PULTEGROUP INC/MI/
Form 10-Q
October 28, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

¨ **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.)**

100 Bloomfield Hills Parkway, Suite 300

Bloomfield Hills, Michigan 48304

(Address of principal executive offices) (Zip Code)

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

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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES x NO ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

Number of shares of common stock outstanding as of October 21, 2011: 382,780,762

Table of Contents

PULTEGROUP, INC.

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PULTEGROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

($000 s omitted)

	September 30, 2011 (Unaudited)	December 31, 2010 (Note)
ASSETS		
Cash and equivalents	$ 1,142,513	$ 1,470,625
Restricted cash	113,296	24,601
Unfunded settlements	16,529	12,765
House and land inventory	4,889,668	4,781,813
Land held for sale	134,563	71,055
Land, not owned, under option agreements	25,422	50,781
Residential mortgage loans available-for-sale	173,956	176,164
Investments in unconsolidated entities	37,184	46,313
Goodwill		240,541
Intangible assets, net	165,623	175,448
Other assets	450,522	567,963
Income taxes receivable	79,378	81,307
	$ 7,228,654	$ 7,699,376
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Accounts payable, including book overdrafts of $47,645 and $63,594 in 2011 and 2010, respectively	$ 224,956	$ 226,466
Customer deposits	78,435	51,727
Accrued and other liabilities	1,445,305	1,599,940
Income tax liabilities	221,128	294,408
Senior notes	3,335,363	3,391,668
Total liabilities	5,305,187	5,564,209
Shareholders equity	1,923,467	2,135,167
	$ 7,228,654	$ 7,699,376

Note: The Condensed Consolidated Balance Sheet at December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PULTEGROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(000 s omitted, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Homebuilding				
Home sale revenues	$ 1,101,368	$ 1,024,847	$ 2,783,602	$ 3,264,643
Land sale revenues	12,659	5,908	19,023	25,639
	1,114,027	1,030,755	2,802,625	3,290,282
Financial Services	27,904	27,009	71,720	93,738
Total revenues	1,141,931	1,057,764	2,874,345	3,384,020
Homebuilding Cost of Revenues:				
Home sale cost of revenues	947,817	952,788	2,422,525	2,907,339
Land sale cost of revenues	(2,935)	4,849	1,782	16,410
	944,882	957,637	2,424,307	2,923,749
Financial Services expenses	19,249	23,450	78,775	93,333
Selling, general, and administrative expenses	121,610	425,643	402,436	744,364
Other expense (income), net	259,187	672,979	274,765	673,772
Interest income	(1,122)	(2,601)	(3,704)	(7,672)
Interest expense	322	789	990	2,289
Equity in (earnings) loss of unconsolidated entities	303	3,704	(1,999)	(1,744)
Income (loss) before income taxes	(202,500)	(1,023,837)	(301,225)	(1,044,071)
Income tax expense (benefit)	(73,202)	(28,721)	(77,016)	(112,770)
Net income (loss)	$ (129,298)	$ (995,116)	$ (224,209)	$ (931,301)
Per share data:				
Net income (loss):				
Basic	$ (0.34)	$ (2.63)	$ (0.59)	$ (2.46)
Diluted	$ (0.34)	$ (2.63)	$ (0.59)	$ (2.46)
Cash dividends declared	$	$	$	$
Number of shares used in calculation:				
Basic	380,025	378,842	379,785	378,406
Diluted	380,025	378,842	379,785	378,406

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PULTEGROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(000's omitted)

(Unaudited)

	Common Stock Shares	Common Stock $	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Shareholders Equity
Shareholders Equity, January 1, 2011	382,028	$ 3,820	$ 2,972,919	$ (1,519)	$ (840,053)	$ 2,135,167
Stock awards, net of cancellations	983	10	(10)			
Stock repurchases	(267)	(2)	(2,081)		62	(2,021)
Stock-based compensation	37		14,444			14,444
Comprehensive income (loss):						
Net income (loss)					(224,209)	(224,209)
Change in fair value of derivatives, net of tax				137		137
Foreign currency translation adjustments				(51)		(51)
Total comprehensive income (loss)						(224,123)
Shareholders Equity, September 30, 2011	382,781	$ 3,828	$ 2,985,272	$ (1,433)	$ (1,064,200)	$ 1,923,467
Shareholders Equity, January 1, 2010	380,690	$ 3,807	$ 2,935,737	$ (2,249)	$ 257,145	$ 3,194,440
Stock option exercises	902	9	8,659			8,668
Stock awards, net of cancellations	1,105	11	(11)			
Stock repurchases	(313)	(3)	(2,501)		(611)	(3,115)
Stock-based compensation			27,480			27,480
Comprehensive income (loss):						
Net income (loss)					(931,301)	(931,301)
Change in fair value of derivatives, net of tax				251		251
Foreign currency translation adjustments						
Total comprehensive income (loss)						(931,050)
Shareholders Equity, September 30, 2010	382,384	$ 3,824	$ 2,969,364	$ (1,998)	$ (674,767)	$ 2,296,423

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PULTEGROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($000 s omitted)

(Unaudited)

	For The Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income (loss)	$ (224,209)	$ (931,301)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Write-down of land and deposits and pre-acquisition costs	11,419	92,549
Goodwill impairments	240,541	656,298
Amortization and depreciation	24,629	34,930
Stock-based compensation expense	14,444	27,480
Equity in (earnings) loss of unconsolidated entities	(1,999)	(1,744)
Distributions of earnings from unconsolidated entities	5,042	3,531
Loss on debt repurchases	3,537	
Other, net	2,741	5,659
Increase (decrease) in cash due to:		
Restricted cash	690	(586)
Inventories	(174,231)	(65,622)
Residential mortgage loans available-for-sale	2,182	13,409
Income taxes receivable	1,929	818,003
Other assets	102,509	78,618
Accounts payable, accrued and other liabilities	(99,674)	109,971
Income tax liabilities	(73,280)	(42,609)
Net cash provided by (used in) operating activities	(163,730)	798,586
Cash flows from investing activities:		
Distributions from unconsolidated entities	4,388	3,893
Investments in unconsolidated entities	(3,749)	(22,666)
Net change in loans held for investment	449	9,898
Change in restricted cash related to letters of credit	(89,385)	
Proceeds from the sale of fixed assets	9,449	1,240
Capital expenditures	(15,162)	(11,647)
Net cash provided by (used in) investing activities	(94,010)	(19,282)
Cash flows from financing activities:		
Net repayments (borrowings) under Financial Services credit arrangements		(18,394)
Repayments of other borrowings	(68,351)	(1,415)
Issuance of common stock		8,668
Stock repurchases	(2,021)	(3,115)
Net cash provided by (used in) financing activities	(70,372)	(14,256)
Net increase (decrease) in cash and equivalents	(328,112)	765,048
Cash and equivalents at beginning of period	1,470,625	1,858,234

Cash and equivalents at end of period	$ 1,142,513	$ 2,623,282
Supplemental Cash Flow Information:		
Interest paid (capitalized), net	$ (29,457)	$ (12,871)
Income taxes paid (refunded), net	$ (5,665)	$ (884,602)

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of presentation and significant accounting policies

Basis of presentation

PulteGroup, Inc. (PulteGroup) is a publicly-held holding company traded on the New York Stock Exchange under the ticker symbol PHM . The consolidated financial statements include the accounts of PulteGroup and all of its direct and indirect subsidiaries (collectively, the Company) and variable interest entities in which the Company is deemed to be the primary beneficiary. While the Company s subsidiaries engage primarily in the homebuilding business, the Company also has mortgage banking operations, conducted principally through Pulte Mortgage LLC (Pulte Mortgage), and title operations.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and disclosures normally included in the Company s annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the SEC rules and regulations. In the opinion of management, all 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 the Company s consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Use of estimates

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

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

Subsequent events

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

Other expense (income), net

Other expense (income), net as reflected in the Consolidated Statements of Operations consists of the following (000 s omitted):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Write-off of deposits and pre-acquisition costs	$ 2,296	$ 1,133	$ 6,628	$ 3,985
Loss on debt retirements			3,537	
Lease exit and related costs *(a)*	114	6,675	6,301	9,287
Amortization of intangible assets	3,275	3,275	9,825	9,825
Goodwill impairments	240,541	654,923	240,541	656,298

Miscellaneous expense (income), net	12,961	6,973	7,933	(5,623)
	$ 259,187	$ 672,979	$ 274,765	$ 673,772

(a) Excludes lease exit and related costs classified within Financial Services expenses.

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

1. Basis of presentation and significant accounting policies (continued)

Restricted cash

The Company maintains certain cash balances that are restricted as to their use. Restricted cash consists primarily of deposits maintained with financial institutions under certain cash-collateralized letter of credit agreements (see Note 10). The remaining balances relate to certain other accounts with restrictions, including customer deposits on home sales that are temporarily restricted by regulatory requirements until title transfers to the homebuyer.

Notes receivable

In certain instances, the Company may accept consideration for land sales or other transactions in the form of a note receivable. The counterparties for these transactions are generally land developers or other strategic investors. The Company considers the creditworthiness of the counterparty when evaluating the relative risk and return involved in pursuing the applicable transaction. Due to the unique facts and circumstances surrounding each receivable, the Company actively monitors each individual receivable separately and assesses the need for an allowance for each receivable on an individual basis. Factors considered as part of this assessment include the counterparty s payment history, the value of any underlying collateral, communications with the counterparty, knowledge of the counterparty s financial condition and plans, and the current and expected economic environment. Allowances are recorded in other expense (income), net when it becomes likely that some amount will not be collectible. Such receivables are reported net of allowance for credit losses within other assets. Notes receivable are written off when it is determined that collection efforts will no longer be pursued. Interest income is recognized as earned. The following represents the Company s notes receivable and related allowance for credit losses at September 30, 2011 and December 31, 2010 ($000 s omitted):

	September 30, 2011	December 31, 2010
Notes receivable, gross	$ 77,968	$ 77,853
Allowance for credit losses	(40,960)	(20,877)
Notes receivable, net	$ 37,008	$ 56,976

The increase in the allowance for credit losses during 2011 relates to the recording of additional reserves as well as reclassifications of reserved receivable balances. The Company also records other receivables from various parties in the normal course of business, including amounts due from municipalities, insurance companies, and vendors. Such receivables are generally non-interest bearing and non-collateralized, payable either on demand or upon the occurrence of a specified event, and are generally reported in other assets. See *Residential mortgage loans available-for-sale* in Note 1 for a discussion of the Company s receivables related to mortgage operations.

Earnings per share

Basic earnings per share is computed by dividing income (loss) available to common shareholders (the numerator) by the weighted-average number of common shares, adjusted for non-vested shares of restricted stock (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, restricted stock units, and non-vested shares of restricted stock. 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. For the three and nine months ended September 30, 2011 and 2010, all stock options, restricted stock units, and non-vested restricted stock were excluded from the calculation as they were anti-dilutive due to the net loss recorded during each period.

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. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Although the Company s outstanding restricted stock and restricted stock units are considered participating securities, there were no earnings attributable to restricted shareholders during the three and nine months ended September 30, 2011 or 2010.

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

1. Basis of presentation and significant accounting policies (continued)

Land, not owned, under option agreements

In the ordinary course of business, the Company enters into land option agreements in order to procure land for the construction of homes in the future. Pursuant to these land option agreements, the Company generally provides a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Under Accounting Standards Codification (ASC) 810, Consolidation (ASC 810), if the entity holding the land under option is a variable interest entity (VIE), the Company s deposit represents a variable interest in that entity. If the Company is determined to be the primary beneficiary of the VIE, then the Company is required to consolidate the VIE.

In applying the provisions of ASC 810, the Company evaluates all land option agreements with VIEs to determine whether the Company is the primary beneficiary. The Company generally has little control or influence over the operations of these VIEs due to the Company s lack of an equity interest in them. The VIE is generally protected from the first dollar of loss under the Company s land option agreement due to the Company s deposit. Likewise, the VIE s gains are generally capped based on the purchase price within the land option agreement. Additionally, creditors of the VIE have no recourse against the Company, and the Company does not provide financial or other support to these VIEs other than as stipulated in the land option agreements. The Company s maximum exposure to loss related to these VIEs is generally limited to the Company s deposits and pre-acquisition costs under the applicable land option agreements. In recent years, the Company has canceled a significant number of land option agreements, which has resulted in significant write-offs of the related deposits and pre-acquisition costs but has not exposed the Company to the overall risks or losses of the applicable VIEs. No VIEs required consolidation under ASC 810 at either September 30, 2011 or December 31, 2010.

Additionally, the Company determined that certain land option agreements represent financing arrangements pursuant to ASC 470-40, Accounting for Product Financing Arrangements (ASC 470-40), even though the Company has no direct obligation to pay these future amounts. As a result, the Company recorded $25.4 million and $50.8 million at September 30, 2011 and December 31, 2010, respectively, to land, not owned, under option agreements with a corresponding increase to accrued and other liabilities. Such amounts represent the remaining purchase price under the land option agreements, some of which are with VIEs, in the event the Company exercises the purchase rights under the agreements.

The following provides a summary of the Company s interests in land option agreements as of September 30, 2011 and December 31, 2010 ($000 s omitted):

	September 30, 2011			December 31, 2010		
	Deposits and Pre-acquisition Costs	Total Purchase Price	Land, Not Owned, Under Option Agreements	Deposits and Pre-acquisition Costs	Total Purchase Price	Land, Not Owned, Under Option Agreements
Consolidated VIEs	$ 9,046	$ 32,834	$ 20,681	$ 41,813	$ 51,773	$ 42,401
Unconsolidated VIEs	25,077	297,880		10,280	202,214	
Other land option agreements	22,952	466,201	4,741	42,970	455,481	8,380
	$ 57,075	$ 796,915	$ 25,422	$ 95,063	$ 709,468	$ 50,781

The above summary includes land option agreements consolidated under ASC 470-40 as well as all other land option agreements. The remaining purchase price (total purchase price less deposit) of all land option agreements totaled $760.4 million at September 30, 2011 and $670.5 million at December 31, 2010.

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

1. Basis of presentation and significant accounting policies (continued)

Residential mortgage loans available-for-sale

Substantially all of the loans originated by the Company are sold in the secondary mortgage market within a short period of time after origination. In accordance with ASC 825, Financial Instruments, the Company has elected the fair value option for its portfolio loans available-for-sale. Election of the fair value option for residential mortgage loans available-for-sale allows a better offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. The Company does not designate any derivative instruments as accounting hedges. 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. At September 30, 2011 and December 31, 2010, residential mortgage loans available-for-sale had an aggregate fair value of $174.0 million and $176.2 million, respectively, and an aggregate outstanding principal balance of $166.5 million and $175.9 million, respectively. The net gain (loss) resulting from changes in fair value of residential mortgage loans available-for-sale totaled $0.8 million and $(0.9) million for the three months ended September 30, 2011 and 2010, respectively, and $(0.6) million and $1.0 million for the nine months ended September 30, 2011 and 2010, respectively, and was included in Financial Services revenues. These changes in fair value were mostly offset by changes in fair value of the corresponding hedging instruments. Net gains from the sale of mortgages were $16.1 million and $15.6 million for the three months ended September 30, 2011 and 2010, respectively, and $41.2 million and $50.7 million for the nine months ended September 30, 2011 and 2010, respectively, and have been included in Financial Services revenues.

Mortgage servicing rights

The Company sells its servicing rights monthly on a flow basis through fixed price servicing contracts. In accordance with Staff Accounting Bulletin No. 109, the Company recognizes the fair value of its rights to service a mortgage loan as revenue at the time of entering into an interest rate lock commitment with a borrower. Due to the short period of time the servicing rights are held, the Company does not amortize the servicing asset. The servicing sales contracts provide for the reimbursement of payments made by the purchaser if loans prepay within specified periods of time, generally within 90 to 120 days after sale. The Company establishes reserves for this liability at the time the sale is recorded. Such reserves totaled $0.4 million and $0.5 million at September 30, 2011 and December 31, 2010, respectively, and are included in accrued and other liabilities. Servicing rights recognized in Financial Services revenues totaled $1.9 million and $4.2 million for the three months ended September 30, 2011 and 2010, respectively, and $10.6 million and $17.0 million for the nine months ended September 30, 2011 and 2010, respectively.

Derivative instruments and hedging activities

The Company is exposed to market risks from commitments to lend, movements in interest rates, and cancelled or modified commitments to lend. A commitment to lend at a specific interest rate (an interest rate lock commitment) is a derivative financial instrument (interest rate is locked to the borrower). In order to reduce these risks, the Company uses other derivative financial instruments to economically hedge the interest rate lock commitment. These financial instruments include forward contracts on mortgage-backed securities and whole loan investor commitments. The Company does not use any derivative financial instruments for trading purposes. The Company enters into one of the aforementioned derivative financial instruments upon entering into interest rate lock commitments. Changes in the fair value of the interest rate lock commitment and the other derivative financial instruments are recognized in current period earnings and the fair value is reflected in other assets or other liabilities. The gains and losses are included in Financial Services revenues.

Fair values for interest rate lock commitments, including the value of servicing rights, are based on market prices for similar instruments. At September 30, 2011 and December 31, 2010, the Company had interest rate lock commitments in the amount of $209.0 million and $99.0 million, respectively, which were originated at interest rates prevailing at the date of commitment. Because the Company can terminate a loan commitment if the borrower does not comply with the terms of the contract, and some loan commitments may expire without being drawn upon, these commitments do not necessarily represent future cash requirements of the Company. The Company evaluates the creditworthiness of these transactions through its normal credit policies.

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

1. Basis of presentation and significant accounting policies (continued)

Forward contracts on mortgage-backed securities are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price and may be settled in cash, by offsetting the position, or through the delivery of the financial instrument. Whole loan investor commitments are obligations of the investor to buy loans at a specified price within a specified time period. Forward contracts on mortgage-backed securities are the predominant derivative financial instruments used by the Company to minimize the market risk during the period from the time the Company extends an interest rate lock to a loan applicant until the time the loan is sold to an investor. Forward contracts on mortgage-backed securities are valued based on market prices for similar instruments. Fair values for whole loan investor commitments are based on market prices for similar instruments from the specific whole loan investor. At September 30, 2011, the Company had unexpired forward contracts and whole loan investor commitments of $337.4 million and $5.4 million, respectively, compared with cash forward contracts on mortgage-backed securities and whole loan investor commitments of $198.0 million and $59.0 million, respectively, at December 31, 2010.

There are no credit-risk-related contingent features within the Company s derivative agreements. Gains and losses on interest rate lock commitments are substantially offset by corresponding gains or losses on forward contracts on mortgage-backed securities and whole loan investor commitments. At September 30, 2011, the maximum length of time that the Company was exposed to the variability in future cash flows of derivative instruments was approximately 75 days.

The fair value of the Company s derivative instruments and their location in the Consolidated Balance Sheet is summarized below ($000 s omitted):

	September 30, 2011		December 31, 2010	
	Other Assets	**Other Liabilities**	**Other Assets**	**Other Liabilities**
Interest rate lock commitments	$ 7,157	$ 4	$ 2,756	$ 64
Forward contracts	167	6,385	4,217	673
Whole loan commitments	83	19	2,319	
	$ 7,407	$ 6,408	$ 9,292	$ 737

New accounting pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (ASU 2011-04), which amends Accounting Standards Codification (ASC) 820 to clarify existing guidance and minimize differences between U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 requires entities to provide information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and provide a narrative description of the sensitivity of Level 3 measurements to changes in unobservable inputs. ASU 2011-04 will be effective for the Company s fiscal year beginning January 1, 2012 and is not expected to have a material impact on the Company s financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Statement of Comprehensive Income (ASU 2011-05), which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 will not impact the Company s reported results of operations but will impact the Company s financial statement presentation as the Company currently presents items of other comprehensive income in the statement of changes in equity. ASU 2011-05 will be effective for the Company s fiscal year beginning January 1, 2012.

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

2. Goodwill and intangible assets
Goodwill

Goodwill, which represents the cost of acquired companies in excess of the fair value of the net assets at the acquisition date, is subject to annual impairment testing in the fourth quarter of each year or when events or changes in circumstances indicate the carrying amount may not be recoverable. Recorded goodwill has been allocated to the Company s reporting units based on the relative fair value of each acquired reporting unit. Management evaluates the recoverability of goodwill by comparing the carrying value of the Company s reporting units to their fair value. Fair value is determined using discounted cash flows, supplemented by market-based assessments of fair value. Impairment is measured as the difference between the resulting implied fair value of goodwill and its recorded carrying value. The determination of fair value is significantly impacted by estimates for each of the Company s markets related to current valuations, current and future economic conditions, and the Company s strategic plans. Due to uncertainties in the estimation process and significant volatility in demand for new housing, actual results could differ significantly from such estimates.

The Company recorded $1.5 billion of goodwill in connection with the merger with Centex Corporation (Centex), which was completed in August 2009. All goodwill associated with prior transactions has been previously written-off. Since the Centex merger, the Company has recorded impairments at various times of the associated goodwill. These impairments have resulted from a variety of factors, including, among other things, deteriorations in market conditions, the Company s operating results falling below previously forecasted levels, and a sustained decline in the Company s market capitalization since the Centex merger.

In the third quarters of both 2011 and 2010, the Company performed event-driven assessments of the recoverability of goodwill. These assessments were necessary primarily due to sustained declines in the Company s market capitalization. In performing the goodwill impairment analyses, the Company followed similar approaches using management s estimates of the future cash flows for each reporting unit, which are required to consider the decrease in the Company s market capitalization. The results of these analyses determined that goodwill impairment charges of $240.5 million and $654.9 million in the third quarters of 2011 and 2010, respectively, were required. The Company also recorded a goodwill impairment charge of $1.4 million in the second quarter of 2010 in conjunction with the completion of its business combination accounting for the Centex merger. Goodwill impairment charges are reflected in other expense (income), net.

The following summarizes the change in goodwill during 2011 ($000 s omitted):

Reporting Segment	Balance at December 31, 2010	Additions	Impairments	Disposals	Balance at September 30, 2011
East	$ 60,494	$	$ (60,494)	$	$
Gulf Coast	92,095		(92,095)		
West	87,952		(87,952)		
Total goodwill	$ 240,541	$	$ (240,541)	$	$

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

2. Goodwill and intangible assets (continued)

The following summarizes the change in goodwill during 2010 ($000 s omitted):

Reporting Segment	Balance at December 31, 2009	Additions	Impairments	Disposals	Balance at September 30, 2010
East	$ 327,032	$ 1,104	$ (267,642)	$	$ 60,494
Gulf Coast	353,434	679	(262,018)		92,095
West	213,859	731	(126,638)		87,952
Financial Services	1,593			(1,593)	
Total goodwill	$ 895,918	$ 2,514	$ (656,298)	$ (1,593)	$ 240,541

Intangible assets

Intangible assets consist of trademarks and tradenames acquired in connection with the 2009 acquisition of Centex and the 2001 acquisition of Del Webb. These intangible assets were valued at the respective acquisition dates and are being amortized over 20-year lives. The ultimate realization of these assets is dependent upon estimates of future earnings and benefits that the Company expects to generate from their use. In both the third quarters of 2011 and 2010, the Company performed event-driven assessments of the recoverability of these assets using projected undiscounted cash flows. In each instance, the Company determined that no impairment existed. However, if expectations of future results and cash flows decrease significantly or if our strategy related to the use of such intangible assets changes, the related intangible assets may be impaired.

3. Restructuring

The Company has taken a series of actions in recent years both in response to the challenging operating environment and in connection with the Centex merger that were designed to reduce ongoing operating costs and improve operating efficiencies. As a result of the combination of these actions, the Company incurred total restructuring charges as summarized below ($000 s omitted):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Employee severance benefits	$ 663	$ 7,444	$ 9,195	$ 12,275
Lease exit costs	101	7,113	6,401	9,767
Other		987	11	1,556
Total restructuring charges	$ 764	$ 15,544	$ 15,607	$ 23,598

Of the total restructuring costs reflected in the above table, $0.1 million and $1.1 million for the three and nine months ended September 30, 2011, respectively, and $1.7 million and $3.2 million for the three and nine months ended September 30, 2010, respectively, are included within

Financial Services expenses. All other employee severance benefits are included within selling, general and administrative expenses while all other lease exit and other costs are included in other expense (income), net. The remaining liabilities for employee severance benefits and exited leases totaled $1.9 million and $34.0 million, respectively, at September 30, 2011 and $8.0 million and $41.7 million, respectively, at December 31, 2010. Substantially all of the employee severance benefits will be paid in 2011 while cash expenditures related to lease exit costs will be incurred over the remaining terms of the applicable leases, which generally extend several years. The restructuring costs relate to each of the Company s reportable segments and were not material to any one segment.

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

4. Inventory and land held for sale

Major components of the Company s inventory were as follows ($000 s omitted):

	September 30, 2011	December 31, 2010
Homes under construction	$ 1,445,313	$ 1,331,618
Land under development	2,582,854	2,541,829
Land held for future development	861,501	908,366
	$ 4,889,668	$ 4,781,813

The Company capitalizes interest cost into inventory during the active development and construction of the Company s communities. Each layer of capitalized interest is amortized over a period that approximates the average life of communities under development. Interest expense is allocated over the period based on the cyclical timing of unit settlements. Interest expensed to Homebuilding cost of revenues for the three and nine months ended September 30, 2011 included $1.0 million and $2.3 million, respectively, of capitalized interest related to land and community valuation adjustments, compared with $7.6 million and $13.8 million for the three and nine months ended September 30, 2010, respectively. During the three and nine months ended September 30, 2011, the Company capitalized all of its Homebuilding interest costs into inventory because the level of the Company s active inventory exceeded the Company s debt levels. During the three and nine months ended September 30, 2010, the Company capitalized all of its Homebuilding interest costs into inventory except for $0.9 million and $1.5 million, respectively, that was expensed directly to interest expense.

Information related to interest capitalized into homebuilding inventory is as follows ($000 s omitted):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest in inventory, beginning of period	$ 358,806	$ 310,622	$ 323,379	$ 239,365
Interest capitalized	55,230	67,794	167,367	203,979
Interest expensed	(48,693)	(48,501)	(125,403)	(113,429)
Interest in inventory, end of period	$ 365,343	$ 329,915	$ 365,343	$ 329,915
Interest incurred*	$ 55,230	$ 68,740	$ 167,367	$ 205,473

* *Homebuilding interest incurred includes interest on senior debt, short-term borrowings, and other financing arrangements and excludes interest incurred by the Financial Services segment and certain other interest costs.*

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

4. Inventory and land held for sale (continued)

Land valuation adjustments and write-offs

Land and community valuation adjustments

In accordance with ASC 360, Property, Plant, and Equipment (ASC 360), the Company records valuation adjustments on land inventory and related communities under development when events and circumstances indicate that they may be impaired and when the cash flows estimated to be generated by those assets are less than their carrying amounts. Such indicators include gross margin or sales paces significantly below expectations, construction costs or land development costs significantly in excess of budgeted amounts, significant delays or changes in the planned development for the community, and other known qualitative factors. For communities that are not yet active, a significant additional consideration includes an evaluation of the probability, timing, and cost of obtaining necessary approvals from local municipalities and any potential concessions that may be necessary in order to obtain such approvals. The Company also considers potential changes to the product offerings in a community and any alternative strategies for the land, such as the sale of the land either in whole or in parcels. A portion of the Company s land inventory and communities under development demonstrated potential impairment indicators during the three and nine months ended September 30, 2011 and 2010, and were accordingly tested for impairment. As required by ASC 360, the Company compared the expected undiscounted cash flows for these communities to their carrying value. For those communities whose carrying values exceeded the expected undiscounted cash flows, the Company calculated the fair value of the community in accordance with ASC 360. Impairment charges are required to be recorded if the fair value of the community s inventory is less than its carrying value.

The Company determines the fair value of a community s inventory primarily using a combination of market comparable land transactions, where available, and discounted cash flow models. These estimated cash flows are significantly impacted by estimates related to expected average selling prices and sales incentives, expected sales paces and cancellation rates, expected land development and construction timelines, and anticipated land development, construction, and overhead costs. The assumptions used in the discounted cash flow models are specific to each community tested for impairment and typically do not assume improvements in market conditions in the near term. Due to uncertainties in the estimation process, the significant volatility in demand for new housing, and the long life cycles of many communities, actual results could differ significantly from such estimates. The Company s determination of fair value also requires discounting the estimated cash flows at a rate commensurate with the inherent risks associated with each of the assets and related estimated cash flow streams. The discount rate used in determining each community s fair value depends on the stage of development of the community and other specific factors that increase or decrease the inherent risks associated with the community s cash flow streams. For example, communities that are entitled and near completion will generally require a lower discount rate than communities that are not entitled and consist of multiple phases spanning several years of development and construction activity.

The table below provides, as of the date indicated, the number of communities for which the Company recognized impairment charges, the fair value of those communities at such date (net of impairment charges), and the amount of impairment charges recognized ($ in millions):

	2011			2010		
Quarter Ended	Number of Communities Impaired	Fair Value of Communities Impaired, Net of Impairment Charges	Impairment Charges	Number of Communities Impaired	Fair Value of Communities Impaired, Net of Impairment Charges	Impairment Charges
March 31	1	$ 0.5	$ 0.1	10	$ 7.2	$ 4.5
June 30	6	6.7	3.3	16	35.1	25.6
September 30	3	6.4	1.5	28	33.4	57.4

	$ 4.9	$ 87.5

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

4. Inventory and land held for sale (continued)

The Company recorded these valuation adjustments within Homebuilding home sale cost of revenues. During the three months ended September 30, 2011, the Company reviewed each of its land positions for potential impairment indicators and performed detailed impairment calculations for 15 communities. The average discount rate used in the Company s determination of fair value for the impaired communities was 12%. During 2011, the Company has experienced relative stability in market conditions consistent with its expectations, which resulted in total valuation adjustments significantly below those experienced in recent years. However, if conditions in the homebuilding industry or the Company s local markets worsen in the future, if the current difficult market conditions extend beyond the Company s expectations, or if the Company s strategy related to certain communities changes, the Company may be required to evaluate its assets, including additional projects, for future impairments or write-downs, which could result in future charges that might be significant.

Net realizable value adjustments land held for sale

The Company acquires land primarily for the construction of homes for sale to customers but may periodically elect to sell select parcels of land to third parties for commercial or other development. Additionally, the Company may determine that certain of its land assets no longer fit into its strategic operating plans. Assuming the criteria in ASC 360 are met, the Company classifies any such land as land held for sale.

In accordance with ASC 360, the Company values land held for sale at the lower of carrying value or fair value less costs to sell. In determining the fair value of land held for sale, the Company considers recent legitimate offers received, prices for land in recent comparable sales transactions, and other factors. Based on this review, a portion of the Company s land held for sale has been written down to net realizable value. The Company recognized net realizable value adjustments (recoveries) of $0.1 million and $(0.1) million during the three and nine months ended September 30, 2011, respectively, and $0.6 million and $1.0 million during the three and nine months ended September 30, 2010, respectively. The Company records these net realizable value adjustments within Homebuilding land sale cost of revenues.

The Company s land held for sale was as follows ($000 s omitted):

	September 30, 2011	December 31, 2010
Land held for sale, gross	$ 181,373	$ 124,919
Net realizable value reserves	(46,810)	(53,864)
Land held for sale, net	$ 134,563	$ 71,055

Write-off of deposits and pre-acquisition costs

From time to time, the Company writes off certain deposits and pre-acquisition costs related to land option contracts the Company no longer plans to pursue. Such decisions take into consideration changes in local market conditions, the willingness of land sellers to modify terms of the related purchase agreement, the timing of required land takedowns, the availability and best use of necessary incremental capital, and other factors. The Company wrote off (net of recoveries) deposits and pre-acquisition costs in the amount of $2.3 million and $6.6 million during the three and nine months ended September 30, 2011, respectively, and $1.1 million and $4.0 million during the three and nine months ended September 30, 2010, respectively. The Company records these write-offs of deposits and pre-acquisition costs within other expense (income), net.

16

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

5. Segment information

The Company s Homebuilding operating segments are engaged in the acquisition and development of land primarily for residential purposes within the continental United States and the construction of housing on such land. As part of its ongoing efforts to structure the Company for profitability in the face of challenging market conditions, the Company realigned its organizational structure during the second quarter of 2011, which reduced the number of reportable segments from four to three. The operating data by segment provided in this note have been reclassified to conform to the current presentation. Accordingly, the Company s reportable Homebuilding segments are as follows:

East:	*Connecticut, Delaware, Georgia, Maryland, Massachusetts, New Jersey, New York,*
	North Carolina, Pennsylvania, Rhode Island, South Carolina, Tennessee, Virginia
Gulf Coast:	*Florida, Texas*
West:	*Arizona, California, Colorado, Hawaii, Illinois, Indiana, Michigan, Minnesota, Missouri,*
	Nevada, New Mexico, Ohio, Oregon, Washington

The Company also has one reportable segment for its financial services operations, which consist of mortgage banking and title operations. The Company s Financial Services segment operates generally in the same markets as the Company s Homebuilding segments.

Evaluation of segment performance is based on operating earnings before provision for income taxes which, for the Homebuilding segments, is defined as home sale revenues and land sale revenues less home sale cost of revenues, land sale cost of revenues, and certain selling, general, and administrative and other expenses, plus equity income from unconsolidated entities, attributable to the Homebuilding segments. Operating earnings for the Financial Services segment is defined as revenues less costs associated with the Company s mortgage and title operations and certain selling, general, and administrative expenses incurred by or allocated to the Financial Services segment. Each reportable segment generally follows the same accounting policies described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

5. Segment information (continued)

	Operating Data by Segment ($000 s omitted)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
East	$ 379,662	$ 321,817	$ 951,918	$ 1,108,220
Gulf Coast	342,860	277,699	878,448	881,906
West	391,505	431,239	972,259	1,300,156
	1,114,027	1,030,755	2,802,625	3,290,282
Financial Services	27,904	27,009	71,720	93,738
Consolidated revenues	$ 1,141,931	$ 1,057,764	$ 2,874,345	$ 3,384,020
Income (loss) before income taxes:				
East	$ 14,941	$ 3,797	$ 29,392	$ 45,081
Gulf Coast	30,068	(17,075)	47,310	(3,336)
West	33,444	(21,276)	11,500	4,946
Other homebuilding *(a)*	(285,936)	(985,695)	(364,325)	(1,066,977)
	(207,483)	(1,020,249)	(276,123)	(1,020,286)
Financial Services *(b)*	8,683	3,463	(6,987)	350
Other non-operating *(c)*	(3,700)	(7,051)	(18,115)	(24,135)
Consolidated income (loss) before income taxes	$ (202,500)	$ (1,023,837)	$ (301,225)	$ (1,044,071)

(a) *Other homebuilding primarily includes the amortization of intangible assets, goodwill impairment, and amortization of capitalized interest.*

(b) *Financial Services income before income taxes includes interest expense of $0.8 million and $1.9 million for the three and nine months ended September 30, 2010, respectively. Interest income included in Financial Services income before income taxes totaled $1.4 million and $3.4 million for the three and nine months ended September 30, 2011, respectively, and $1.6 million and $4.5 million for the three and nine months ended September 30, 2010, respectively.*

(c) *Other non-operating includes the costs of certain shared services that benefit all operating segments, a portion of which are not allocated to the operating segments reported above.*

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

5. Segment information (continued)

	Valuation Adjustments and Write-Offs by Segment ($000 s omitted)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Land and community valuation adjustments:				
East	$ 526	$ 4,974	$ 795	$ 5,451
Gulf Coast		20,938		28,965
West		23,926	1,818	39,294
Other homebuilding *(a)*	968	7,615	2,284	13,826
	$ 1,494	$ 57,453	$ 4,897	$ 87,536
Net realizable value adjustments land held for sale:				
East	$	$	$	$
Gulf Coast	143	186	143	507
West		462	(249)	521
	$ 143	$ 648	$ (106)	$ 1,028
Write-off of deposits and pre-acquisition costs*:*				
East	$ 533	$ 894	$ 2,724	$ 1,109
Gulf Coast	103	53	282	548
West	1,660	186	3,622	2,328
	$ 2,296	$ 1,133	$ 6,628	$ 3,985
Impairments of investments in unconsolidated joint ventures:				
East	$	$	$	$
Gulf Coast				
West				1,908
	$	$	$	$ 1,908
Total valuation adjustments and write-offs	$ 3,933	$ 59,234	$ 11,419	$ 94,457

(a) *Primarily write-offs of capitalized interest related to land and community valuation adjustments.*

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

5. Segment information (continued)

Total assets and inventory by reportable segment were as follows ($000 s omitted):

	September 30, 2011				
	Homes Under Construction	Land Under Development	Land Held for Future Development	Total Inventory	Total Assets
East	$ 508,909	$ 761,701	$ 256,517	$ 1,527,127	$ 1,691,242
Gulf Coast	309,122	585,266	208,545	1,102,933	1,245,297
West	570,875	954,944	315,364	1,841,183	2,020,661
Other homebuilding *(a)*	56,407	280,943	81,075	418,425	585,373
	1,445,313	2,582,854	861,501	4,889,668	5,542,573
Financial Services					207,379
Other non-operating *(b)*					1,478,702
	$ 1,445,313	$ 2,582,854	$ 861,501	$ 4,889,668	$ 7,228,654

	December 31, 2010				
	Homes Under Construction	Land Under Development	Land Held for Future Development	Total Inventory	Total Assets
East	$ 455,637	$ 762,778	$ 262,653	$ 1,481,068	$ 1,682,442
Gulf Coast	313,734	555,384	239,950	1,109,068	1,294,738
West	518,427	963,259	329,108	1,810,794	1,966,986
Other homebuilding *(a)*	43,820	260,408	76,655	380,883	798,285
	1,331,618	2,541,829	908,366	4,781,813	5,742,451
Financial Services					222,989
Other non-operating *(b)*					1,733,936
	$ 1,331,618	$ 2,541,829	$ 908,366	$ 4,781,813	$ 7,699,376

(a) *Other homebuilding primarily includes capitalized interest, goodwill, and intangibles.*

(b) *Other non-operating primarily includes cash and equivalents, income taxes receivable, and other corporate items that are not allocated to the operating segments.*

20

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

6. Investments in unconsolidated entities

The Company participates in a number of joint ventures with independent third parties. These joint ventures generally purchase, develop, and/or sell land and homes in the United States or Puerto Rico. A summary of the Company s joint ventures is presented below ($000 s omitted):

	September 30, 2011	December 31, 2010
Investments in joint ventures with limited recourse guaranties	$ 2	$ 122
Investments in joint ventures with debt non-recourse to PulteGroup	11,519	11,486
Investments in other joint ventures	25,663	34,705
Total investments in unconsolidated entities	$ 37,184	$ 46,313
Total joint venture debt	$ 11,671	$ 15,467
PulteGroup s proportionate share of joint venture debt:		
Joint venture debt with limited recourse guaranties	$ 1,257	$ 1,444
Joint venture debt non-recourse to PulteGroup	2,178	3,696
PulteGroup s total proportionate share of joint venture debt	$ 3,435	$ 5,140

The Company recognized income (expense) from its unconsolidated joint ventures of $(0.3) million and $2.0 million during the three and nine months ended September 30, 2011, respectively, compared with $(3.7) million and $1.7 million during the three and nine months ended September 30, 2010, respectively, including impairments of $1.9 million for the nine months ended September 30, 2010. During the nine months ended September 30, 2011 and 2010, the Company made capital contributions of $3.7 million and $22.7 million, respectively, to its joint ventures and received capital and earnings distributions of $9.4 million and $7.4 million, respectively, from its joint ventures.

The timing of cash obligations under the joint venture and related financing agreements varies by agreement and in certain instances is contingent upon the joint venture s sale of its land holdings. If additional capital contributions are required and approved, the Company would need to contribute its pro rata portion of those capital needs in order to not dilute its ownership in the joint ventures. While future capital contributions may be required, the Company believes the total amount of such contributions will be limited. The Company s maximum financial loss exposure related to joint ventures is unlikely to exceed the combined investment and limited recourse guaranty totals.

A terminated joint venture financing agreement required the Company and other members of one joint venture to guaranty for the benefit of the lender the completion of the project if the joint venture did not perform the required development and an increment of interest in certain circumstances. This joint venture defaulted under its debt agreement, and the lender foreclosed on the joint venture s property that served as collateral. During 2008, the lender also filed suit against the majority of the members of the joint venture, including the Company, in an effort to enforce the completion guaranty. In March 2011, the parties to this litigation executed a settlement agreement, and the Company paid its proportionate share of such settlement, which did not have a material impact on the Company s financial position, results of operations, or cash flows.

The Company has investments in other unconsolidated entities, some of which have debt. These investments include the Company s joint ventures in Puerto Rico, which are in a wind-down stage. The Company does not have any significant financing exposure related to these entities.

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

7. Shareholders equity

Pursuant to the two $100 million stock repurchase programs authorized by the Board of Directors in October 2002 and 2005, and the $200 million stock repurchase program authorized in February 2006 (for a total stock repurchase authorization of $400 million), the Company has repurchased a total of 9,688,900 shares for a total of $297.7 million, though there have been no repurchases under these programs since 2006. The Company had remaining authorization to purchase $102.3 million of common stock at September 30, 2011.

Under its stock-based compensation plans, the Company accepts shares as payment under certain conditions related to stock option exercises and vesting of restricted stock, generally related to the payment of minimum tax obligations. During the nine months ended September 30, 2011 and 2010, the Company repurchased $2.0 million and $3.1 million, respectively, of shares from employees under these plans. Such repurchases are excluded from the $400 million stock repurchase authorization.

Accumulated other comprehensive income (loss)

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

	September 30, 2011	December 31, 2010
Foreign currency translation adjustments:		
Mexico	$	$ 51
Fair value of derivatives, net of income taxes of $2,086 in 2011 and 2010	(1,433)	(1,570)
	$ (1,433)	$ (1,519)

8. Income taxes

Income tax expense (benefit) for the three and nine months ended September 30, 2011 was $(73.2) million and $(77.0) million, respectively, compared with $(28.7) million and $(112.8) million for the three and nine months ended September 30, 2010. Due to the effects of the deferred tax valuation allowance and changes in unrecognized tax benefits, the Company s income tax expense (benefit) is not directly correlated to the amount of pretax income (loss). The income tax expense (benefit) for the periods ended September 30, 2011 and 2010 resulted primarily from the favorable resolution of certain federal and state income tax matters.

The Company had income taxes receivable of $79.4 million and $81.3 million at September 30, 2011 and December 31, 2010, respectively, which generally related to outstanding federal and state tax refunds from amended returns and net operating loss carrybacks.

In accordance with ASC 740, Income Taxes, the Company evaluates its deferred tax assets to determine if a valuation allowance is required. At September 30, 2011 and December 31, 2010, the Company had net deferred tax assets of $2.5 billion and $2.6 billion, respectively, which were offset entirely by valuation allowances due to the uncertainty of realizing such deferred tax assets. The ultimate realization of these deferred tax assets is dependent upon the generation of taxable income during future periods. Changes in existing tax laws could also affect actual tax results and the valuation of deferred tax assets over time. The accounting for deferred taxes is based upon an estimate of future results. Differences between the estimated and actual results could have a material impact on the Company s consolidated results of operations or financial position. To the extent that the Company s results of operations improve, the deferred tax asset valuation allowance may be reduced, which could result in a non-cash tax benefit.

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

8. Income taxes (continued)

As a result of the Company s merger with Centex, the Company s ability to use certain of Centex s pre-ownership net operating losses and built-in losses or deductions is limited under Section 382 of the Internal Revenue Code. The Company s Section 382 limitation is approximately $67.4 million per year for net operating losses, losses realized on built-in loss assets that are sold within 60 months of the ownership change, and certain deductions. The limitation may result in a significant portion of Centex s pre-ownership change net operating loss carryforwards, built-in losses, and certain deductions not being available for use by the Company.

At September 30, 2011 and December 31, 2010, the Company had $181.1 million and $258.0 million, respectively, of gross unrecognized tax benefits and $42.5 million and $48.4 million, respectively, of accrued penalties and interest. The decreases in unrecognized tax benefits and accrued interest and penalties were primarily due to the favorable resolution of certain federal and state income tax matters. The Company is currently under examination by the IRS and various state taxing jurisdictions and anticipates finalizing certain of the examinations within the next twelve months. The final outcome of those examinations is not yet determinable. It is reasonably possible, within the next twelve months, that the Company s unrecognized tax benefits may decrease by $35.2 million, excluding interest and penalties, primarily due to expirations of certain statutes of limitations and potential settlements. The statutes of limitations for the Company s major tax jurisdictions remain open for examination for tax years 1998-2011.

9. 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.

The Company s financial instruments measured at fair value on a recurring basis are summarized below ($000 s omitted):

		Fair Value	
Financial Instrument	**Fair Value Hierarchy**	**September 30, 2011**	**December 31, 2010**
Residential mortgage loans available-for-sale	Level 2	$ 173,956	$ 176,164
Interest rate lock commitments	Level 2	7,153	2,692
Forward contracts	Level 2	(6,218)	3,544

Whole loan commitments	Level 2	64	2,319

See Note 1 of these Consolidated Financial Statements regarding the fair value of mortgage loans available-for-sale and derivative instruments and hedging activities.

23

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

9. Fair value disclosures (continued)

In addition, certain of the Company s 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 Company s assets measured at fair value on a non-recurring basis are summarized below ($000 s omitted):

	Fair Value Hierarchy	Fair Value September 30, 2011	December 31, 2010
Loans held for investment	Level 2	$ 2,016	$ 3,002
House and land inventory	Level 3	6,416	70,862

The fair values included in the table above represent only those assets whose carrying values were adjusted to fair value in the current quarter. The Company measured certain of its loans held for investment at fair value because the cost of the loans exceeded their fair value. Fair value of the loans was determined based on the fair value of the underlying collateral. For house and land inventory, see Note 4 of these Consolidated Financial Statements for a more detailed discussion of the valuation method used.

The carrying amounts of cash and equivalents and restricted cash approximate their fair values due to their short-term nature. 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 fair value of the senior notes outstanding approximated $3.0 billion at September 30, 2011 and $3.2 billion at December 31, 2010. The carrying values of the senior notes are presented in Note 10. The carrying value of collateralized short-term debt approximates fair value.

10. Debt and other financing arrangements

The Company s senior notes are summarized as follows ($000 s omitted):

	September 30, 2011	December 31, 2010
8.125% unsecured senior notes due February 2011 *(a)*	$	$ 13,900
5.45% unsecured senior notes due August 2012 *(b)*	96,955	104,823
6.25% unsecured senior notes due February 2013 *(b)*	62,662	62,617
5.125% unsecured senior notes due October 2013 *(b)*	116,871	160,212
5.25% unsecured senior notes due January 2014 *(b)*	335,865	335,848
5.70% unsecured senior notes due May 2014 *(b)*	311,187	309,048
5.20% unsecured senior notes due February 2015 *(b)*	244,873	244,839
5.25% unsecured senior notes due June 2015 *(b)*	402,202	397,700
6.50% unsecured senior notes due May 2016 *(b)*	468,521	466,644
7.625% unsecured senior notes due October 2017 *(a)*	149,346	149,265
7.875% unsecured senior notes due June 2032 *(b)*	299,098	299,065
6.375% unsecured senior notes due May 2033 *(b)*	398,400	398,344
6.00% unsecured senior notes due February 2035 *(b)*	299,383	299,363
7.375% unsecured senior notes due June 2046 *(b)*	150,000	150,000

Total senior notes carrying value *(c)*	$ 3,335,363	$ 3,391,668
Estimated fair value	$ 2,963,087	$ 3,227,404

(a) *Not redeemable prior to maturity, guaranteed on a senior basis by certain wholly-owned subsidiaries*
(b) *Redeemable prior to maturity, guaranteed on a senior basis by certain wholly-owned subsidiaries*
(c) *The recorded carrying value reflects the impact of various discounts and premiums that are amortized to interest cost over the respective terms of the senior notes*

24

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

10. Debt and other financing arrangements (continued)

Debt retirement

During the nine months ended September 30, 2011, the Company retired prior to their stated maturity dates $53.0 million of senior notes. Losses on these transactions totaled $3.5 million, including the write-off of unamortized discounts, premiums, and transaction fees, and are reflected in other expense (income), net.

Letter of credit facilities

As a cost-saving measure and to provide increased operational flexibility, the Company voluntarily terminated its $250.0 million unsecured revolving credit facility effective March 30, 2011. The credit facility was scheduled to expire in June 2012, had no borrowings outstanding, and was being used solely to issue letters of credit ($221.6 million outstanding at December 31, 2010). The Company did not pay any penalties as a result of the termination. The termination of the facility also:

- released the $250.0 million of cash required by the credit facility to be maintained in liquidity reserve accounts;
- released the Company from the credit facility s covenant requirements, which included, among other things, a maximum debt to tangible capital ratio and a tangible net worth minimum; and
- resulted in expense of $1.3 million related to the write-off of unamortized issuance costs, which is included within selling, general, and administrative expenses for the nine months ended September 30, 2011.

In connection with the termination of the credit facility, the Company entered into separate cash-collateralized letter of credit agreements with a number of financial institutions. These agreements provide capacity to issue letters of credit totaling up to $192.0 million, of which $89.4 million were outstanding at September 30, 2011. Under these agreements, the Company is required to maintain deposits with these financial institutions in amounts approximating the letters of credit outstanding. Such deposits are included in restricted cash.

The Company also maintains an unsecured letter of credit facility with a bank that expires in June 2014 and permits the issuance of up to $200.0 million of letters of credit by the Company. At September 30, 2011 and December 31, 2010, $155.3 million and $167.2 million, respectively, of letters of credit were outstanding under this facility.

Financial Services

Pulte Mortgage provides mortgage financing for many of the Company s home sales utilizing its own funds and borrowings made available pursuant to certain repurchase agreements. Pulte Mortgage uses these resources to finance its lending activities until the mortgage loans are sold to third party investors, generally within 30 days. Given the Company s current liquidity position and the cost of third party financing relative to existing mortgage rates, Pulte Mortgage allowed each of its third party borrowing arrangements to expire during 2010 and began funding its operations using internal Company resources.

25

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

11. Commitments and contingencies

Loan origination liabilities

The Company s 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 that the loans sold meet 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. If determined to be at fault, the Company either repurchases the loans from the investors or reimburses the investors losses (a make-whole payment).

The Company sells a substantial majority of the loans it originates to investors each month, retaining limited risk related to such loans. Historically, the Company s overall losses relating to this risk were not significant. Beginning in 2009, however, the Company experienced a significant increase in losses as a result of the high level of loan defaults and related losses in the mortgage industry and increasing aggressiveness by investors in presenting such claims to the Company. To date, the significant majority of these losses relates to loans originated in 2006 and 2007, during which period inherently riskier loan products became more common in the mortgage origination market. In 2006 and 2007, the Company originated $39.5 billion of loans, excluding loans originated by Centex s former subprime loan business sold by Centex in 2006. Because the Company generally does not retain the servicing rights to the loans it originates, information regarding the current and historical performance, credit quality, and outstanding balances of such loans is limited. Estimating these loan origination liabilities is further complicated by uncertainties surrounding numerous external factors, such as various macroeconomic factors (including unemployment rates and changes in home prices) as well as actions taken by third parties, including the parties servicing the loans as well as the U.S. federal government in its dual capacity as regulator of the U.S. mortgage industry and conservator of the government-sponsored enterprises commonly known as Fannie Mae and Freddie Mac, which own or guarantee the majority of mortgage loans in the U.S.

Most requests received to date relate to make-whole payments on loans that have been foreclosed, generally after a portion of the loan principal had been paid down, which reduces the Company s exposure. Requests not immediately refuted by the Company undergo extensive analysis to confirm the exposure, attempt to cure the identified defect, and, when necessary, determine the Company s liability. The Company establishes liabilities for such anticipated losses based upon, among other things, the level of current unresolved repurchase requests, the volume of estimated probable future repurchase requests, the ability of the Company to cure the defects identified in the repurchase requests, and the severity of the estimated loss upon repurchase. Determining these estimates and the resulting liability requires a significant level of management judgment. The Company is generally able to cure or refute over 60% of the requests received from investors such that repurchases or make-whole payments are not required. For those requests requiring repurchases or make-whole payments, actual loss severities generally approximate 50% of the outstanding principal balance.

During the nine months ended September 30, 2011 and September 30, 2010, the Company recorded additional provisions for losses as a change in estimate primarily to reflect projected claim volumes in excess of previous estimates. The Company s current estimates assume that claim volumes will not decline to pre-2009 levels until after 2012. Given the volatility in the mortgage industry and the uncertainty regarding the ultimate resolution of these claims, it is reasonably possible that future losses may exceed the Company s current estimates. Changes in these liabilities were as follows ($000 s omitted):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Liabilities, beginning of period	$ 97,836	$ 103,238	$ 93,057	$ 105,914
Provision for losses			19,347	16,856
Settlements	(3,105)	(3,988)	(17,673)	(23,520)
Liabilities, end of period	$ 94,731	$ 99,250	$ 94,731	$ 99,250

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

11. Commitments and contingencies (continued)

Additionally, while not increasing the Company s exposure to Centex s contingent loan origination liabilities, the Company entered into an agreement in conjunction with the wind down of Centex s mortgage operations, which ceased loan origination activities in December 2009, that provides a guaranty for one major investor of loans originated by Centex. This guaranty provides that the Company will honor the potential repurchase obligations of Centex s mortgage operations related to breaches of representations and warranties in the origination of a certain pool of loans. Other than with respect to this pool of loans, the Company s contractual repurchase obligations are limited to the Company s mortgage subsidiaries, which are included in non-guarantor subsidiaries relating to the Company s senior notes (see Note 12 for a discussion of non-guarantor subsidiaries).

The mortgage subsidiary of Centex acted as a mortgage originator for loans sold to a bank for inclusion in residential mortgage-backed securities (RMBSs) issued by the bank. In connection with these sales, Centex s mortgage subsidiary entered into agreements pursuant to which it may be required to indemnify the bank for losses incurred by investors in the RMBSs arising out of material errors or omissions in certain information provided by the mortgage subsidiary relating to the loans and loan origination process. The bank has notified the Company that it has been named defendant in two lawsuits alleging various violations of federal and state securities laws asserting that untrue statements of material fact were included in the registration statements used to market the sale of two RMBS transactions which included $162 million of loans deposited by Centex s mortgage subsidiary. The plaintiffs seek unspecified compensatory and/or rescissory damages on behalf of persons who purchased the securities. Neither Centex s mortgage subsidiary nor the Company is named as a defendant in these actions. These actions are in their preliminary stage and the Company cannot yet quantify Centex s mortgage subsidiary s potential liability as a result of these indemnification obligations. The Company does 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. The Company is aware of six other RMBS transactions that include an aggregate $116 million of loans, and the Company is not aware of any current or threatened legal proceedings regarding those transactions.

Community development and other special district obligations

A community development district or similar development authority (CDD) is a unit of local government created under various state statutes that utilizes the proceeds from the sale of bonds to finance the construction or acquisition of infrastructure assets of a development. A portion of the liability associated with the bonds, including principal and interest, is assigned to each parcel of land within the development. This debt is typically paid by subsequent special assessments levied by the CDD on the landowners. Generally, the Company is only responsible for paying the special assessments for the period in which it is the landowner of the applicable parcels. However, in certain limited instances the Company records a liability for future assessments that are fixed or determinable for a fixed or determinable period in accordance with ASC 970-470, Real Estate Debt . At September 30, 2011 and December 31, 2010, the Company had recorded $39.6 million and $73.3 million, respectively, in accrued liabilities for outstanding CDD obligations. During 2011, the Company voluntarily repurchased at a discount prior to their maturity CDD obligations with an aggregate principal balance of $26.6 million in order to improve the future financial performance of the related communities. The discount of $5.2 million will be recognized as a reduction of cost of revenues over the lives of the applicable communities, which extend for several years.

Letters of credit and surety bonds

In the normal course of business, the Company posts letters of credit and surety bonds pursuant to certain performance related obligations, as security for certain land option agreements, and under various insurance programs. At September 30, 2011 and December 31, 2010 the Company had outstanding letters of credit and surety bonds totaling $1.5 billion and $1.7 billion, respectively.

In addition, the Company was previously subject to $817.4 million of surety bonds related to certain construction obligations of Centex s commercial construction business, which was sold by Centex on March 30, 2007. The Company estimates that less than $66.0 million of work remained to be performed on such commercial construction projects as of June 30, 2011, the most recent date for which such information is available. The purchaser of the Centex commercial construction business had previously indemnified the Company against potential losses relating to such surety bond obligations, and the Company had purchased for its benefit a back-up indemnity provided by a financial institution as additional security. During 2011, the Company restructured this arrangement such that the Company is no longer directly subject to the surety bonds and is only contingently liable in the event of non-performance by the purchaser of the Centex commercial construction business and its parent company as well as exhaustion of a letter of credit in excess of the estimated amount of work remaining posted by the purchaser with the surety. Accordingly, the Company terminated the back-up indemnity as it believes the risk of this exposure becoming a cash obligation to the Company is not significant.

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

11. Commitments and contingencies (continued)

Litigation

The Company is involved in various litigation and legal claims in the normal course of its business operations, including actions brought on behalf of various classes of claimants. The Company is 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, the Company is subject to periodic examination or inquiry by various governmental agencies that administer these laws and regulations.

The Company establishes a liability for potential legal claims and regulatory matters when such matters are both probable of occurring and any potential loss is reasonably estimable. The Company accrues for such matters based on the facts and circumstances specific to each matter and revises 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, the Company 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, management does not believe that the resolution of such matters will have a material adverse impact on the results of operations, financial position, or cash flows of the Company. However, to the extent the liability arising from the ultimate resolution of any matter exceeds the Company s estimates reflected in the recorded reserves relating to such matter, the Company could incur additional charges that could be significant.

Allowance for warranties

Home purchasers are provided with a limited warranty against certain building defects, including a one-year comprehensive limited warranty as well as coverage for certain other aspects of the home s construction and operating systems for periods of up to ten years. The Company estimates the costs to be incurred under these warranties and records a liability for such costs at the time product revenue is recognized. Factors that could affect the Company s warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and the cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts such amounts as necessary. Actual warranty costs in the future could differ from the current estimates. Changes to the Company s warranty liabilities were as follows ($000 s omitted):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Warranty liabilities, beginning of period	$ 70,521	$ 84,237	$ 80,195	$ 96,110
Warranty reserves provided	11,858	14,656	30,966	39,964
Payments	(12,705)	(17,178)	(40,914)	(53,954)
Other adjustments	(827)	(1,045)	(1,400)	(1,450)
Warranty liabilities, end of period	$ 68,847	$ 80,670	$ 68,847	$ 80,670

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

11. Commitments and contingencies (continued)

Self-insured risks

The Company maintains, and requires the majority of its subcontractors to maintain, general liability insurance coverage. The Company also maintains builders risk, property, errors and omissions, workers compensation, and other business insurance coverage. These insurance policies protect the Company against a portion of the risk of loss from claims. However, the Company retains a significant portion of the overall risk for such claims either through policies issued by the Company s captive insurance subsidiaries or through its own self-insured per occurrence and aggregate retentions, deductibles, and claims in excess of available insurance policy limits.

The Company s general liability insurance includes coverage for certain construction defects. While construction defect claims can relate to a variety of circumstances, the majority of the Company s 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 companies to maintain higher per occurrence and aggregate retention levels. In certain instances, the Company may offer its subcontractors the opportunity to purchase insurance through one of the Company s captive insurance subsidiaries or to participate in a project-specific insurance program provided by the Company. Policies issued by the captive insurance subsidiaries represent self-insurance of these risks by the Company. This self-insured exposure is limited by reinsurance policies purchased by the Company. General liability coverage for the homebuilding industry is complex, and the Company s coverage varies from policy year to policy year. The Company is self-insured for a per occurrence deductible, which is capped at an overall aggregate retention level. Beginning with the first dollar, amounts paid on insured claims satisfy the Company s per occurrence and aggregate retention obligations. Any amounts incurred in excess of the occurrence or aggregate retention levels are covered by reinsurance up to the Company s purchased coverage levels. The Company s insurance policies, including the captive insurance subsidiaries reinsurance policies, are maintained with highly-rated underwriters for whom the Company believes counterparty default risk is not significant.

At any point in time, the Company is managing over 1,000 individual claims related to general liability, property, errors and omission, workers compensation, and other business insurance coverage. The Company generally reserves for costs associated with such claims (including expected claims management expenses relating to legal fees, expert fees, and claims handling expenses) based on actuarial analyses of the Company s historical claims. The actuarial analyses calculate an estimate of the ultimate net cost of all unpaid losses. These estimates make up a significant portion of the Company s 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 reported and resolved over an extended period often exceeding ten years. In certain instances, the Company has the ability to recover a portion of its costs under various insurance policies or from its subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable.

The Company s recorded reserves for all such claims totaled $793.6 million at September 30, 2011, substantially all of which relates to general liability claims. The recorded reserves include loss estimates related to both (i) existing claims and their related claim expenses and (ii) incurred but not reported claims and their related claim expenses. Liabilities related to incurred but not reported claims and their related claim expenses represented approximately 76% of the total general liability reserve at September 30, 2011. The actuarial analyses that determine the incurred but not reported portion of reserves consider a variety of factors, including the frequency and severity of losses, which are based on the Company s historical claims experience supplemented by industry data. The actuarial analyses of the reserves also consider historical third party recovery rates and claims management expenses. As a result of the inherent uncertainty related to each of these factors, actual costs could differ significantly from estimated costs.

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

11. Commitments and contingencies (continued)

Adjustments to estimated reserves are recorded in the period in which the change in estimate occurs. Because the majority of the Company s recorded reserves relates to incurred but not reported claims, adjustments to reserve amounts for individual existing claims generally do not impact the recorded reserves materially. However, changes in the frequency and timing of reported claims and the 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.

The Company has experienced a high level of insurance-related expenses in recent years, primarily due to the adverse development of general liability claims, the frequency and severity of which have increased significantly over historical levels. During 2010, the Company recorded additional expense to insurance reserves as a result of experiencing a greater than anticipated frequency of newly reported claims and a significant increase in specific case reserves related to certain known claims for homes closed in prior periods. The general nature of these claims was not out of the ordinary, but the frequency and severity of the claims were in excess of the Company s historical experience. As a result of these unfavorable trends, the Company recorded additional expense to insurance reserves totaling $272.2 million ($0.72 per basic and diluted share) and $291.8 million ($0.77 per basic and diluted share) for the three and nine months ended September 30, 2010, respectively. Substantially all of this additional expense related to general liability reserves. A large portion of this additional expense resulted from the Company revising its actuarial assumptions surrounding the long-term frequency, severity, and development of claims. During the industry downturn over the last several years, and especially in 2010, the Company experienced adverse claim frequency and severity compared with longer term averages. In the three months ended September 30, 2010, the Company deemed it appropriate to assume that the long-term future frequency, severity, and development of claims will most closely resemble the claims activity experienced in recent years.

Changes in these liabilities were as follows ($000 s omitted):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance, beginning of period	$ 790,597	$ 577,691	$ 813,841	$ 566,693
Reserves provided	15,551	282,536	47,558	318,167
Liabilities assumed with Centex merger				2,514
Payments	(12,510)	(11,663)	(67,761)	(38,810)
Balance, end of period	$ 793,638	$ 848,564	$ 793,638	$ 848,564

The Company s insurance-related expenses as reflected in the above table are reflected within selling, general, and administrative expenses.

12. Supplemental Guarantor information

All of the Company s senior notes are guaranteed jointly and severally on a senior basis by each of the Company s wholly-owned Homebuilding subsidiaries and certain other wholly-owned subsidiaries (collectively, the Guarantors). Such guaranties are full and unconditional. 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. Separate financial statements of the Guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by, and the operations of, the combined groups.

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

12. Supplemental Guarantor information (continued)

CONDENSED CONSOLIDATING BALANCE SHEET

September 30, 2011

($000 s omitted)

		Unconsolidated			
			Non-		Consolidated
	PulteGroup, Inc.	Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminating Entries	PulteGroup, Inc.
ASSETS					
Cash and equivalents	$ 113,028	$ 687,574	$ 341,911	$	$ 1,142,513
Restricted cash	89,385	6,895	17,016		113,296
Unfunded settlements		23,924	(7,395)		16,529
House and land inventory		4,885,536	4,132		4,889,668
Land held for sale		134,563			134,563
Land, not owned, under option agreements		25,422			25,422
Residential mortgage loans available-for-sale			173,956		173,956
Securities purchased under agreements to resell	50,675		(50,675)		
Investments in unconsolidated entities	1,526	33,028	2,630		37,184
Intangible assets, net		165,623			165,623
Other assets	18,899	388,770	42,853		450,522
Income taxes receivable	79,378				79,378
Deferred income tax assets	(29,521)	27	29,494		
Investments in subsidiaries and intercompany accounts, net	5,253,557	5,974,930	5,900,490	(17,128,977)	
	$ 5,576,927	$ 12,326,292	$ 6,454,412	$ (17,128,977)	$ 7,228,654
LIABILITIES AND SHAREHOLDERS EQUITY					
Liabilities:					
Accounts payable, customer deposits, accrued and other liabilities	$ 96,969	$ 1,036,746	$ 614,981	$	$ 1,748,696
Income tax liabilities	221,128				221,128
Senior notes	3,335,363				3,335,363
Total liabilities	3,653,460	1,036,746	614,981		5,305,187
Total shareholders equity	1,923,467	11,289,546	5,839,431	(17,128,977)	1,923,467
	$ 5,576,927	$ 12,326,292	$ 6,454,412	$ (17,128,977)	$ 7,228,654

31

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

12. Supplemental Guarantor information (continued)

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2010

($000 s omitted)

	Unconsolidated				
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
ASSETS					
Cash and equivalents	$ 10,000	$ 1,089,439	$ 371,186	$	$ 1,470,625
Restricted cash		3,927	20,674		24,601
Unfunded settlements		17,184	(4,419)		12,765
House and land inventory		4,777,681	4,132		4,781,813
Land held for sale		71,055			71,055
Land, not owned, under option agreements		50,781			50,781
Residential mortgage loans available-for-sale			176,164		176,164
Securities purchased under agreements to resell	74,500		(74,500)		
Investments in unconsolidated entities	1,523	42,261	2,529		46,313
Goodwill		240,541			240,541
Intangible assets, net		175,448			175,448
Other assets	24,476	499,075	44,412		567,963
Income taxes receivable	81,307				81,307
Deferred income tax assets	(34,192)	27	34,165		
Investments in subsidiaries and intercompany accounts, net	5,749,695	5,783,384	6,265,591	(17,798,670)	
	$ 5,907,309	$ 12,750,803	$ 6,839,934	$ (17,798,670)	$ 7,699,376
LIABILITIES AND SHAREHOLDERS EQUITY					
Liabilities:					
Accounts payable, customer deposits, accrued and other liabilities	$ 86,066	$ 1,166,805	$ 625,262	$	$ 1,878,133
Income tax liabilities	294,408				294,408
Senior notes	3,391,668				3,391,668
Total liabilities	3,772,142	1,166,805	625,262		5,564,209
Total shareholders equity	2,135,167	11,583,998	6,214,672	(17,798,670)	2,135,167
	$ 5,907,309	$ 12,750,803	$ 6,839,934	$ (17,798,670)	$ 7,699,376

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

12. Supplemental Guarantor information (continued)

CONSOLIDATING STATEMENT OF OPERATIONS

For the three months ended September 30, 2011

($000 s omitted)

	Unconsolidated				
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues					
Homebuilding					
Home sale revenues	$	$ 1,101,368	$	$	$ 1,101,368
Land sale revenues		12,659			12,659
		1,114,027			1,114,027
Financial Services		328	27,576		27,904
		1,114,355	27,576		1,141,931
Homebuilding Cost of Revenues					
Home sale cost of revenues		947,817			947,817
Land sale cost of revenues		(2,935)			(2,935)
		944,882			944,882
Financial Services expenses	90	58	19,101		19,249
Selling, general, and administrative expenses	6,720	114,573	317		121,610
Other expense (income), net		259,958	(771)		259,187
Interest income	(79)	(974)	(69)		(1,122)
Interest expense	322				322
Intercompany interest	10,648	(7,215)	(3,433)		
Equity in (earnings) loss of unconsolidated entities	(3)	(791)	1,097		303
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(17,698)	(196,136)	11,334		(202,500)
Income tax expense (benefit)	(2,546)	(73,127)	2,471		(73,202)
Income (loss) before equity in income (loss) of subsidiaries	(15,152)	(123,009)	8,863		(129,298)
Equity in income (loss) of subsidiaries	(114,146)	9,781	(12,880)	117,245	
Net income (loss)	$ (129,298)	$ (113,228)	$ (4,017)	$ 117,245	$ (129,298)

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

12. Supplemental Guarantor information (continued)

CONSOLIDATING STATEMENT OF OPERATIONS

For the nine months ended September 30, 2011

($000 s omitted)

		Unconsolidated			
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues					
Homebuilding					
Home sale revenues	$	$ 2,783,602	$	$	$ 2,783,602
Land sale revenues		19,023			19,023
		2,802,625			2,802,625
Financial Services		897	70,823		71,720
		2,803,522	70,823		2,874,345
Homebuilding Cost of Revenues					
Home sale cost of revenues		2,422,525			2,422,525
Land sale cost of revenues		1,782			1,782
		2,424,307			2,424,307
Financial Services expenses	418	259	78,098		78,775
Selling, general, and administrative expenses	27,536	370,862	4,038		402,436
Other expense (income), net	3,537	273,450	(2,222)		274,765
Interest income	(167)	(3,277)	(260)		(3,704)
Interest expense	990				990
Intercompany interest	32,051	(23,947)	(8,104)		
Equity in (earnings) loss of unconsolidated entities	(4)	(3,014)	1,019		(1,999)
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(64,361)	(235,118)	(1,746)		(301,225)
Income tax expense (benefit)	(2,188)	(76,810)	1,982		(77,016)
Income (loss) before equity in income (loss) of subsidiaries	(62,173)	(158,308)	(3,728)		(224,209)
Equity in income (loss) of subsidiaries	(162,036)	(1,663)	(134,112)	297,811	
Net income (loss)	$ (224,209)	$ (159,971)	$ (137,840)	$ 297,811	$ (224,209)

Table of Contents

PULTEGROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

12. Supplemental Guarantor information (continued)

CONSOLIDATING STATEMENT OF OPERATIONS

For the three months ended September 30, 2010

($000 s omitted)

	Unconsolidated				
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues					
Homebuilding					
Home sale revenues	$	$ 1,024,847	$	$	$ 1,024,847
Land sale revenues		5,908			5,908
		1,030,755			1,030,755
Financial Services		610	26,399		27,009
		1,031,365	26,399		1,057,764
Homebuilding Cost of Revenues					
Home sale cost of revenues		952,788			952,788
Land sale cost of revenues		4,849			4,849
		957,637			957,637
Financial Services expenses	193	221	23,036		23,450
Selling, general, and administrative expenses	17,321	228,512	179,810		425,643
Other expense (income), net	(256)	674,102	(867)		672,979
Interest income		(2,402)	(199)		(2,601)
Interest expense	789				789
Intercompany interest	42,322	(42,366)	44		
Equity in (earnings) loss of unconsolidated entities	(2)	2,492	1,214		3,704
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(60,367)	(786,831)	(176,639)		(1,023,837)
Income tax expense (benefit)	61,119	(28,647)	(61,193)		(28,721)
Income (loss) before equity in income (loss) of subsidiaries	(121,486)	(758,184)	(115,446)		(995,116)
Equity in income (loss) of subsidiaries	(873,630)	1,320			