks in high quality, highly liquid, short-term deposits and investments.

Our ratio of debt to total capitalization, excluding our Financial Services debt, was 38.0% at March 31, 2019.

*Unsecured senior notes*

We had \$3.0 billion of unsecured senior notes outstanding at both March 31, 2019 and December 31, 2018 with no repayments due until 2021, when \$700.0 million of unsecured senior notes are scheduled to mature.

*Other notes payable*

Other notes payable include non-recourse and limited recourse collateralized notes with third parties that totaled \$37.7 million and \$41.3 million at March 31, 2019 and December 31, 2018, respectively. These notes have maturities ranging up to three years, are secured by the applicable land positions to which they relate, and have no recourse to any other assets. The stated interest rates on these notes range up to 5.17%.

*Revolving credit facility*

In June 2018, we entered into the Revolving Credit Facility which replaced the Company's previous credit agreement. The Revolving Credit Facility contains substantially similar terms to the previous credit agreement and extended the maturity date from June 2019 to June 2023. The Revolving Credit Facility has a maximum borrowing capacity of \$1.0 billion and contains an uncommitted accordion feature that could increase the capacity to \$1.5 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce the available borrowing capacity under the Revolving Credit Facility, with a sublimit of \$500.0 million at March 31, 2019. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate ("LIBOR") or a base rate plus an applicable margin, as defined therein. We had no borrowings outstanding at March 31, 2019 and December 31, 2018, and \$232.9 million and \$239.4 million of letters of credit issued under the Revolving Credit Facility at March 31, 2019 and December 31, 2018, respectively.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of March 31, 2019, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries.

*Financial Services debt*

Pulte Mortgage maintains a master repurchase agreement with third party lenders that matures in August 2019. The maximum aggregate commitment was \$350.0 million at March 31, 2019 and continues through maturity. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. Pulte Mortgage had \$222.1 million and \$348.4 million outstanding under the Repurchase Agreement at March 31, 2019 and December 31, 2018, respectively, and was in compliance with all of its covenants and requirements as of such dates.

*Dividends and share repurchase program*

During the three months ended March 31, 2019, we declared cash dividends totaling \$30.8 million and repurchased 0.9 million shares under our repurchase authorization totaling \$25.0 million. At March 31, 2019, we had remaining authorization to repurchase \$274.9 million of common shares.

*Cash flows*

*Operating activities*

Our net cash provided by operating activities for the three months ended March 31, 2019 was \$158.9 million, compared with net cash provided by operating activities of \$169.0 million for the three months ended March 31, 2018. Generally, the primary drivers of our cash flow from operations are profitability and changes in the levels of inventory and residential mortgage loans available-for-sale, each of which experiences seasonal fluctuations. The positive cash flow from operations for the three months ended March 31, 2019 was primarily due to our net income of \$166.8 million, supplemented by \$24.7 million of deferred income taxes and a seasonal \$134.2 million decrease in residential mortgage loans available-for-sale. These sources of cash were partially offset by a net increase in inventories of \$259.9 million resulting from ongoing land acquisition and development investment to support future growth, combined with a seasonal build of house inventory.

Our net cash provided by operating activities for the three months ended March 31, 2018 was primarily due to our net income of \$170.8 million, supplemented by a seasonal reduction of \$185.1 million in residential mortgage loans available-for-sale. These factors were partially offset by a net increase in inventories of \$237.2 million resulting from land investments, combined with a seasonal build of house inventory.

*Investing activities*

Investing activities are generally not a significant source or use of cash for us. Net cash used in investing activities for the three months ended March 31, 2019 was \$17.1 million, compared with net cash used in investing activities of \$16.0 million for the three months ended March 31, 2018. These cash outflows primarily reflected ongoing investments in model home parks in our new communities as well as information technology applications.

*Financing activities*

Net cash used in financing activities for the three months ended March 31, 2019 totaled \$194.6 million, compared with net cash used in financing activities of \$274.4 million for the three months ended March 31, 2018. The net cash used in financing activities for the three months ended March 31, 2019 resulted primarily from the repurchase of 0.9 million common shares for \$25.0 million under our share repurchase authorization, repayments of debt totaling \$3.6 million, payments of \$30.8 million in cash dividends, and net repayments of \$126.3 million for borrowings under the Repurchase Agreement related to a seasonal reduction in residential mortgage loans available-for-sale.

Net cash used in financing activities for the three months ended March 31, 2018 resulted primarily from the repurchase of 1.7 million common shares for \$52.5 million under our repurchase authorization, payments of \$26.3 million in cash dividends, and net repayments of \$190.9 million for borrowings under the Repurchase Agreement related to a seasonal reduction in residential mortgage loans available-for-sale.

## **Inflation**

We, and the homebuilding industry in general, may be adversely affected during periods of inflation because of higher land and construction costs. Inflation may also increase our financing costs. In addition, higher mortgage interest rates affect the affordability of our products to prospective homebuyers. While we attempt to pass on to our customers increases in our costs through increased sales prices, market forces may limit our ability to do so. If we are unable to raise sales prices enough to compensate for higher costs, or if mortgage interest rates increase significantly, our revenues, gross margins, and net income could be adversely affected.

## **Seasonality**

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again, we historically experience variability in our quarterly results from operations due to the seasonal nature of the homebuilding industry. We generally experience increases in revenues and cash flow from operations during the fourth quarter based on the timing of home closings. This seasonal activity increases our working capital requirements in our third and fourth quarters to support our home production and loan origination volumes. As a result of the seasonality of our operations, our quarterly results of operations are not necessarily indicative of the results that may be expected for the full year.

## **Contractual Obligations and Commercial Commitments**

There have been no material changes to our contractual obligations from those disclosed in our "Contractual Obligations and Commercial Commitments" contained in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in our Annual Report on Form 10-K for the year ended December 31, 2018.

## **Off-Balance Sheet Arrangements**

We use letters of credit and surety bonds to guarantee our performance under various contracts, principally in connection with the development of our homebuilding projects. The expiration dates of the letter of credit contracts coincide with the expected completion date of the related homebuilding 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 March 31, 2019, we had outstanding letters of credit totaling \$232.9 million. Our surety bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. These bonds, which approximated \$1.3 billion at March 31, 2019, are typically outstanding over a period of approximately three to five years. Because significant construction and development work has been performed related to projects that have not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

In the ordinary course of business, we enter into land option agreements in order to procure land for the construction of houses in the future. At March 31, 2019, these agreements had an aggregate remaining purchase price of \$2.6 billion. Pursuant to these land option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices.

At March 31, 2019, aggregate outstanding debt of unconsolidated joint ventures was \$35.2 million of which \$34.4 million was related to one joint venture in which we have a 50% interest. In connection with this loan, we and our joint venture partner provided customary limited recourse guaranties in which our maximum financial loss exposure is limited to our pro rata share of the debt outstanding.





## Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates during the three months ended March 31, 2019 compared with those contained in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our Annual Report on Form 10-K for the year ended December 31, 2018.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

### Quantitative disclosure

We are subject to market risk on our debt instruments primarily due to fluctuations in interest rates. We utilize both fixed-rate and variable-rate debt. For fixed-rate debt, changes in interest rates generally affect the fair value of the debt instrument but not our earnings or cash flows. Conversely, for variable-rate debt, changes in interest rates generally do not affect the fair value of the debt instrument but could affect our earnings and cash flows. Except in very limited circumstances, we do not have an obligation to prepay fixed-rate debt prior to maturity. As a result, interest rate risk and changes in fair value should not have a significant impact on our fixed-rate debt until we are required or elect to refinance or repurchase such debt.

The following table sets forth the principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value of our debt obligations as of March 31, 2019 (\$000's omitted):

**As of March 31, 2019 for the  
Years ending December 31,**

|                                    | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>Thereafter</b> | <b>Total</b> | <b>Fair<br/>Value</b> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|-----------------------|
| <b>Rate-sensitive liabilities:</b> |             |             |             |             |             |                   |              |                       |
| <i>Fixed rate debt</i>             | \$21,021    | \$9,968     | \$706,719   | \$ —        | \$ —        | \$2,300,000       | \$3,037,708  | \$3,091,068           |
| Average interest rate              | 4.68        | % 3.81      | % 4.26      | % —         | % —         | 5.90              | % 5.50       | %                     |
| <i>Variable rate debt (a)</i>      | \$222,139   | \$—         | \$—         | \$ —        | \$ —        | \$—               | \$222,139    | \$222,139             |
| Average interest rate              | 4.55        | % —         | % —         | % —         | % —         | —                 | % 4.55       | %                     |

(a) Includes the Pulte Mortgage Repurchase Agreement and amounts outstanding under our Revolving Credit Facility, under which there was no amount outstanding at March 31, 2019.

### Qualitative disclosure

There have been no material changes to the qualitative disclosure found in Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 3, *Quantitative and Qualitative Disclosures About Market Risk*, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or implied by, these statements. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "plan," "project," "may," "can," "could," "might," and similar expressions identify forward-looking statements, including statements related to any impairment charge and the impacts or effects thereof, expected operating and performing results, planned transactions, planned objectives of management, future developments or conditions in the industries in which we participate and other trends, developments and uncertainties that may affect our business in the future.

Such risks, uncertainties and other factors include, among other things: interest rate changes and the availability of mortgage financing; competition within the industries in which we operate; the availability and cost of land and other raw materials used by us in our homebuilding operations; the impact of any changes to our strategy in responding to the cyclical nature of the industry, including any changes regarding our land positions and the levels of our land spend; the availability and cost of insurance covering risks associated with our businesses; shortages and the cost of labor; weather related slowdowns; slow growth initiatives and/or local building moratoria; governmental regulation directed at or affecting the housing market, the homebuilding industry or construction activities; uncertainty in the mortgage lending industry, including revisions to underwriting standards and repurchase requirements associated with the sale of mortgage loans; the interpretation of or changes to tax, labor and environmental laws which could have a greater impact on our effective tax rate or the value of our deferred tax assets than we anticipate; economic changes nationally or in our local markets, including inflation, deflation, changes in consumer confidence and preferences and the state of the market for homes in general; legal or regulatory proceedings or claims; our ability to generate sufficient cash flow in order to successfully implement our capital allocation priorities; required accounting changes; terrorist acts and other acts of war; and other factors of national, regional and global scale, including those of a political, economic, business and competitive nature. See PulteGroup's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, and other public filings with the Securities and Exchange Commission (the "SEC") for a further discussion of these and other risks and uncertainties applicable to our businesses. PulteGroup undertakes no duty to update any forward-looking statement, whether as a result of new information, future events or changes in PulteGroup's expectations.

### **Item 4. Controls and Procedures**

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

Management, including our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2019. Based upon, and as of the date of that evaluation, our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of March 31, 2019.

Management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). There was no change in our internal control over financial reporting during the quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**PART II. OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

|                                       | Total number<br>of shares<br>purchased (1) | Average<br>price paid<br>per share<br>(1) | Total number of<br>shares purchased<br>as part of publicly<br>announced plans<br>or programs | Approximate dollar<br>value of shares<br>that may yet be<br>purchased under<br>the plans or<br>programs<br>(\$000's omitted) |
|---------------------------------------|--|---|--|--|
| January 1, 2019 to January 31, 2019   | —  | \$ —                                      | —  | \$ 299,882 (2)   |
| February 1, 2019 to February 28, 2019 | 761,554                                    | \$ 26.88                                  | 383,411  | \$ 289,477 (2)   |
| March 1, 2019 through March 31, 2019  | 547,808                                    | \$ 27.17                                  | 537,074  | \$ 274,882 (2)   |
| Total                                 | 1,309,362                                  | \$ 27.00                                  | 920,485  |  |

During the three months ended March 31, 2019, participants surrendered 0.4 million shares for payment of (1) minimum tax obligations upon the vesting or exercise of previously granted share-based compensation awards. Such shares were not repurchased as part of our publicly-announced share repurchase programs.

During the three months ended March 31, 2019, we repurchased 0.9 million shares for a total of \$25.0 million (2) under an existing share repurchase program authorized by the Company's Board of Directors. The share repurchase authorization has \$274.9 million remaining as of March 31, 2019. There is no expiration date for this program.

**Item 6. Exhibits**

**Exhibit Number and Description**

- 3 (a) Restated Articles of Incorporation, of PulteGroup, Inc. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K, filed with the SEC on August 18, 2009)
- (b) Certificate of Amendment to the Articles of Incorporation, dated March 18, 2010 (Incorporated by reference to Exhibit 3(b) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)
- (c) Certificate of Amendment to the Articles of Incorporation, dated May 21, 2010 (Incorporated by reference to Exhibit 3(c) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010)
- (d) Amended and Restated By-Laws of PulteGroup, Inc. (Incorporated by reference to Exhibit 3.2 of our Current Report on Form 8-K, filed with the SEC on May 5, 2017)
- (e) Certificate of Designation of Series A Junior Participating Preferred Shares, dated August 6, 2009 (Incorporated by reference to Exhibit 3(b) of our Registration Statement on Form 8-A, filed with the SEC on August 18, 2009)
- 4 (a) Any instrument with respect to long-term debt, where the securities authorized thereunder do not exceed 10% of the total assets of PulteGroup, Inc. and its subsidiaries, has not been filed. The Company agrees to furnish a copy of such instruments to the SEC upon request.
- (b) Amended and Restated Section 382 Rights Agreement, dated as of March 18, 2010, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent, which includes the Form of Rights Certificate as Exhibit B thereto (Incorporated by reference to Exhibit 4 of PulteGroup, Inc.'s Registration Statement on Form 8-A/A, filed with the SEC on March 23, 2010)
- (c) First Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 14, 2013, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 15, 2013)
- (d) Second Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 10, 2016, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 10, 2016)
- (e) Third Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 7, 2019, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 7, 2019)
- 10 (a) PulteGroup, Inc. 2019 Senior Management Incentive Plan (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on February 8, 2019)

- 31 (a) Rule 13a-14(a) Certification by Ryan R. Marshall, President and Chief Executive Officer (Filed herewith)
- (b) Rule 13a-14(a) Certification by Robert T. O'Shaughnessy, 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 (Furnished herewith)
- 101.INS XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements 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.

**PULTEGROUP,  
INC.**

/s/ Robert T.  
O'Shaughnessy  
Robert T.  
O'Shaughnessy  
Executive Vice  
President and Chief  
Financial Officer  
(Principal Financial  
Officer and duly  
authorized officer)  
Date: April 23, 2019