

PULTE HOMES INC/MI/  
Form 10-Q  
November 07, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended September 30, 2007**

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

**Commission File Number 1-9804**

**PULTE HOMES, INC.**

(Exact name of registrant as specified in its charter)

**MICHIGAN**

(State or other jurisdiction of  
incorporation or organization)

**38-2766606**

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

**100 Bloomfield Hills Parkway, Suite  
300 Bloomfield Hills, Michigan 48304**

(Address of principal executive offices) (Zip Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Number of shares of common stock outstanding as of October 31, 2007: 256,028,800

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**PULTE HOMES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(\$000 s omitted)

	<b>September 30, 2007 (Unaudited)</b>	<b>December 31, 2006 (Note)</b>
<b>ASSETS</b>		
Cash and equivalents	\$ 101,786	\$ 551,292
Unfunded settlements	44,967	72,597
House and land inventory	8,130,891	9,374,335
Land held for sale	372,245	465,823
Land, not owned, under option agreements	31,739	43,609
Residential mortgage loans available-for-sale	337,941	871,350
Investments in unconsolidated entities	152,557	150,685
Goodwill	40,068	375,677
Intangible assets, net	112,767	118,954
Other assets	905,287	982,034
Deferred income tax assets	702,206	170,518
	<b>\$ 10,932,454</b>	<b>\$ 13,176,874</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Liabilities:		
Accounts payable, including book overdrafts of \$210,448 and \$280,329 in 2007 and 2006, respectively	\$ 560,904	\$ 576,321
Customer deposits	215,081	200,478
Accrued and other liabilities	1,050,618	1,403,793
Unsecured short-term borrowings	25,000	
Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets	286,080	814,707
Income taxes	128,040	66,267
Senior notes	3,477,882	3,537,947
Total liabilities	5,743,605	6,599,513
Shareholders equity	5,188,849	6,577,361
	<b>\$ 10,932,454</b>	<b>\$ 13,176,874</b>

Note: The condensed consolidated balance sheet at December 31, 2006, 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.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>				
Homebuilding	\$ 2,438,556	\$ 3,513,776	\$ 6,261,962	\$ 9,746,583
Financial services	32,743	49,609	99,686	134,933
Other non-operating	499	574	2,829	3,986
Total revenues	2,471,798	3,563,959	6,364,477	9,885,502
<b>Expenses:</b>				
Homebuilding, principally cost of sales	3,485,540	3,229,304	8,204,260	8,703,585
Financial services	19,967	28,528	67,283	81,304
Other non-operating, net	8,629	12,494	28,302	33,442
Total expenses	3,514,136	3,270,326	8,299,845	8,818,331
<b>Other income:</b>				
Gain on sale of equity investment				31,635
Equity income (loss)	(51,575)	1,881	(107,702)	1,977
Income (loss) from continuing operations before income taxes	(1,093,913)	295,514	(2,043,070)	1,100,783
Income taxes (benefit)	(306,042)	104,064	(661,976)	402,836
Income (loss) from continuing operations	(787,871)	191,450	(1,381,094)	697,947
Loss from discontinued operations		(1,231)		(2,064)
Net income (loss)	\$ (787,871)	\$ 190,219	\$ (1,381,094)	\$ 695,883
<b>Per share data:</b>				
Basic:				
Income (loss) from continuing operations	\$ (3.12)	\$ 0.76	\$ (5.48)	\$ 2.76
Loss from discontinued operations				(0.01)

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Net income (loss)	\$	(3.12)	\$	0.76	\$	(5.48)	\$	2.76
Assuming dilution:								
Income (loss) from continuing operations	\$	(3.12)	\$	0.74	\$	(5.48)	\$	2.70
Loss from discontinued operations								(0.01)
Net income (loss)	\$	(3.12)	\$	0.74	\$	(5.48)	\$	2.69
Cash dividends declared	\$	0.04	\$	0.04	\$	0.12	\$	0.12
Number of shares used in calculation:								
Basic:								
Weighted-average common shares outstanding		252,264		251,287		252,093		252,521
Assuming dilution:								
Effect of dilutive securities				5,928				6,432
Adjusted weighted-average common shares and effect of dilutive securities		252,264		257,215		252,093		258,953

See accompanying Notes to Condensed Consolidated Financial Statements.

**PULTE HOMES, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**  
(\$000 s omitted, except per share data)  
(Unaudited)

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>Shareholders Equity, December 31, 2006</b>	\$ 2,553	\$ 1,284,687	\$ (2,986)	\$ 5,293,107	\$ 6,577,361
Adoption of FASB Interpretation No. 48 (FIN 48)				(31,354)	(31,354)
Stock option exercises	5	5,875			5,880
Tax benefit from stock option exercises and restricted stock vesting		2,997			2,997
Restricted stock awards	3	(3)			
Cash dividends declared \$0.12 per share				(30,712)	(30,712)
Stock repurchases	(2)	(780)		(4,443)	(5,225)
Stock-based compensation		52,031			52,031
Comprehensive income (loss):					
Net income (loss)				(1,381,094)	(1,381,094)
Change in fair value of derivatives			(906)		(906)
Foreign currency translation adjustments			(129)		(129)
 Total comprehensive income (loss)					 (1,382,129)
 <b>Shareholders Equity, September 30, 2007</b>	 \$ 2,559	 \$ 1,344,807	 \$ (4,021)	 \$ 3,845,504	 \$ 5,188,849
 <b>Shareholders Equity, December 31, 2005</b>	 \$ 2,570	 \$ 1,209,148	 \$ (5,496)	 \$ 4,751,120	 \$ 5,957,342
Stock option exercises	4	4,820			4,824
Tax benefit from stock option exercises and restricted stock vesting		4,154			4,154
Restricted stock awards	7	(7)			
Cash dividends declared \$0.12 per share				(30,689)	(30,689)
Stock repurchases	(35)	(17,239)		(102,222)	(119,496)



Stock-based compensation	54,091		54,091
Comprehensive income (loss):			
Net income		695,883	695,883
Change in fair value of derivatives		(41)	(41)
Foreign currency translation adjustments	1,406		1,406
Total comprehensive income			697,248

**Shareholders Equity,  
September 30, 2006**

\$ 2,546	\$ 1,254,967	\$ (4,131)	\$ 5,314,092	\$ 6,567,474
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See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net income (loss)	\$ (1,381,094)	\$ 695,883
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:		
Write-down of land and deposits and other related costs	1,618,350	155,030
Goodwill impairments	335,609	
Gain on sale of equity investments		(31,635)
Amortization and depreciation	64,109	58,509
Stock-based compensation expense	52,031	54,091
Deferred income taxes	(523,137)	(27,113)
Equity loss (income) from unconsolidated entities	107,702	(1,977)
Distributions of earnings from unconsolidated entities	4,291	6,356
Other, net	3,676	1,975
Increase (decrease) in cash due to:		
Inventories	(300,184)	(2,348,001)
Residential mortgage loans available-for-sale	533,409	459,334
Other assets	30,504	54,173
Accounts payable, accrued and other liabilities	(242,466)	(165,286)
Income taxes	21,868	(178,048)
 Net cash provided by (used in) operating activities	 324,668	 (1,266,709)
 Cash flows from investing activities:		
Distributions from unconsolidated entities	29,071	37,461
Investments in unconsolidated entities	(155,606)	(53,046)
Investments in subsidiaries, net of cash acquired		(65,779)
Proceeds from sale of equity investments		49,216
Proceeds from sale of fixed assets	9,685	6,949
Capital expenditures	(54,395)	(78,447)
 Net cash used in investing activities	 (171,245)	 (103,646)
 Cash flows from financing activities:		
Net repayments under Financial Services credit arrangements	(528,627)	(359,155)
Net borrowings under revolving credit facility	25,000	754,300
Proceeds from other borrowings		210,040
Repayment of other borrowings	(72,082)	

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Excess tax benefits from share-based awards	2,997	2,671
Issuance of common stock	5,880	4,824
Stock repurchases	(5,225)	(119,496)
Dividends paid	(30,712)	(30,689)
Net cash provided by (used in) financing activities	(602,769)	462,495
Effect of exchange rate changes on cash and equivalents	(160)	225
Net decrease in cash and equivalents	(449,506)	(907,635)
Cash and equivalents at beginning of period	551,292	1,002,268
Cash and equivalents at end of period	\$ 101,786	\$ 94,633
Supplemental disclosure of cash flow information cash paid during the period for:		
Interest, net of amounts capitalized	\$ 33,418	\$ 36,310
Income taxes	\$ 7,441	\$ 597,854

See accompanying Notes to Condensed Consolidated Financial Statements.

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

**1. Basis of presentation and significant accounting policies**

*Basis of presentation*

The consolidated financial statements include the accounts of Pulte Homes, Inc. and all of its direct and indirect subsidiaries (the Company) and variable interest entities in which the Company is deemed to be the primary beneficiary. The direct subsidiaries of Pulte Homes, Inc. include Pulte Diversified Companies, Inc., Del Webb Corporation (Del Webb), and other subsidiaries that are engaged in the homebuilding business. Pulte Diversified Companies, Inc.'s operating subsidiaries include Pulte Home Corporation and other subsidiaries that are engaged in the homebuilding business. The Company also has a mortgage banking company, Pulte Mortgage LLC (Pulte Mortgage), which is a subsidiary of Pulte Home Corporation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

*Reclassification*

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

*Earnings per share*

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares, adjusted for 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 options and non-vested shares of restricted stock. Any 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. The calculation of diluted earnings per share excludes 21,079,044 and 21,369,728 stock options and shares of restricted stock for the three and nine months ended September 30, 2007, respectively, and 2,483,462 and 2,418,287 stock options and shares of restricted stock for the three and nine months ended September 30, 2006, respectively. For the three and nine months ended September 30, 2007, all stock options and non-vested restricted stock were excluded from the calculation as they were anti-dilutive due to the net loss recorded during the period.

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

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

*Land valuation adjustments and write-offs*

Impairment of long-lived assets

In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long Lived Assets (SFAS No. 144), 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 regulatory environment related to 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. The weakened market conditions that arose during 2006 have persisted into 2007 and resulted in lower than expected net new orders, revenues, and gross margins and higher than expected cancellation rates during the nine months ended September 30, 2007. As a result, a portion of the Company's land inventory and communities under development demonstrated potential impairment indicators and were accordingly tested for impairment. As required by SFAS No. 144, 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. Impairment charges are required to be recorded if the fair value of the community's inventory is less than its carrying amount. The Company determined the fair value of the community's inventory using a discounted cash flow model. These estimated cash flows are significantly impacted by estimates related to expected average selling prices and sale incentives, expected sales paces and cancellation rates, expected land development construction timelines, and anticipated land development, construction, and overhead costs. Such estimates must be made for each individual community and may vary significantly between communities. 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 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 Company recorded valuation adjustments of \$615.9 million (related to 169 communities) and \$48.4 million (related to 27 communities) for the three months ended September 30, 2007 and 2006, respectively, and \$1.3 billion (related to 283 communities) and \$57.8 million (related to 30 communities) for the nine months ended September 30, 2007 and 2006, respectively, to reduce the carrying value of the impaired assets to their estimated fair value. The Company recorded these valuation adjustments in its Consolidated Statements of Operations within Homebuilding expense. For the three months ended September 30, 2007, the Company performed detailed impairment calculations for 245 communities resulting in impairments for 169 communities. The discount rate used in the Company's determination of fair value for these 169 communities ranged from 8% to 18% with an aggregate average of 11%, and the remaining carrying value of such communities totaled \$822.4 million at September 30, 2007. These 169 communities included 33 of its long-lived active adult communities as well as 60 communities for which impairments

were also recorded in prior periods. In the event that market conditions or the Company's operations deteriorate in the future or the current difficult market conditions extend beyond its expectations, additional impairments may be necessary in the future.

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

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

*Land valuation adjustments and write-offs (continued)*

Net realizable value adjustments land held for sale

In accordance with SFAS No. 144, the Company values long-lived assets held for sale at the lower of carrying amount or fair value less cost to sell. The Company records these net realizable value adjustments in its Consolidated Statements of Operations within Homebuilding expense. The Company recognized net realizable valuation adjustments to land held for sale of \$80.5 million and \$6.7 million for the three months ended September 30, 2007 and 2006, respectively, and \$132.8 million and \$28.8 million for the nine months ended September 30, 2007 and 2006, respectively.

Write-off of deposits and other related costs

From time to time, the Company writes off certain deposits and other costs related to land option contracts the Company no longer plans to pursue. Such decisions take into consideration changes in national and 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 deposits and other related costs in the amount of \$94.6 million and \$32.6 million for the three months ended September 30, 2007 and 2006, respectively, and \$204.2 million and \$68.5 million for the nine months ended September 30, 2007 and 2006, respectively. The Company records these write-offs of deposits and other related costs for land option contracts the Company no longer plans to pursue in its Consolidated Statements of Operations within Homebuilding expense.

*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 will provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Under FASB Interpretation No. 46, Consolidation of Variable Interest Entities, as amended by FIN 46-R issued in December 2003 (collectively referred to as FIN 46), if the entity holding the land under option is a variable interest entity, the Company's deposit represents a variable interest in that entity. Creditors of the variable interest entities have no recourse against the Company.

In applying the provisions of FIN 46, the Company evaluated all of its land option agreements and determined that the Company was subject to a majority of the expected losses or entitled to receive a majority of the expected residual returns under a limited number of these agreements. As the primary beneficiary under these agreements, the Company is required to consolidate variable interest entities at fair value. At September 30, 2007 and December 31, 2006, the Company classified \$31.7 million and \$43.6 million, respectively, as land, not owned, under option agreements on the balance sheet, representing the fair value of land under contract, including deposits of \$3.3 million and \$6 million, respectively. The corresponding liability has been classified within accrued and other liabilities on the balance sheet.

Land option agreements that did not require consolidation under FIN 46 at September 30, 2007 and December 31, 2006 had a total purchase price of \$2.2 billion and \$4.3 billion, respectively. In connection with these agreements, the Company had refundable and non-refundable deposits and other related costs of \$244 million and \$363.5 million, which were included in other assets at September 30, 2007 and December 31, 2006, respectively.

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

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

*Goodwill impairments*

Goodwill, which represents the cost of acquired companies in excess of the fair value of the net assets at the acquisition date, was recorded in prior years in connection with various acquisitions. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, the Company tests goodwill for potential impairment annually in the fourth quarter and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to a significant deterioration in market conditions, a continuation of significant impairments and land-related charges, and a steep decline in the market price of the Company s common stock to a level significantly below its book value, the Company performed a detailed evaluation of goodwill as of September 30, 2007.

Management evaluated the recoverability of goodwill by comparing the carrying value of the Company s reporting units to their fair value. Fair value was determined based on discounted future cash flows. These cash flows are significantly impacted by estimates related to current market valuations, current and future economic conditions in each of its geographical markets, and the Company s strategic plans within each of its markets. Due to uncertainties in the estimation process and the significant volatility in demand for new housing, actual results could differ significantly from such estimates. Additionally, future changes in any of these factors could result in future impairments of the remaining goodwill.

The evaluation as of September 30, 2007 resulted in an impairment charge of \$335.6 million related to the following reportable segments (\$000 s omitted):

	<b>Balance at December 31, 2006</b>	<b>Impairments</b>	<b>Balance at September 30, 2007</b>
Northeast	\$ 2,729	\$ (2,729)	\$
Southeast	4,954		4,954
Florida	34,414		34,414
Midwest	18,316	(18,316)	
Central	4,493	(4,493)	
Southwest	218,966	(218,966)	
California	91,105	(91,105)	
Financial Services	700		700
Total goodwill	\$ 375,677	\$ (335,609)	\$ 40,068



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

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

*Restructuring*

In response to the challenging operating environment that continues to exist, the Company initiated a restructuring plan during the second quarter of 2007 designed to reduce ongoing overhead costs and improve operating efficiencies. The restructuring includes the closure of selected divisional offices, the disposal of related property and equipment, and a reduction in the Company's workforce of approximately 1,700 employees. Included below is a summary of charges incurred related to the restructuring (\$000's omitted):

	<b>Three Months Ended September 30, 2007</b>	<b>Nine Months Ended September 30, 2007</b>
Employee severance benefits	\$ 769	\$ 32,193
Asset impairments	5,206	8,708
Lease terminations and other exit costs	1,913	6,131
	<b>\$ 7,888</b>	<b>\$ 47,032</b>

Substantially all of these costs have been included in the Consolidated Statements of Operations within Homebuilding expense. The Company expects to incur up to \$50 million in total costs related to this restructuring plan, of which approximately \$40 million will be cash expenditures. The majority of these cash expenditures relate to employee severance benefits and will be incurred during 2007. The remaining cash expenditures will be incurred over the remaining terms of the affected office leases, some of which continue through 2014. The restructuring costs relate to each of its reportable segments and are not material to any one segment.

*Allowance for warranties*

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

Changes to the Company's allowance for warranties are as follows (\$000's omitted):

	<b>Nine Months Ended September 30, 2007</b>	<b>2006</b>
Allowance for warranties at beginning of period	\$ 117,259	\$ 112,297
Warranty reserves provided	52,093	113,419
Payments and other adjustments	(74,088)	(125,238)
Allowance for warranties at end of period	<b>\$ 95,264</b>	<b>\$ 100,478</b>

*Insurance*

The Company has, and requires the majority of its subcontractors to have, general liability, property, errors and omissions, workers compensation and other business insurance. These insurance policies protect the Company against a portion of the risk of loss from claims, subject to certain self-insured retentions, deductibles, and other coverage limits. Through its captive insurance subsidiaries, the Company reserves for costs to cover its self-insured and deductible amounts, including any costs of claims and lawsuits, under those policies based on an analysis of its historical claims, which includes an estimate of claims incurred but not yet reported. The Company experienced net increases in insurance-related expenses of \$23.2 million and \$63.2 million for the three and nine months ended September 30, 2007, respectively, primarily due to the development of general liability product claims.

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

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

*New accounting pronouncements*

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* Including an amendment of FASB Statement No. 115 (SFAS No. 159), which permits entities to measure various financial instruments and certain other items at fair value at specified election dates. The election must be made at initial recognition of the financial instrument, and any unrealized gains or losses must be reported at each reporting date. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption of the statement is allowed provided that an entity also elects to apply the provisions of SFAS No. 157 (as subsequently presented). The Company is currently reviewing the potential impact of SFAS No. 159 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently reviewing the potential impact of SFAS No. 157 on its consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* (SFAS No. 156), which provides an approach to simplify efforts to obtain hedge-like (offset) accounting. This new Statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Company adopted SFAS No. 156 effective January 1, 2007. As the Company sells its servicing rights monthly on a flow basis through fixed price servicing sales contracts, the adoption of SFAS No. 156 did not have a significant impact on the Company's consolidated financial statements.

The FASB has revised its guidance on SFAS No. 133 Implementation Issues as of March 2006. Several Implementation Issues were revised to reflect the issuance of SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* an Amendment of FASB Statements No. 133 and 140 (SFAS No. 155), in February 2006. SFAS No. 155 allows any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to be carried at fair value in its entirety, with changes in fair value recognized in earnings. In addition, SFAS No. 155 requires that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or contain an embedded derivative. SFAS No. 155 also eliminates a prior restriction on the types of passive derivatives that a qualifying special purpose entity is permitted to hold. SFAS No. 155 is applicable to new or modified financial instruments in fiscal years beginning after September 15, 2006, though the provisions related to fair value accounting for hybrid financial instruments can also be applied to existing instruments. The Company adopted SFAS No. 155 effective January 1, 2007. The effect of adoption was not significant.

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

**2. 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 targeted for first-time, first and second move-up, and active adult home buyers.

The Company has determined that its Homebuilding operating segments are its Areas, which are aggregated into seven reportable segments based on similarities in the economic and geographic characteristics of the Company's homebuilding operations. During the three months ended September 30, 2007, the Company moved its Kansas City market from the Central to the Great Lakes Area. The operating data by segment for the Central and Midwest reportable segments have been reclassified to reflect this change. Accordingly, the Company's reportable Homebuilding segments are as follows:

Northeast: Northeast Area includes the following states:  
*Connecticut, Delaware, Maryland, Massachusetts, New Jersey,  
New York, Pennsylvania, Virginia*

Southeast: Southeast Area includes the following states:  
*Georgia, North Carolina, South Carolina, Tennessee*

Florida: Florida Area includes the following state:  
*Florida*

Midwest: Great Lakes Area includes the following states:  
*Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Ohio*

Central: Central Area includes the following state:  
*Texas*

Southwest: Mountain West and Southwest Areas include the following states:  
*Arizona, Colorado, Nevada, New Mexico*

\*California: Northern California and Southern California Areas include the following state:  
*California*

\* *The Company's homebuilding operations located in Reno, Nevada are reported in the California segment, while its remaining Nevada homebuilding operations are reported in the*

*Southwest  
segment.*

The Company also has one reportable segment for its Financial Services operations, which consists principally of mortgage banking and title operations conducted through Pulte Mortgage and other Company subsidiaries. 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 from continuing operations before provision for income taxes which, for the homebuilding operations, is defined as home sales (settlements) and land sale revenues less home cost of sales, land cost of sales and certain selling, general and administrative and other expenses, plus equity income from unconsolidated entities, which are incurred by or allocated to its Homebuilding segments. Operating earnings for the Financial Services segment is defined as revenues less costs associated with its mortgage operations and certain selling, general and administrative expenses incurred by or allocated to the Financial Services segment.

Each reportable segment follows the same accounting policies described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements in the Company's 2006 Annual Report on Form 10-K.

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

**2. Segment information (continued)**

	<b>Operating Data by Segment (\$000 s omitted)</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenues:				
Northeast	\$ 325,691	\$ 434,050	\$ 722,581	\$ 1,179,211
Southeast	298,466	290,755	826,733	814,419
Florida	275,538	548,358	877,646	1,631,411
Midwest	299,967	412,396	627,332	955,352
Central	164,002	238,206	472,857	664,812
Southwest	711,596	1,002,337	1,744,976	2,672,582
California	363,296	587,674	989,837	1,828,796
Financial Services	32,743	49,609	99,686	134,933
Total segment revenues	2,471,299	3,563,385	6,361,648	9,881,516
Corporate and unallocated (a)	499	574	2,829	3,986
Consolidated revenues	\$ 2,471,798	\$ 3,563,959	\$ 6,364,477	\$ 9,885,502
Income (loss) from continuing operations before income taxes:				
Northeast	\$ (24,343)	\$ 30,176	\$ (124,876)	\$ 112,592
Southeast	11,000	21,693	51,524	56,045
Florida	(149,939)	105,594	(270,866)	351,866
Midwest	(24,419)	(2,604)	(172,202)	(15,087)
Central	(41,542)	3,156	(100,617)	19,019
Southwest	(227,077)	193,388	(346,467)	505,237
California	(178,341)	33,007	(415,237)	203,092
Financial Services (b)	12,896	21,377	32,659	85,777
Total segment income (loss) before income taxes	(621,765)	405,787	(1,346,082)	1,318,541
Corporate and unallocated (c)	(472,148)	(110,273)	(696,988)	(217,758)
Consolidated income (loss) from continuing operations before income taxes (d)	\$ (1,093,913)	\$ 295,514	\$ (2,043,070)	\$ 1,100,783

(a) *Corporate and unallocated includes interest income earned from short-term investments of cash and equivalents.*

(b) *Financial Services income before income taxes includes interest expense of \$4.2 million and \$6.7 million for the three months ended September 30, 2007 and 2006, respectively, and \$12.5 million and \$16.8 million for the nine months ended September 30, 2007 and 2006, respectively.*

*Financial Services income before income taxes includes interest income of \$5.4 million and \$9.1 million for the three months ended September 30, 2007 and 2006, respectively, and \$16.4 million and \$24.2 million for the nine months ended September 30, 2007 and 2006,*

*respectively.*

- (c) *Corporate and unallocated includes amortization of capitalized interest (including write-offs of capitalized interest related to land and community valuation adjustments) of \$98.5 million and \$242.6 million for the three and nine months ended September 30, 2007, respectively, and \$65.2 million and \$162.3 million for the three and nine months ended September 30, 2006, respectively, and goodwill impairments of \$335.6 million for the three and nine months ended September 30, 2007, and shared services that benefit all operating segments, the costs of which are not allocated to the operating*



*segments  
reported above.*

- (d) *Consolidated  
income  
(loss) before  
income taxes  
includes selling,  
general and  
administrative  
expenses of  
\$260.2 million  
and  
\$311.7 million  
for the three  
months ended  
September 30,  
2007 and 2006,  
respectively,  
and  
\$894.4 million  
and  
\$924.7 million  
for the nine  
months ended  
September 30,  
2007 and 2006,  
respectively.*

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

**2. Segment information (continued)**

**Valuation Adjustments and Write-Offs by Segment (\$000 s  
omitted)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Land and community valuation adjustments:				
Northeast	\$ 26,547	\$ 9,998	\$ 83,451	\$ 9,998
Southeast	14,768		15,021	
Florida	104,777	1,025	207,276	1,025
Midwest	32,598	15,772	158,594	25,150
Central	36,646	2,504	87,931	2,504
Southwest	187,924	1,012	302,676	1,012
California	169,193	18,085	336,137	18,085
Corporate and unallocated (a)	43,478		90,296	
<b>Total valuation adjustments</b>	<b>\$ 615,931</b>	<b>\$ 48,396</b>	<b>\$ 1,281,382</b>	<b>\$ 57,774</b>
Net realizable value adjustments (NRV) land held for sale:				
Northeast	\$ 14,428	\$ 3,204	\$ 14,428	\$ 3,204
Southeast	1,056		2,126	
Florida	10,666		21,019	
Midwest	11,032		11,032	5,660
Central	5,483	3,309	9,505	4,574
Southwest	35,702		63,161	15,125
California	2,112	207	11,480	207
Corporate and unallocated				
<b>Total NRV adjustments land held for sale</b>	<b>\$ 80,479</b>	<b>\$ 6,720</b>	<b>\$ 132,751</b>	<b>\$ 28,770</b>
Write-off of deposits and other related costs (b):				
Northeast	\$ 7,422	\$ 11,849	\$ 45,595	\$ 16,053
Southeast	426	204	940	1,655
Florida	36,875	6,191	46,714	7,521
Midwest	894	7,714	7,873	16,369
Central	11	575	903	1,713
Southwest	25,770	3,613	60,085	12,806
California	23,152	4,498	42,107	14,350
Corporate and unallocated		(2,054)		(1,981)

Total write-off of deposits and pre-acquisition costs	\$ 94,550	\$ 32,590	\$ 204,217	\$ 68,486
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The Company also recorded impairments for its investments in unconsolidated joint ventures totaling \$51.1 million (relating to Southwest) and \$105.2 million (of which \$54.1 million was in California) in the three and nine months ended September 30, 2007, respectively.

(a) *Corporate and unallocated includes \$43.5 million and \$90.3 million of write-offs of capitalized interest related to land and community valuation adjustments recorded during the three and nine months ended September 30, 2007.*

(b) *Includes settlements related to costs previously in dispute and considered non-recoverable.*

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

**2. Segment information (continued)**

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

	<b>Assets</b>	<b>Inventory</b>
<b>As of September 30, 2007:</b>		
Northeast	\$ 1,444,758	\$ 1,229,091
Southeast	775,109	670,746
Florida	1,408,030	1,124,926
Midwest	725,750	677,858
Central	478,889	404,429
Southwest	2,753,282	2,497,641
California	1,521,656	1,356,537
Financial Services	398,218	
Total segment	9,505,692	7,961,228
Corporate and unallocated (a)	1,426,762	169,663
Consolidated	\$ 10,932,454	\$ 8,130,891
<b>As of December 31, 2006:</b>		
Northeast	\$ 1,530,238	\$ 1,167,454
Southeast	734,001	640,199
Florida	1,742,839	1,464,691
Midwest	950,656	880,450
Central	651,925	536,353
Southwest	3,100,927	2,691,505
California	1,953,240	1,761,000
Financial Services	951,206	
Total segment	11,615,032	9,141,652
Corporate and unallocated (a)	1,561,842	232,683
Consolidated	\$ 13,176,874	\$ 9,374,335

(a) *Corporate and unallocated primarily includes cash and equivalents; goodwill and intangibles; land, not owned, under option agreements;*

*capitalized  
interest; and  
other corporate  
items that are  
not allocated to  
the operating  
segments.*

### 3. Inventory

Major components of the Company's inventory are as follows (\$000's omitted):

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Homes under construction	\$ 3,035,112	\$ 2,606,613
Land under development	3,881,831	5,478,244
Land held for future development	1,213,948	1,289,478
Total	\$ 8,130,891	\$ 9,374,335

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

**4. Investments in unconsolidated entities**

The Company participates in a number of joint ventures with independent third parties. Many of these joint ventures purchase, develop and/or sell land and homes in the United States and Puerto Rico. If additional capital infusions are required and approved (or are necessary as a result of the limited recourse financing guarantees discussed below), the Company would need to contribute its pro rata portion of those capital needs in order not to dilute its ownership in the joint ventures.

At September 30, 2007 and December 31, 2006, aggregate outstanding debt of unconsolidated joint ventures was \$700.5 million and \$935.9 million, respectively. At September 30, 2007 and December 31, 2006, the Company's proportionate share of its joint venture debt was approximately \$185.9 million and \$312.8 million, respectively. The Company provided limited recourse guarantees for \$176.6 million and \$304.1 million of joint venture debt at September 30, 2007 and December 31, 2006, respectively. Accordingly, the Company may be responsible, on a contingent basis, through limited guarantees with respect to a portion of the secured land acquisition and development debt. However, the Company would not be responsible unless a joint venture was unable to perform its contractual borrowing obligations.

For the nine months ended September 30, 2007, the Company made additional capital contributions totaling \$155.6 million to fund the cash requirements of existing joint ventures and received capital and earnings distributions totaling \$33.4 million from existing joint ventures. At September 30, 2007 and December 31, 2006, the Company had \$152.6 million and \$150.7 million, respectively, invested in these joint ventures. These investments are included in the assets of the Company's Homebuilding segments and are accounted for primarily under the equity method.

**5. Acquisitions and divestitures**

In February 2006, Pulte Mortgage sold its investment in Hipotecaria Su Casita ( Su Casita ), a Mexico-based mortgage banking company. Remaining shareholders of Su Casita, who exercised their right of first refusal to acquire the shares, purchased Pulte Mortgage's 16.7% interest for net proceeds of approximately \$49.2 million. As a result of this transaction, the Company recognized a pre-tax gain of approximately \$31.6 million for the nine months ended September 30, 2006.

**6. 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 authorization 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 were no repurchases under these programs during the nine months ended September 30, 2007. The Company had remaining authorization to purchase \$102.3 million of common stock at September 30, 2007.

*Accumulated other comprehensive income (loss)*

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

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Foreign currency translation adjustments:		
Mexico	\$ (445)	\$ (316)
Fair value of derivatives, net of income taxes of \$2,192 in 2007 and \$1,637 in 2006	(3,576)	(2,670)
	<b>\$ (4,021)</b>	<b>\$ (2,986)</b>



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

**7. Income Taxes**

The Company's effective income tax rate for the three and nine months ended September 30, 2007 was 28% and 32.4%, respectively, compared with an effective tax rate of 35.2% and 36.6% in the corresponding prior year periods. The effective tax rates during 2007 were lower than in the prior year primarily due to the majority of the recorded goodwill impairment being non-deductible for tax purposes. Excluding the goodwill impairment charge, the effective tax rate would have been 37.3% for the nine months ended September 30, 2007.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), effective January 1, 2007. FIN 48 creates a single model to address accounting for uncertainty in tax positions and clarifies accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The January 1, 2007 adoption of FIN 48 resulted in a \$31.4 million increase in income tax liabilities and a corresponding charge to beginning retained earnings.

As of adoption, the Company had \$86.7 million of gross unrecognized tax benefits, all of which, if recognized, would affect the effective tax rate. Additionally, the Company had \$24.5 million of accrued interest and \$13.3 million of accrued penalties as of January 1, 2007.

Effective in 2007, the Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. Interest related to unrecognized tax benefits was previously included in interest expense.

The Company is currently under examination by various taxing jurisdictions and anticipates finalizing the examinations with certain jurisdictions within the next twelve months. The final outcome of these examinations is not yet determinable. The statute of limitations for the Company's major tax jurisdictions remains open for examination for tax years 1998-2006.

**8. Debt and Other Financing Arrangements**

The Company repurchased \$61.2 million of its 4.875% senior notes due 2009 during the nine months ended September 30, 2007. These repurchases resulted in a net gain of approximately \$500 thousand which is included in the Consolidated Statements of Operations within Other non-operating, net expenses.

On June 29, 2007, the Company amended its unsecured revolving credit facility, decreasing the borrowing availability from \$2.01 billion to \$1.86 billion and extending the maturity date from October 2010 to June 2012. Under the terms of the credit facility, the Company has the capacity to issue letters of credit totaling up to \$1.125 billion. Borrowing availability is reduced by the amount of letters of credit outstanding. The credit facility contains certain financial covenants. The Company is required to not exceed a debt-to-total capitalization ratio of 55%, and it is also required to meet a tangible net worth minimum each quarter. The credit facility no longer contains an interest coverage ratio covenant that could create an event of default for the Company, but if the interest coverage ratio (as defined in the credit facility) is less than 2 to 1, LIBOR margin and letter of credit pricing under the credit facility increases in increments ranging from 0.125% to 0.375%. The credit facility's uncommitted accordion feature remains unchanged at \$2.25 billion.

Pulte Mortgage reduced the amount of capacity available under its asset-backed commercial paper program from \$550 million to \$400 million effective June 1, 2007 as permitted by its existing agreement. Subsequently, Pulte Mortgage reduced the amount of capacity available under its asset-backed commercial paper program in September 2007 from \$400 million to \$300 million due to unfavorable changes in the asset-backed commercial paper market. Due to reduced origination volume, the Company does not anticipate needing any additional capacity in the near term.



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

**9. Supplemental Guarantor information**

At September 30, 2007, Pulte Homes, Inc. had the following outstanding senior note obligations: (1) \$339 million, 4.875% due 2009, (2) \$200 million, 8.125%, due 2011, (3) \$499 million, 7.875%, due 2011, (4) \$300 million, 6.25%, due 2013, (5) \$500 million, 5.25%, due 2014, (6) \$350 million, 5.2%, due 2015, (7) \$150 million, 7.625%, due 2017, (8) \$300 million, 7.875%, due 2032, (9) \$400 million, 6.375%, due 2033, (10) \$300 million, 6%, due 2035, and (11) \$150 million, 7.375%, due 2046. Such obligations to pay principal, premium (if any), and interest are guaranteed jointly and severally on a senior basis by Pulte Homes, Inc.'s 100%-owned Homebuilding subsidiaries (collectively, the Guarantors). Such guarantees 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.

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

**9. Supplemental Guarantor information (continued)****CONDENSED CONSOLIDATING BALANCE SHEET****September 30, 2007****(\$000 s omitted)**

	<b>Pulte Homes, Inc.</b>	<b>Unconsolidated Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated Pulte Homes, Inc.</b>
<b>ASSETS</b>					
Cash and equivalents	\$	\$ 49,088	\$ 52,698	\$	\$ 101,786
Unfunded settlements		48,283	(3,316)		44,967
House and land inventory		8,120,690	10,201		8,130,891
Land held for sale		372,245			372,245
Land, not owned, under option agreements		31,739			31,739
Residential mortgage loans available-for-sale			337,941		337,941
Investments in unconsolidated entities	1,448	138,202	12,907		152,557
Goodwill		39,368	700		40,068
Intangible assets, net		112,767			112,767
Other assets	213,227	626,584	65,476		905,287
Deferred income tax assets	684,662	356	17,188		702,206
Investment in subsidiaries	9,068,430	80,682	6,414,408	(15,563,520)	
	\$ 9,967,767	\$ 9,620,004	\$ 6,908,203	\$ (15,563,520)	\$ 10,932,454
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
<b>Liabilities:</b>					
Accounts payable, accrued and other liabilities	\$ 135,562	\$ 1,363,973	\$ 327,068	\$	\$ 1,826,603
Unsecured short-term borrowings	25,000				25,000
Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets			286,080		286,080
Income taxes	128,040				128,040
Senior notes	3,477,882				3,477,882
Advances (receivable) payable subsidiaries	1,012,434	(853,936)	(158,498)		
Total liabilities	4,778,918	510,037	454,650		5,743,605
Total shareholders equity	5,188,849	9,109,967	6,453,553	(15,563,520)	5,188,849

\$ 9,967,767    \$ 9,620,004    \$ 6,908,203    \$ (15,563,520)    \$ 10,932,454

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

**9. Supplemental Guarantor information (continued)****CONDENSED CONSOLIDATING BALANCE SHEET****December 31, 2006****(\$000 s omitted)**

	<b>Pulte Homes, Inc.</b>	<b>Unconsolidated Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated Pulte Homes, Inc.</b>
<b>ASSETS</b>					
Cash and equivalents	\$	\$ 318,309	\$ 232,983	\$	\$ 551,292
Unfunded settlements		68,757	3,840		72,597
House and land inventory		9,363,933	10,402		9,374,335
Land held for sale		465,823			465,823
Land, not owned, under option agreements		43,609			43,609
Residential mortgage loans available-for-sale			871,350		871,350
Investments in unconsolidated entities	1,448	133,195	16,042		150,685
Goodwill		374,977	700		375,677
Intangible assets, net		118,954			118,954
Other assets	46,490	814,136	121,408		982,034
Deferred income tax assets	155,178	65	15,275		170,518
Investment in subsidiaries	10,198,353	85,444	7,159,877	(17,443,674)	
	\$ 10,401,469	\$ 11,787,202	\$ 8,431,877	\$ (17,443,674)	\$ 13,176,874
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
Liabilities:					
Accounts payable, accrued and other liabilities	\$ 178,687	\$ 1,692,037	\$ 309,868	\$	\$ 2,180,592
Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets			814,707		814,707
Income taxes	66,267				66,267
Senior notes	3,537,947				3,537,947
Advances (receivable) payable subsidiaries	41,207	(144,645)	103,438		
Total liabilities	3,824,108	1,547,392	1,228,013		6,599,513
Total shareholders equity	6,577,361	10,239,810	7,203,864	(17,443,674)	6,577,361
	\$ 10,401,469	\$ 11,787,202	\$ 8,431,877	\$ (17,443,674)	\$ 13,176,874



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

**9. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF OPERATIONS**

For the three months ended September 30, 2007

(\$000 s omitted)

	Unconsolidated				Consolidated
	Pulte Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Pulte Homes, Inc.
<b>Revenues:</b>					
Homebuilding	\$	\$ 2,438,556	\$	\$	\$ 2,438,556
Financial services		5,679	27,064		32,743
Other non-operating	3	37	459		499
Total revenues	3	2,444,272	27,523		2,471,798
<b>Expenses:</b>					
Homebuilding:					
Cost of sales		2,810,553			2,810,553
Selling, general and administrative and other expense	7,238	650,064	17,685		674,987
Financial Services, principally interest	733	1,950	17,284		19,967
Other non-operating expenses, net	22,882	(8,451)	(5,802)		8,629
Intercompany interest	48,871	(48,871)			
Total expenses	79,724	3,405,245	29,167		3,514,136
<b>Other Income:</b>					
Equity income (loss)		(51,536)	(39)		(51,575)
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(79,721)	(1,012,509)	(1,683)		(1,093,913)
Income taxes (benefit)	(19,238)	(286,712)	(92)		(306,042)
Income (loss) before equity in income (loss) of subsidiaries	(60,483)	(725,797)	(1,591)		(787,871)
	(727,388)	6,054	(412,470)	1,133,804	

Equity in income (loss) of  
subsidiaries

Net income (loss)	\$ (787,871)	\$ (719,743)	\$ (414,061)	\$ 1,133,804	\$ (787,871)
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**PULTE HOMES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**9. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF OPERATIONS****For the nine months ended September 30, 2007****(\$000 s omitted)**

	<b>Unconsolidated</b>				<b>Consolidated</b>
	<b>Pulte Homes, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Pulte Homes, Inc.</b>
<b>Revenues:</b>					
Homebuilding	\$	\$ 6,261,962	\$	\$	\$ 6,261,962
Financial services		14,216	85,470		99,686
Other non-operating	10	1,102	1,717		2,829
Total revenues	10	6,277,280	87,187		6,364,477
<b>Expenses:</b>					
Homebuilding:					
Cost of sales		6,834,885			6,834,885
Selling, general and administrative and other expense	25,037	1,289,162	55,176		1,369,375
Financial Services, principally interest	2,074	6,046	59,163		67,283
Other non-operating expenses, net	66,969	(24,513)	(14,154)		28,302
Intercompany interest	113,594	(113,594)			
Total expenses	207,674	7,991,986	100,185		8,299,845
<b>Other Income:</b>					
Equity income (loss)		(107,740)	38		(107,702)
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(207,664)	(1,822,446)	(12,960)		(2,043,070)
Income taxes (benefit)	(68,245)	(590,709)	(3,022)		(661,976)
Income (loss) before equity in income (loss) of subsidiaries	(139,419)	(1,231,737)	(9,938)		(1,381,094)



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Equity in income (loss) of subsidiaries	(1,241,675)	16,130	(820,083)	2,045,628	
Net income (loss)	\$ (1,381,094)	\$ (1,215,607)	\$ (830,021)	\$ 2,045,628	\$ (1,381,094)

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

**9. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF OPERATIONS**

For the three months ended September 30, 2006

(\$000 s omitted)

	Unconsolidated				Consolidated
	Pulte Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Pulte Homes, Inc.
<b>Revenues:</b>					
Homebuilding	\$	\$ 3,513,776	\$	\$	\$ 3,513,776
Financial services		7,599	42,010		49,609
Other non-operating	258	68	248		574
Total revenues	258	3,521,443	42,258		3,563,959
<b>Expenses:</b>					
Homebuilding:					
Cost of sales		2,918,690			2,918,690
Selling, general and administrative and other expense	8,218	307,744	(5,348)		310,614
Financial Services, principally interest	767	2,463	25,298		28,528
Other non-operating expenses, net	26,019	(9,561)	(3,964)		12,494
Intercompany interest	5,504	(5,504)			
Total expenses	40,508	3,213,832	15,986		3,270,326
<b>Other Income:</b>					
Equity income		1,625	256		1,881
Income (loss) from continuing operations before income taxes and equity in income (loss) of subsidiaries	(40,250)	309,236	26,528		295,514
Income taxes (benefit)	(14,379)	108,807	9,636		104,064
Income (loss) from continuing operations before equity in	(25,871)	200,429	16,892		191,450

income (loss) of subsidiaries					
Income (loss) from discontinued operations	189		(1,420)		(1,231)
Income (loss) before equity in income (loss) of subsidiaries	(25,682)	200,429	15,472		190,219
Equity in income (loss) of subsidiaries:					
Continuing operations	217,321	10,399	34,492	(262,212)	
Discontinued operations	(1,420)			1,420	
	215,901	10,399	34,492	(260,792)	
Net income	\$ 190,219	\$ 210,828	\$ 49,964	\$ (260,792)	\$ 190,219

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

**9. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF OPERATIONS****For the nine months ended September 30, 2006****( \$000 s omitted)**

	<b>Pulte Homes, Inc.</b>	<b>Unconsolidated Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated Pulte Homes, Inc.</b>
<b>Revenues:</b>					
Homebuilding	\$	\$ 9,746,583	\$	\$	\$ 9,746,583
Financial services		20,280	114,653		134,933
Other non-operating	334	2,016	1,636		3,986
Total revenues	334	9,768,879	116,289		9,885,502
<b>Expenses:</b>					
Homebuilding:					
Cost of sales		7,806,302			7,806,302
Selling, general and administrative and other expense	24,335	880,081	(7,133)		897,283
Financial Services, principally interest	2,287	7,113	71,904		81,304
Other non-operating expenses, net	66,484	(24,823)	(8,219)		33,442
Intercompany interest	85,811	(85,811)			
Total expenses	178,917	8,582,862	56,552		8,818,331
<b>Other Income:</b>					
Gain on sale of equity investment			31,635		31,635
Equity income		824	1,153		1,977
Income (loss) from continuing operations before income taxes and equity in income (loss) of subsidiaries	(178,583)	1,186,841	92,525		1,100,783
Income taxes (benefit)	(65,694)	434,434	34,096		402,836

Income (loss) from continuing operations before equity in income (loss) of subsidiaries	(112,889)	752,407	58,429		697,947
Income (loss) from discontinued operations	189		(2,253)		(2,064)
Income (loss) before equity in income (loss) of subsidiaries	(112,700)	752,407	56,176		695,883
Equity in income (loss) of subsidiaries:					
Continuing operations	810,836	46,226	229,628	(1,086,690)	
Discontinued operations	(2,253)			2,253	
	808,583	46,226	229,628	(1,084,437)	
Net income	\$ 695,883	\$ 798,633	\$ 285,804	\$ (1,084,437)	\$ 695,883

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

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

**CONSOLIDATING STATEMENT OF CASH FLOWS**

**For the nine months ended September 30, 2007**

**(\$000 s omitted)**

	<b>Pulte Homes, Inc.</b>	<b>Unconsolidated Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated Pulte Homes, Inc.</b>
Net cash provided by (used in) operating activities	\$ (486,819)	\$ 213,712	\$ 597,775	\$	\$ 324,668
Cash flows from investing activities:					
Distributions from unconsolidated entities		26,024	3,047		29,071
Investments in unconsolidated entities		(155,606)			(155,606)
Dividends received from subsidiaries	51	22,000		(22,051)	
Investment in subsidiaries	(113,030)	(1,558)	(53,829)	168,417	
Proceeds from sale of fixed assets		9,685			9,685
Capital expenditures		(51,734)	(2,661)		(54,395)
Net cash provided by (used in) investing activities	(112,979)	(151,189)	(53,443)	146,366	(171,245)
Cash flows from financing activities:					
Net repayments under Financial Services credit arrangements			(528,627)		(528,627)
Net borrowings under revolving credit facility	25,000				25,000
Repayment of other borrowings	(61,188)	(10,894)			(72,082)
Capital contributions from parent		87,030	81,387	(168,417)	
Advances (to) from affiliates	663,046	(407,828)	(255,218)		
Excess tax benefits from share-based awards	2,997				2,997
Issuance of common stock	5,880				5,880
Stock repurchases	(5,225)				(5,225)

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Dividends paid	(30,712)	(51)	(22,000)	22,051	(30,712)
Net cash provided by (used in) financing activities	599,798	(331,743)	(724,458)	(146,366)	(602,769)
Effect of exchange rate changes on cash and equivalents			(160)		(160)
Net decrease in cash and equivalents		(269,220)	(180,286)		(449,506)
Cash and equivalents at beginning of period		318,308	232,984		551,292
Cash and equivalents at end of period	\$	\$ 49,088	\$ 52,698	\$	\$ 101,786

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

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

**CONSOLIDATING STATEMENT OF CASH FLOWS**

**For the nine months ended September 30, 2006**

**(\$000 s omitted)**

	<b>Pulte Homes, Inc.</b>	<b>Unconsolidated Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated Pulte Homes, Inc.</b>
Net cash provided by (used in) operating activities	(398,980)	(1,310,825)	443,096		(1,266,709)
Cash flows from investing activities:					
Distributions from unconsolidated entities		37,461			37,461
Investments in unconsolidated entities		(53,046)			(53,046)
Dividends received from subsidiaries	4,784,311	65,000	1,036,436	(5,885,747)	
Investments in subsidiaries	(1,219,637)	(69,460)	(307,939)	1,531,257	(65,779)
Proceeds from sale of equity investment			49,216		49,216
Proceeds from sale of fixed assets		6,948	1		6,949
Capital expenditures		(71,681)	(6,766)		(78,447)
Net cash provided by (used in) investing activities	3,564,674	(84,778)	770,948	(4,354,490)	(103,646)
Cash flows from financing activities:					
Net repayments under Financial Services credit arrangements			(359,155)		(359,155)
Net borrowings under revolving credit facility	754,300				754,300
Proceeds from other borrowings	150,000	60,040			210,040
Capital contributions from parent		1,220,972	310,285	(1,531,257)	
Advances (to) from affiliates	(3,927,304)	4,109,355	(182,051)		
	2,671				2,671



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Excess tax benefits from share-based awards					
Issuance of common stock	4,824				4,824
Stock repurchases	(119,496)				(119,496)
Dividends paid	(30,689)	(4,780,583)	(1,105,164)	5,885,747	(30,689)
Net cash provided by (used in) financing activities	(3,165,694)	609,784	(1,336,085)	4,354,490	462,495
Effect of exchange rate changes on cash and equivalents			225		225
Net decrease in cash and equivalents		(785,819)	(121,816)		(907,635)
Cash and equivalents at beginning of period		839,764	162,504		1,002,268
Cash and equivalents at end of period	\$	\$ 53,945	\$ 40,688	\$	\$ 94,633

## **Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

### **Overview**

During 2006 and 2007, the U.S. housing market has been impacted by a lack of consumer confidence, decreased housing affordability, increased interest rates, and large supplies of resale and new home inventories and related pricing pressures. Industry conditions continued to deteriorate, in certain markets significantly, in the three months ended September 30, 2007, with rising foreclosure activity and significant reductions in pricing by both ourselves and our competitors. The result has been weakened demand for new homes, slower sales, higher cancellation rates, and increased price discounts and other sales incentives to attract homebuyers. Additionally, the availability of certain mortgage financing products continues to become more constrained. The combination of these homebuilding industry and related mortgage financing developments resulted in significant decreases in our revenues and gross margins during the nine months ended September 30, 2007 compared with the same period in the prior year. Additionally, we incurred total land-related charges of \$1.6 billion for the nine months ended September 30, 2007 as well as impairments of our investments in unconsolidated joint ventures totaling \$105.2 million and goodwill impairments of \$335.6 million.

We continue to operate our business with the expectation that difficult market conditions will continue to impact us for at least the near term. We expect these trends in our unit settlements and pricing to continue and the majority of the markets we serve to remain challenging for the remainder of 2007 and throughout 2008. We have adjusted our approach to land acquisition and development and construction practices and continue to shorten our land pipeline, limit land development expenditures, reduce production volumes, and balance home price and profitability with sales pace. We are delaying planned land purchases and development spending and have significantly reduced our total number of controlled lots owned and under option. Additionally, we are significantly reducing the number of speculative homes put into production. While we will continue to purchase select land positions where it makes strategic and economic sense to do so, we currently anticipate minimal investment in new land parcels in the near term. We have also closely evaluated and made reductions in selling, general and administrative expenses. During the second quarter of 2007, we announced a restructuring plan designed to reduce costs and improve ongoing operating efficiencies, which resulted in related charges of \$47 million for the nine months ended September 30, 2007. Given the persistence of these difficult market conditions, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus. We believe that these measures will help to strengthen our market position and allow us to take advantage of opportunities that may develop in the future.

Given the continued weakness in new home sales and closings, visibility as to future earnings performance is limited. At this time, we estimate our fourth quarter 2007 earnings to be in the range of break-even to \$0.10 per diluted share, exclusive of any additional impairments or other land-related charges. Our outlook is tempered with caution, as conditions in many of the markets we serve across the United States have become increasingly challenging in recent months. Our evaluation for land-related charges recorded to date assumed our best estimates of cash flows for the communities tested. If conditions in the homebuilding industry worsen in the future or if our strategy related to certain communities changes, we may be required to evaluate our assets, including additional projects, for additional impairments or write-downs, which could result in additional charges that might be significant.

**Overview (continued)**

The following is a summary of our operating results for the three and nine months ended September 30, 2007 and 2006 (\$000 s omitted):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Pre-tax income (loss):				
Homebuilding operations	\$ (1,098,679)	\$ 286,057	\$ (2,050,256)	\$ 1,044,462
Financial services operations	12,896	21,377	32,659	85,777
Other non-operating	(8,130)	(11,920)	(25,473)	(29,456)
Pre-tax income (loss) from continuing operations	(1,093,913)	295,514	(2,043,070)	1,100,783
Income taxes (benefit)	(306,042)	104,064	(661,976)	402,836
Income (loss) from continuing operations	(787,871)	191,450	(1,381,094)	697,947
Loss from discontinued operations		(1,231)		(2,064)
Net income (loss)	\$ (787,871)	\$ 190,219	\$ (1,381,094)	695,883
Per share data assuming dilution:				
Income (loss) from continuing operations	\$ (3.12)	\$ 0.74	\$ (5.48)	\$ 2.70
Loss from discontinued operations				(0.01)
Net income (loss)	\$ (3.12)	\$ 0.74	\$ (5.48)	\$ 2.69

The following is a comparison of pre-tax income for the three and nine months ended September 30, 2007 and 2006:

Homebuilding pre-tax loss was \$1.1 billion and \$2.1 billion for the three and nine months ended September 30, 2007, respectively, compared with Homebuilding pre-tax income of \$286.1 million and \$1 billion, respectively, for the same periods in the prior year. The pre-tax loss experienced by our Homebuilding operations resulted from lower settlement revenues combined with lower gross margins. In addition, for the three and nine months ended September 30, 2007, pre-tax loss was affected by restructuring charges of \$7.9 million and \$47 million, respectively, land-related charges totaling \$791 million and \$1.6 billion, respectively, impairments of our investments in unconsolidated joint ventures of \$51.1 million and \$105.2 million, respectively, and goodwill impairments of \$335.6 million. Gross margins were unfavorably impacted by lower selling prices and increased sales incentives. Land-related charges for the three and nine months ended September 30, 2007 consisted of write-offs of deposits and other related costs for land transactions we no longer plan to pursue (\$94.6 million and \$204.2 million, respectively), net realizable valuation adjustments related to land positions sold or held for sale (\$80.5 million and \$132.8 million, respectively), and impairments on land assets related to communities under development or to be developed in the future (\$615.9 million and \$1.3 billion, respectively).

Pre-tax income from our Financial Services business segment decreased 40% and 62% for the three and nine months ended September 30, 2007, respectively, compared with the prior year periods as the result of decreased loan originations due to significant decreases in the number of homes closed. Pre-tax income for the nine months ended September 30, 2006 includes a one-time gain of \$31.6 million related to the sale of our investment in Su Casita, a Mexican mortgage banking company, during the first quarter of 2006. Capture rates were 92.5% and 91.1% for the three months ended September 30, 2007 and 2006, respectively, and 92.7% and 90.5% for the nine months ended September 30, 2007 and 2006, respectively.

The decrease in non-operating expenses for the three and nine months ended September 30, 2007, compared with the same periods in the prior year was due primarily to a reduction in incentive compensation.

**Homebuilding Operations Summary**

The following table presents a summary of pre-tax income and unit information for our Homebuilding operations for the three and nine months ended September 30, 2007 and 2006 (\$000 s omitted):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Home sale revenue (settlements)	\$ 2,407,762	\$ 3,498,499	\$ 6,098,869	\$ 9,692,293
Land sale revenue	30,794	15,277	163,093	54,290
Home cost of sales (a)	(2,700,512)	(2,899,981)	(6,549,864)	(7,733,989)
Land cost of sales (b)	(110,041)	(18,709)	(285,021)	(72,313)
Selling, general and administrative expense	(236,610)	(279,223)	(813,476)	(829,376)
Equity income (expense) (c)	(51,695)	1,585	(107,958)	1,464
Other income (expense), net (d)	(438,377)	(31,391)	(555,899)	(67,907)
 Pre-tax income	 \$ (1,098,679)	 \$ 286,057	 \$ (2,050,256)	 \$ 1,044,462
 Unit settlements	 7,468	 10,440	 18,826	 28,921
Average selling price	\$ 322	\$ 335	\$ 324	\$ 335
Net new orders units	4,582	7,299	20,613	27,479
Net new orders dollars (e)	\$ 1,267,000	\$ 2,396,000	\$ 6,606,000	\$ 9,200,000
Backlog at September 30:				
Units			12,042	16,375
Dollars			\$ 4,087,000	\$ 5,809,000

(a) Includes homebuilding interest expense, which represents the amortization of capitalized interest. Home cost of sales also includes land and community valuation adjustments of \$615.9 million and \$48.4 million for the three months ended September 30, 2007 and 2006, respectively, and \$1.3 billion

*and  
\$57.8 million  
for the nine  
months ended  
September 30,  
2007 and 2006,  
respectively.*

*(b) Includes net  
realizable value  
adjustments for  
land held for  
sale of  
\$80.5 million  
and \$6.7 million  
for the three  
months ended  
September 30,  
2007 and 2006,  
respectively,  
and \$132.8  
million and  
\$28.8 million  
for the nine  
months ended  
September 30,  
2007 and 2006,  
respectively.*

*(c) Includes  
impairments of  
our investments  
in  
unconsolidated  
joint ventures of  
\$51.1 million  
and  
\$105.2 million  
for the three and  
nine months  
ended  
September 30,  
2007.*

*(d) Includes the  
write-off of  
deposits and  
other related  
costs for land  
option contracts  
we no longer*

*plan to pursue of \$94.6 million and \$32.6 million for the three months ended September 30, 2007 and 2006, respectively, and \$204.2 million and \$68.5 million for the nine months ended September 30, 2007 and 2006, respectively. Additionally, includes goodwill impairment charge of \$335.6 million for the three and nine months ended September 30, 2007.*

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

Home sale revenues for the three and nine months ended September 30, 2007 were lower than those for the same periods in the prior year by \$1.1 billion and \$3.6 billion, or 31% and 37%, respectively. The decrease in home sale revenues for the three and nine months ended September 30, 2007 compared with the prior year periods was attributable to 28% and 35% decreases, respectively, in the number of homes closed combined with 4% and 3% decreases, respectively, in the average selling price. The decreases in average selling price reflect a combination of factors, including changes in product mix and geographic mix of homes closed during the period as well as lower market selling prices. The average selling price decreased in the majority of our Homebuilding segments in both

periods compared with the prior year.

Homebuilding gross profit margins from home settlements were negative 12.2% for the three months ended September 30, 2007, compared with a positive 17.1% for the same period in the prior year. For the nine months ended September 30, 2007, Homebuilding gross profit margins were negative 7.4% compared with a positive 20.2% for the same period in 2006. Homebuilding gross margins were negatively impacted by \$615.9 million and \$1.3 billion of charges for the three and nine months ended September 30, 2007 related to land and community valuation adjustments in 169 and 283 communities, respectively, compared with land and community valuation adjustments of \$48.4 million and \$57.8 million, respectively, in the prior year periods. In addition, increased selling incentives also impacted our operations.



**Homebuilding Operations Summary (continued)**

We acquire land primarily for the construction of our homes for sale to homebuyers. We select locations for development of homebuilding communities after completing extensive market research, enabling us to match the location and product offering with our targeted consumer group. Where we develop land, we engage directly in many phases of the development process, including land and site planning, obtaining environmental and other regulatory approvals, as well as constructing roads, sewers, water and drainage facilities, and other amenities. We will often sell select parcels of land within or adjacent to our communities to retail and commercial establishments. On occasion, we also will sell lots within our communities to other homebuilders. Gross profits from land sales for the three months ended September 30, 2007 had a negative margin contribution of \$79.2 million, compared with a negative margin contribution of \$3.4 million for the same period in 2006. Gross profits from land sales for the nine months ended September 30, 2007 had a negative margin contribution of \$121.9 million, compared with a negative margin contribution of \$18 million for the same period in 2006. The gross profit contributions from specific land sales transactions were approximately \$1.2 million and \$10.8 million for the three and nine months ended September 30, 2007, respectively. These margin contributions were offset by \$80.5 million and \$132.8 million, respectively, of net realizable value adjustments related to commercial and residential land held for disposition. The three and nine months ended September 30, 2006 included negative net realizable value adjustments of \$6.7 million and \$28.8 million, respectively. Revenues and their related gains/losses may vary significantly between periods, depending on the timing of land sales. We continue to evaluate our existing land positions to ensure the most effective use of capital. As of September 30, 2007, we had \$372.2 million of land held for sale.

Selling, general and administrative expenses as a percentage of home settlement revenues was 9.8% for the three months ended September 30, 2007 compared with 8% for the same period in the prior year. For the nine months ended September 30, 2007, selling, general and administrative expenses as a percentage of home settlement revenues was 13.3% compared with 8.6% in the prior year. These increases are attributable primarily to reduced overhead leverage as a result of the significant decrease in revenues, lower absorption into inventory of overhead costs due to lower construction volume, net increases in insurance-related expenses of \$23.2 million and \$63.2 million for the three and nine months ended September 30, 2007, respectively, and employee severance benefits of approximately \$800 thousand and \$32.2 million incurred for the three and nine months ended September 30, 2007, respectively, in connection with the restructuring plan announced in the second quarter of 2007.

Other income (expense), net includes the write-off of deposits and related costs resulting from decisions not to pursue certain land acquisitions and options, which totaled \$94.6 million and \$32.6 million for the three months ended September 30, 2007 and 2006, respectively, and \$204.2 million and \$68.5 million for the nine months ended September 30, 2007 and 2006, respectively. For the three and nine months ended September 30, 2007, we also recorded \$7.1 million and \$14.8 million, respectively, of asset impairment and lease termination costs related to the restructuring plan announced in the second quarter of 2007. Additionally, we recorded goodwill impairment charges of \$335.6 million during the three months ended September 30, 2007.

Unit settlements decreased 28% and 35% for the three and nine months ended September 30, 2007, respectively, to 7,468 units and 18,826 units compared with the same periods in 2006. The average selling price for homes closed decreased 4% and 3% to \$322,000 and \$324,000, respectively, for the three and nine months ended September 30, 2007 compared with the same periods in the prior year. For the three and nine months ended September 30, 2007, unit net new orders decreased 37% and 25%, respectively, to 4,582 and 20,613 units, compared with the same periods in 2006. Cancellation rates for the three months ended September 30, 2007 and 2006 were 44% and 36%, respectively. Most markets have experienced a substantial increase in resale and new home inventory, and this, combined with declining consumer confidence, decreased housing affordability, increased interest rates, difficulties experienced by customers in selling their existing homes, and the more restrictive mortgage financing market, has resulted in higher cancellation rates and reduced net new orders during 2007 compared with 2006. The dollar value of net new orders decreased 47% and 28%, respectively, for the three and nine months ended September 30, 2007 compared with the same periods in 2006. For the quarter ended September 30, 2007, we had 669 active selling communities, which represents a 7% decrease from the same period in the prior year. Ending backlog, which represents orders for homes that have not yet closed, was 12,042 units at September 30, 2007 with a dollar value of \$4.1 billion.



**Homebuilding Operations Summary (continued)**

At September 30, 2007 and December 31, 2006, our Homebuilding operations controlled approximately 171,800 and 232,200 lots, respectively. Approximately 134,900 and 158,800 lots were owned, and approximately 34,400 and 63,700 lots were under option agreements approved for purchase at September 30, 2007 and December 31, 2006, respectively. In addition, there were approximately 2,500 and 9,700 lots under option agreements, pending approval, at September 30, 2007 and December 31, 2006, respectively. For the three and nine months ended September 30, 2007, we withdrew from contracts for land purchases representing approximately 8,400 lots valued at \$669.2 million and approximately 39,100 lots valued at \$2.1 billion, respectively.

The total purchase price related to approved land under option for use by our Homebuilding operations at future dates approximated \$2.1 billion at September 30, 2007. In addition, the total purchase price related to land under option pending approval was valued at approximately \$127.8 million at September 30, 2007. Land option agreements, which may be cancelled at our discretion, may extend over several years and are secured by deposits and pre-acquisition costs totaling \$247.3 million, of which \$3.7 million is unconditionally refundable and \$6.1 million is related to deposits that our Homebuilding operations have made in regards to lots optioned from an unconsolidated joint venture in which we have an equity interest. This balance excludes \$33.8 million of contingent payment obligations which may or may not become actual obligations of the Company dependent upon the occurrence of specified future events.

**Homebuilding Segment Operations**

Homebuilding operations represent our core business. Homebuilding offers a broad product line to meet the needs of first-time, first and second move-up, and active adult homebuyers. We have determined our Homebuilding operating segments to be our Areas, which are aggregated into seven reportable segments based on similarities in the economic and geographic characteristics of our homebuilding operations. During the three months ended September 30, 2007, we moved our Kansas City market from the Central to the Great Lakes Area. The operating data by segment for the Central and Midwest reportable segments have been reclassified to reflect this change. We conduct our operations in 51 markets, located throughout 26 states, and have presented our reportable Homebuilding segments as follows:

Northeast: Northeast Area includes the following states:  
*Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Virginia*

Southeast: Southeast Area includes the following states:  
*Georgia, North Carolina, South Carolina, Tennessee*

Florida: Florida Area includes the following state:  
*Florida*

Midwest: Great Lakes Area includes the following states:  
*Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Ohio*

Central: Central Area includes the following state:  
*Texas*

Southwest: Mountain West and Southwest Areas include the following states:  
*Arizona, Colorado, Nevada, New Mexico*

\*California: Northern California and Southern California Areas include the following state:  
*California*

\* *Our homebuilding operations located in Reno, Nevada are reported in the California segment, while our remaining Nevada homebuilding operations are reported in the Southwest segment.*

**Homebuilding Segment Operations (continued)**

The following table presents selected financial information for our homebuilding reporting segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Home sale revenue (settlements) (\$000 s omitted):				
Northeast	\$ 321,586	\$ 432,949	\$ 717,726	\$ 1,176,569
Southeast	298,009	290,755	824,842	814,149
Florida	273,999	548,358	803,076	1,630,851
Midwest	299,967	406,794	623,535	947,702
Central	153,158	236,589	438,214	632,522
Southwest	697,897	999,450	1,701,970	2,667,978
California	363,146	583,604	989,506	1,822,522
	\$ 2,407,762	\$ 3,498,499	\$ 6,098,869	\$ 9,692,293
Income (loss) before income taxes (\$000 s omitted):				
Northeast	\$ (24,343)	\$ 30,176	\$ (124,876)	\$ 112,592
Southeast	11,000	21,693	51,524	56,045
Florida	(149,939)	105,594	(270,866)	351,866
Midwest	(24,419)	(2,604)	(172,202)	(15,087)
Central	(41,542)	3,156	(100,617)	19,019
Southwest	(227,077)	193,388	(346,467)	505,237
California	(178,341)	33,007	(415,237)	203,092
Unallocated	(464,018)	(98,353)	(671,515)	(188,302)
	\$ (1,098,679)	\$ 286,057	\$ (2,050,256)	\$ 1,044,462
Unit settlements:				
Northeast	729	900	1,633	2,435
Southeast	1,019	1,024	2,798	3,028
Florida	1,058	1,872	2,944	5,390
Midwest	987	1,331	2,092	3,179
Central	699	1,265	1,995	3,545
Southwest	2,170	2,853	5,305	7,766
California	806	1,195	2,059	3,578
	7,468	10,440	18,826	28,921
Net new orders units:				
Northeast	440	672	2,000	2,190
Southeast	883	821	2,907	3,917
Florida	766	818	3,362	3,732

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Midwest	495	1,163	2,291	3,596
Central	521	958	1,876	3,584
Southwest	1,036	1,958	5,805	7,310
California	441	909	2,372	3,150
	4,582	7,299	20,613	27,479
Unit backlog:				
Northeast			1,284	1,348
Southeast			1,817	2,469
Florida			1,630	2,427
Midwest			1,444	1,804
Central			1,003	1,653
Southwest			3,371	4,803
California			1,493	1,871
			12,042	16,375

**Homebuilding Segment Operations (continued)**

	As of September 30, 2007	As of December 31, 2006
Controlled Lots:		
Northeast	17,469	27,524
Southeast	18,867	23,332
Florida	35,168	48,640
Midwest	14,090	19,537
Central	14,668	18,320
Southwest	54,903	69,579
California	16,615	25,291
	171,780	232,223

*Northeast:*

During the third quarter of 2007, Northeast home sale revenues decreased 26% compared with the prior year period due to a 19% decrease in unit settlements combined with an 8% decrease in the average selling price. Revenue declines occurred in each market in Northeast. The loss before income taxes was primarily attributable to this reduction in revenues combined with a significant decline in gross margin and \$48.4 million in impairments and land-related charges. These charges resulted in impairments in 16 communities and a reduction of approximately 800 lots under control. Northeast recorded impairments and land-related charges of \$25.1 million in the prior year period. Net new orders decreased 35% while the cancellation rate increased to 33% compared with 27% in the prior year period. The number of active communities decreased slightly from the prior year quarter.

For the nine months ended September 30, 2007, Northeast home sale revenues decreased 39% compared with the prior year period due to a 33% decrease in unit settlements combined with a 9% decrease in the average selling price. The loss before income taxes was primarily attributable to this reduction in revenues combined with a significant decline in gross margin and \$143.5 million in impairments and land-related charges, which resulted in a reduction of approximately 9,400 lots under control. Northeast recorded impairments and land-related charges of \$29.3 million in the prior year period. Net new orders decreased 9% compared with the prior year period.

*Southeast:*

Our Southeast segment continued to contribute positively to operating results in both the three and nine months ended September 30, 2007 due to strength in local demographic factors and a continued shift in our product mix toward higher price point customers, especially in regards to active adult buyers as large active adult communities were opened in our Charlotte, Raleigh, Georgia, and Charleston markets at various points during 2006 and 2007. Home sale revenues increased slightly in the three months ended September 30, 2007 compared with the prior year period as unit settlements were flat while the average selling price increased 3%. Income before income taxes decreased compared with the prior year period due to land-related charges of \$16.3 million compared with \$200 thousand in the prior year period. These charges resulted in impairments in 13 communities and a reduction of approximately 600 lots under control. Net new orders increased 8% compared with the prior year period driven by a large increase in the number of active communities. The cancellation rate decreased to 29% compared with 35% in the prior year period.

For the nine months ended September 30, 2007, Southeast home sale revenues increased 1% compared with the prior year period as an 8% decrease in unit settlements was offset by a 10% increase in the average selling price. Income before income taxes decreased compared with the prior year period due to \$18.1 million in impairments and land-related charges, which resulted in a reduction of approximately 4,300 lots under control. Southeast recorded

land-related charges of \$1.7 million in the prior year period. Net new orders declined by 26% compared with the prior year period partially due to the prior year period including new orders from the successful openings of our large active adult communities in our Charlotte, Raleigh, and Georgia markets.



**Homebuilding Segment Operations (continued)***Florida:*

Our Florida segment continues to be challenged due to the combination of a significant decrease in demand combined with high levels of new and existing home inventories, especially in the southern portion of the state, including our markets in Fort Myers and Southeast Florida. During the third quarter of 2007, Florida home sale revenues decreased 50% compared with the prior year period due to a 43% decrease in unit settlements combined with a 12% decrease in the average selling price. Revenue declines occurred in every market. The loss before income taxes was primarily attributable to this reduction in revenues combined with a significant decline in gross margin and \$152.3 million in impairments and land-related charges. These charges resulted in impairments in 27 communities and a reduction of approximately 1,400 lots under control. Florida recorded impairments and land-related charges of \$7.2 million in the prior year period. Net new orders declined by 6% due to the difficult market conditions and a continued high cancellation rate of 37%, which was a reduction from a cancellation rate of 41% in the prior year period. However, these factors were offset to some degree by an increase in the number of active communities from the prior year quarter.

For the nine months ended September 30, 2007, Florida home sale revenues decreased 51% compared with the prior year period due to a 45% decrease in unit settlements combined with a 10% decrease in the average selling price. The loss before income taxes was primarily attributable to this reduction in revenues combined with a significant decline in gross margin and \$275 million in impairments and land-related charges, which resulted in a reduction of approximately 7,700 lots under control. Florida recorded impairments and land-related charges of \$8.5 million in the prior year period. Net new orders declined by 10% due to the difficult market conditions.

*Midwest:*

Our Midwest segment continues to face difficult local economic conditions in all of its markets. During the third quarter of 2007, Midwest home sale revenues decreased 26% compared with the prior year period due to a 26% decrease in unit settlements. Average selling prices were flat. Revenue declines occurred in every market. The increase in the loss before income taxes was primarily attributable to the reduction in revenues and \$44.5 million in impairments and land-related charges. These charges resulted in impairments in 19 communities and a reduction of approximately 300 lots under control. Midwest recorded impairments and land-related charges of \$23.5 million in the prior year period. Net new orders declined by 57% due to the difficult market conditions and a significant increase in the cancellation rate to 36% compared with 18% in the prior year period as well as the prior year period benefiting from the opening of a large active adult community in our Illinois market. The number of active communities decreased moderately compared with the prior year quarter.

For the nine months ended September 30, 2007, Midwest home sale revenues decreased 34% compared with the prior year period due to a 34% decrease in unit settlements. Average selling prices were flat. The increase in the loss before income taxes was primarily attributable to this reduction in revenues and \$177.5 million in impairments and land-related charges, which resulted in a reduction of approximately 2,700 lots under control. Midwest recorded impairments and land-related charges of \$47.2 million in the prior year period. Net new orders declined by 36% due to the difficult market conditions.

*Central:*

Home sale revenues for the Central segment decreased 35% during the third quarter of 2007 compared with the prior year period due to a 45% decrease in unit settlements, which partially resulted from our strategy to reduce the active community count in Texas. This lower unit volume was partially offset by a 17% increase in average selling prices. The increase in average selling prices occurred primarily in our Dallas, Houston, and San Antonio markets and reflects a change in community mix toward higher average selling price communities. The loss before income taxes was primarily attributable to the reduction in revenues and \$42.1 million in impairments and land-related charges. These charges resulted in impairments in nine communities. Central recorded impairments and land-related charges of \$6.4 million in the prior year period. Net new orders declined by 46% due to the difficult market conditions, a significant reduction in the number of active communities, and an increase in the cancellation rate to 38% compared with a cancellation rate of 34% in the prior year period.



**Homebuilding Segment Operations (continued)***Central (continued):*

For the nine months ended September 30, 2007, Central home sale revenues decreased 31% compared with the prior year period due to a 44% decrease in unit settlements. This lower unit volume was partially offset by a 23% increase in average selling prices. The loss before income taxes was primarily attributable to this reduction in revenues and \$98.3 million in impairments and land-related charges, which resulted in a reduction of approximately 800 lots under control. Central recorded impairments and land-related charges of \$8.8 million in the prior year period. Net new orders declined by 48% due to the difficult market conditions.

*Southwest:*

Market conditions in our Arizona operations deteriorated markedly in the third quarter while our Las Vegas, New Mexico, and Colorado markets remained challenged as well. Overall Southwest home sale revenues decreased 30% compared with the prior year period due to a 24% decrease in unit settlements combined with an 8% decrease in the average selling price. The loss before income taxes was primarily attributable to the reduction in revenues combined with a significant decline in gross margin and \$249.4 million in impairments and land-related charges, the majority of which occurred in our Phoenix market. These charges resulted in impairments in 54 communities and a reduction of approximately 1,900 lots under control. In addition, Southwest's results include an impairment of \$51.1 million related to two unconsolidated joint ventures. Southwest recorded impairments and land-related charges of \$4.6 million in the prior year period. Net new orders decreased by 47% due to the deterioration in market conditions and a cancellation rate of 56% compared with 43% in the prior year period. The number of active communities decreased slightly compared with the prior year quarter.

For the nine months ended September 30, 2007, Southwest home sale revenues decreased 36% compared with the prior year period due to a 32% decrease in unit settlements combined with a 7% decrease in average selling prices. The loss before income taxes was primarily attributable to this decrease in revenues combined with a significant decline in gross margin and \$425.9 million in impairments and land-related charges, which resulted in a reduction of approximately 7,500 lots under control. In addition, Southwest's results include an impairment of \$51.1 million related to two unconsolidated joint ventures. Southwest recorded impairments and land-related charges of \$28.9 million in the prior year period. Net new orders declined by 21% due to the difficult market conditions.

*California:*

Our California operations have been impacted by significantly weakened demand for new homes, affordability issues, and an excess supply of resale inventory in substantially all of our markets. California home sale revenues decreased 38% during the third quarter of 2007 compared with the prior year period due to a 33% decrease in unit settlements combined with an 8% decrease in the average selling price. The loss before income taxes was primarily attributable to the decrease in revenues as well as a significant decline in gross margin and \$194.5 million in impairments and land-related charges. These charges resulted in impairments in 31 communities and a reduction of approximately 3,500 lots under control. California recorded impairments and land-related charges of \$22.8 million in the prior year period. Net new orders declined by 51% due to the difficult market conditions, a significant reduction in the number of active communities, and a cancellation rate of 61% compared with 39% in the prior year period.

For the nine months ended September 30, 2007, California home sale revenues decreased 46% compared with the prior year period due to a 42% decrease in unit settlements combined with a 6% decrease in average selling prices. The loss before income taxes was primarily attributable to this reduction in revenues combined with a significant decline in gross margin and \$389.7 million in impairments and land-related charges, which resulted in a reduction of approximately 6,700 lots under control. Also included in California's results is an impairment of \$54.1 million for an unconsolidated joint venture. California recorded impairments and land-related charges of \$32.6 million in the prior year period. Net new orders declined by 25% due to the difficult market conditions.

**Financial Services Operations**

We conduct our Financial Services business, which includes mortgage and title operations, through Pulte Mortgage and other subsidiaries. The following table presents selected financial information for our Financial Services operations (\$000 s omitted):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net gain from sale of mortgages	\$ 18,651	\$ 28,126	\$ 58,787	\$ 76,944
Mortgage origination and servicing fees	2,000	3,909	7,502	11,121
Interest income	5,389	9,121	16,399	24,188
Title services	5,679	7,599	14,216	20,280
Other revenues	1,024	854	2,782	2,400
Total Financial Services revenues	32,743	49,609	99,686	134,933
Expenses	(19,967)	(28,528)	(67,283)	(81,304)
Gain on sale of equity investment				31,635
Equity income	120	296	256	513
Income before income taxes	\$ 12,896	\$ 21,377	\$ 32,659	\$ 85,777
Total originations:				
Loans	6,261	10,052	16,719	27,641
Principal	\$ 1,424,100	\$ 2,154,600	\$ 3,743,800	\$ 5,921,400
Originations for Pulte customers:				
Loans	6,235	10,016	16,614	27,518
Principal	\$ 1,418,700	\$ 2,143,900	\$ 3,722,300	\$ 5,889,400

Mortgage origination unit volume decreased 38% and 40% while mortgage origination principal volume decreased 34% and 37% for the three and nine months ended September 30, 2007, respectively, compared with the same periods in the prior year. The decrease in unit volume is attributable to lower home settlements in 2007 compared with 2006, partially offset by an increase in the capture rates to 92.5% and 92.7% for the three and nine months ended September 30, 2007, respectively, compared with 91.1% and 90.5%, respectively, in the same periods in the prior year. Our capture rate represents loan originations from our Homebuilding business as a percent of total loan opportunities, excluding cash settlements, from our Homebuilding business. The decrease in mortgage origination principal volume resulted from the reduced settlement volume partially offset by a slight increase in the average loan size. Our Homebuilding customers continue to account for substantially all loan production, representing nearly 100% of unit production for the three and nine months ended September 30, 2007 and 2006.

During the three and nine months ended September 30, 2007, there was a shift away from adjustable rate mortgages (ARMs), which generally have a lower profit per loan than fixed rate products. ARMs represented 7% of total funded origination dollars and 6% of total funded origination units for the three months ended September 30, 2007, compared with 26% and 21%, respectively, in the prior year period. For the nine months ended September 30, 2007, ARMs represented 10% of total funded origination dollars and 8% of total funded origination units compared

with 31% and 25%, respectively, in the prior year period. Interest-only mortgages, a type of ARM, represented 71% of funded ARM origination dollars and 62% of funded ARM origination units for the three months ended September 30, 2007, compared with 79% and 80%, respectively, in the prior year period. For the nine months ended September 30, 2007, interest-only mortgages represented 76% of funded ARM origination dollars and 74% of funded ARM origination units, compared with 77% and 80% in the prior year period, respectively. Interest-only mortgages represented 5% and 21% of total funded origination dollars for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, interest-only mortgages represented 8% and 24%, respectively, of total funded origination dollars.

Our customers' average FICO score was 745 for both the three and nine months ended September 30, 2007. For both the three and nine months ended September 30, 2006, our customers' average FICO score was 744. Average Combined Loan-to-Value was 81% and 82% for the three months ended September 30, 2007 and 2006, respectively, and 82% for both the nine months ended September 30, 2007 and 2006, respectively. At September 30, 2007, our loan application backlog decreased to \$2.5 billion compared with \$3.4 billion at September 30, 2006 due primarily to the lower backlog in our Homebuilding operations.

**Financial Services Operations (continued)**

Based on principal dollars, approximately 4% of the loans we originated in the third quarter of 2007 were considered sub-prime loans, which we define as first mortgages with FICO scores below 620. Approximately 11% of third quarter 2007 originations were considered Alt-A loans, which we define as non-full documentation first mortgages with FICO scores of 620 or higher. The remaining 85% of third quarter 2007 originations were prime loans, which we define as full documentation first mortgages with FICO scores of 620 or higher. Because we sell our loans monthly on a flow basis and retain only limited risk for sold loans for a short period of time, we believe that our Financial Services operations do not have any material direct risks related to sub-prime and Alt-A loans. However, the availability of certain mortgage financing products has become more constrained in 2007 as the mortgage industry is now more closely scrutinizing sub-prime, Alt-A, and other non-conforming mortgage products. These developments have had and may continue to have a material adverse effect on the overall demand for new housing and thereby on the results of operations of both our Homebuilding and Financial Services businesses.

Pre-tax income of our Financial Services operations for the three months ended September 30, 2007 was \$12.9 million compared with \$21.4 million for the prior year period. This decrease in pre-tax income was primarily due to the decline in mortgage loans originated. For the nine months ended September 30, 2007, pre-tax income of our Financial Services operations was \$32.7 million compared with \$85.8 million for the prior year period. During February 2006, we sold our investment in Su Casita, a Mexico-based mortgage banking company. As a result of this transaction, we recognized a pre-tax gain of approximately \$31.6 million for the nine months ended September 30, 2006. Excluding this gain, pre-tax income decreased significantly for the nine months ended September 30, 2007 compared with the same period in the prior year due to the decrease in mortgage loan originations. This decrease was partially offset by a slight increase in average loan size and the shift in funded product mix toward fixed rate and agency loans, which are more profitable for us. For the three and nine months ended September 30, 2007, 20% and 22%, respectively, of total origination dollars were from brokered loans, which are funded by third party lenders and are therefore less profitable to us, compared with 20% and 21%, respectively, for both periods in the prior year.

Interest income for the three and nine months ended September 30, 2007 was 41% and 32% lower than the prior year periods, respectively, primarily due to the significant decrease in volume offset slightly by an improved loan yield. For the three and nine months ended September 30, 2007, revenues from our title operations decreased 25% and 30%, respectively, compared with the prior year periods due primarily to the significant reduction in home settlements. Expenses decreased 30% and 17% for the three and nine months ended September 30, 2007, respectively, due to the decrease in volume offset by slightly higher operating expenses and loan loss reserves.

We hedge portions of our forecasted cash flow from sales of closed mortgage loans with derivative financial instruments to minimize the impact of changes in interest rates. We do not use derivative financial instruments for trading purposes.

**Other Non-Operating**

Other non-operating expenses consist of income and expenses related to corporate services provided to our subsidiaries. These expenses are incurred for financing, developing and implementing strategic initiatives centered on new business development and operating efficiencies, and providing the necessary administrative support associated with being a publicly-traded entity listed on the New York Stock Exchange. Accordingly, these results will vary from period to period as these strategic initiatives evolve.

The following table presents other non-operating expenses for the three and nine months ended September 30, 2007 and 2006 (\$000 s omitted):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net interest expense (income)	\$ 268	\$ 1,338	\$ (134)	\$ (1,321)
Other expenses, net	7,862	10,582	25,607	30,777
Loss before income taxes	\$ 8,130	\$ 11,920	\$ 25,473	\$ 29,456

The decrease in other expenses, net is due primarily to reduced incentive compensation resulting from reduced profitability and a \$500 thousand gain on the repurchase of outstanding debt during the second quarter of 2007.

Interest capitalized into homebuilding inventory is charged to home cost of sales based on the cyclical timing of our unit settlements over a period that approximates the average life cycle of our communities. Interest expense for the three and nine months ended September 30, 2007 includes \$43.5 million and \$90.3 million, respectively, of capitalized interest related to inventory impairments. Information related to interest capitalized into homebuilding inventory is as follows (\$000 s omitted):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Interest in inventory at beginning of period	\$ 212,441	\$ 254,454	\$ 235,596	\$ 229,798
Interest capitalized	61,179	71,064	182,404	192,788
Interest expensed	(98,205)	(65,217)	(242,585)	(162,285)
Interest in inventory at end of period	\$ 175,415	\$ 260,301	\$ 175,415	\$ 260,301
Interest incurred *	\$ 61,900	\$ 73,000	\$ 185,100	\$ 195,400

\* *Interest incurred includes interest on our senior debt, short-term borrowings, and other financing arrangements*

*and excludes  
interest incurred  
by our financial  
services  
operations.*

**Income Taxes**

Our income tax liability and related effective tax rate are affected by a number of factors. Income taxes were provided at an effective tax rate of 28% and 35.2% during the three months ended September 30, 2007 and 2006, respectively, and 32.4% and 36.6% for the nine months ended September 30, 2007 and 2006, respectively. The effective tax rates during 2007 were lower than in the prior year primarily due to the majority of the recorded goodwill impairment being non-deductible for tax purposes. Excluding the goodwill impairment charge, the effective tax rate would have been 37.3% for the nine months ended September 30, 2007.

**Liquidity and Capital Resources**

We finance our homebuilding land acquisitions, development and construction activities by using internally-generated funds and existing credit arrangements. We routinely monitor current operational requirements and financial market conditions to evaluate the use of available financing sources, including securities offerings. Based on our current financial condition and credit relationships, we believe that our operations and borrowing resources will provide for our current and long-term capital requirements. However, we continue to evaluate the impact of market conditions on our liquidity and may determine that modifications are necessary if market conditions continue to deteriorate or if the current difficult market conditions extend beyond our expectations.



**Liquidity and Capital Resources (continued)**

At September 30, 2007, we had cash and equivalents of \$101.8 million and \$25 million of borrowings and \$470 million of letters of credit outstanding under our unsecured revolving credit facility. We also had \$3.5 billion of senior notes outstanding. Other financing included limited recourse land-collateralized financing totaling \$11.5 million. Sources of our working capital include our cash and equivalents, our \$1.86 billion committed unsecured revolving credit facility and Pulte Mortgage's \$705 million committed credit arrangements.

Our debt-to-total capitalization ratio, excluding our collateralized debt, was 40.3% at September 30, 2007, and 39.6% net of cash and equivalents.

We repurchased \$61.2 million of our 4.875% senior notes due 2009 during the nine months ended September 30, 2007. These repurchases resulted in a net gain of \$500 thousand, which is included in our Consolidated Statements of Operations within Other non-operating, net expenses.

On June 29, 2007, we amended our unsecured revolving credit facility, decreasing the borrowing availability from \$2.01 billion to \$1.86 billion and extending the maturity date from October 2010 to June 2012. Under the terms of the credit facility, we have the capacity to issue letters of credit totaling up to \$1.125 billion. Borrowing availability is reduced by the amount of letters of credit outstanding. The credit facility contains certain financial covenants. We are required to not exceed a debt-to-total capitalization ratio of 55%, and we are required to meet a tangible net worth minimum each quarter. In the event of a default by the Company under these covenants, our ability to access the credit facility may be negatively impacted. At September 30, 2007, our debt-to-total capitalization ratio (as defined in the credit facility) was 42% while our tangible net worth (as defined in the credit facility) was \$5 billion compared with the required minimum of \$4.8 billion. In the event market conditions deteriorate in the future and result in additional significant land-related charges, our tangible net worth may come close to or fall below the required minimum. The credit facility no longer contains an interest coverage ratio covenant that could create an event of default for us, but if the interest coverage ratio (as defined in the credit facility) is less than 2 to 1, LIBOR margin and letter of credit pricing under the credit facility increases in increments ranging from 0.125% to 0.375%. The credit facility's uncommitted accordion feature remains unchanged at \$2.25 billion.

Pulte Mortgage provides mortgage financing for many of our home sales and uses its own funds and borrowings made available pursuant to various committed and uncommitted credit arrangements. Given the continued weakness in new home sales and closings, Pulte Mortgage reduced the amount of capacity available under its asset-backed commercial paper program in September from \$400 million to \$300 million due to unfavorable changes in the asset-backed commercial paper market. Due to reduced origination volume, Pulte Mortgage does not anticipate needing any additional capacity in the near term. At September 30, 2007, Pulte Mortgage had committed credit arrangements of \$705 million comprised of a \$405 million bank revolving credit facility and the \$300 million asset-backed commercial paper program. The credit agreements require Pulte Mortgage to maintain a consolidated tangible net worth of at least the higher of \$50 million or eighty-five percent of the average month-end tangible net worth of the preceding calendar year (\$52.6 million for 2007) and restricts funded debt to 15 times tangible net worth. At September 30, 2007, Pulte Mortgage had \$286.1 million outstanding under its committed credit arrangements.

We have experienced downgrades in our credit ratings during 2007 by each of the major credit rating agencies. While such downgrades do not directly impact our senior notes, they could increase the cost of borrowing under our unsecured revolving credit facility and limit our ability to obtain additional financing or refinancing on favorable terms. As a result of the most recent downgrade, the lenders under Pulte Mortgage's asset-backed commercial paper program have the right at their discretion to require early repayment of outstanding balances or place other restrictions on our ability to utilize the asset-backed commercial paper program. In the event of such an occurrence, we have capacity through other sources to meet Pulte Mortgage's anticipated financing needs.

Pursuant to the two \$100 million stock repurchase programs authorized by our Board of Directors in October 2002 and 2005, and the \$200 million stock repurchase authorization in February 2006 (for a total stock repurchase authorization of \$400 million), we have repurchased a total of 9,688,900 shares for a total of \$297.7 million. There were no repurchases under these programs during the nine months ended September 30, 2007. We had remaining authorization to purchase common stock aggregating \$102.3 million at September 30, 2007.

Our net cash provided by operating activities for the nine months ended September 30, 2007 was \$324.7 million, compared with net cash used in operating activities of \$1.3 billion for the nine months ended September 30, 2006. For the nine months ended September 30, 2007, we focused on right-sizing our land and house inventory to better match current market conditions, as we invested approximately \$2 billion less in inventory compared with the same period in 2006. Cash flows were also affected by a net loss incurred for the nine months ended September 30, 2007 compared with net income earned for the same period in the prior year. Much of this net loss resulted from significant write-downs of land and deposits and other related costs combined with impairments of goodwill for the nine months ended September 30, 2007. Deferred income taxes and income taxes payable changed as a result of the net loss recorded during the nine months ended September 30, 2007.

**Liquidity and Capital Resources (continued)**

Cash used in investing activities was \$171.2 million for the nine months ended September 30, 2007, compared with \$103.6 million for the nine months ended September 30, 2006. During the nine months ended September 30, 2007, we made \$155.6 million of capital contributions to, and received \$29.1 million in capital distributions from, our unconsolidated joint ventures. We also funded \$54.4 million in capital expenditures. During the nine months ended September 30, 2006, we invested approximately \$65.8 million, net of cash acquired, to purchase the remaining 50% of an entity that installs basic building components and operating systems and funded approximately \$78.4 million in capital expenditures. We made \$53 million of capital contributions to, and received \$37.5 million in capital distributions from, our unconsolidated joint ventures for the nine months ended September 30, 2006. Also, we received cash of \$49.2 million for the sale of our investment in Su Casita, a Mexico-based mortgage banking company.

Net cash used in financing activities totaled \$602.8 million for the nine months ended September 30, 2007, compared with net cash provided by financing activities of \$462.5 million for the nine months ended September 30, 2006. For the nine months ended September 30, 2007, repayments under Financial Services credit arrangements were \$528.6 million while repayments under other borrowings were \$72.1 million, including the repurchase of \$61.2 million of our 4.875% senior notes due 2009. We also had net borrowings of \$25 million under our revolving credit facility for the nine months ended September 30, 2007. Additionally, we expended \$5.2 million related to shares surrendered by employees for payment of minimum tax obligations upon the vesting of restricted stock and paid \$30.7 million in dividends for the nine months ended September 30, 2007. For the nine months ended September 30, 2006, repayments under Financial Services credit arrangements were \$359.2 million. We had net borrowings of \$754.3 million under our unsecured revolving credit facility. We also received \$210 million as proceeds from other borrowings, which included the issuance of \$150 million of senior notes and \$60 million in net proceeds received by our homebuilding markets for the nine months ended September 30, 2006. Additionally, we expended \$117.1 million for stock repurchases and \$2.4 million related to shares surrendered by employees for payment of minimum tax obligations upon the vesting of restricted stock and paid \$30.7 million in dividends for the nine months ended September 30, 2006.

**Inflation**

We, and the homebuilding industry in general, may be adversely affected during periods of high inflation because of higher land and construction costs. Inflation may also increase our financing, labor and material costs. In addition, higher mortgage interest rates significantly affect the affordability of permanent mortgage financing to prospective homebuyers. We attempt to pass to our customers any increases in our costs through increased sales prices.

**Off-Balance Sheet Arrangements**

At September 30, 2007 and December 31, 2006, aggregate outstanding debt of unconsolidated joint ventures was \$700.5 million and \$935.9 million, respectively. At September 30, 2007 and December 31, 2006, our proportionate share of joint venture debt was approximately \$185.9 million and \$312.8 million, respectively. We provided limited recourse guarantees for \$176.6 million and \$304.1 million of joint venture debt at September 30, 2007 and December 31, 2006, respectively. Accordingly, we may be responsible, on a contingent basis, through limited guarantees with respect to a portion of the secured land acquisition and development debt. However, we would not be responsible unless a joint venture was unable to perform its contractual borrowing obligations.

If additional capital infusions are required and approved by our unconsolidated joint ventures (or required by the limited recourse financing guarantees discussed above), we would have to contribute our pro rata portion of those capital needs in order not to dilute our ownership in the joint ventures.

**New Accounting Pronouncements**

See Note 1 to the Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

**Critical Accounting Policies and Estimates**

There have been no significant changes to our critical accounting policies and estimates during the three months ended September 30, 2007 compared with those disclosed in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in our Annual Report on Form 10-K for the year ended December 31, 2006.



**Item 3. Quantitative and Qualitative Disclosures About Market Risk***Quantitative disclosure:*

We are subject to interest rate risk on our rate-sensitive financing. For fixed-rate debt, changes in interest rates generally affect the fair market value of the debt instrument but not our earnings or cash flows. The following table sets forth, as of September 30, 2007, our principal cash flows by scheduled maturity, weighted-average interest rates and estimated fair market values for our long-term debt obligations (\$000 s omitted):

	As of September 30, 2007 for the years ended December 31,						Total	Fair Value
	2007	2008	2009	2010	2011	There- after		
<i>Fixed interest rate debt:</i>								
Senior notes	\$	\$	\$338,812	\$	\$698,563	\$2,450,000	\$3,487,375	\$3,004,985
Average interest rate			4.88%		7.95%	6.24%	6.45%	
<i>Limited recourse collateralized financing</i>								
Average interest rate	\$ 557	\$4,043	\$ 4,147	\$1,833	\$ 935	\$	\$ 11,515	\$ 11,515
Average interest rate	5.63%	1.90%	2.36%	8.01%	7.25%		3.65%	

*Qualitative disclosure:*

There has been no material change to the qualitative disclosure found in Item 7A., *Quantitative and Qualitative Disclosures about Market Risk*, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

**Special Notes Concerning Forward-Looking Statements**

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 2., *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Item 3., *Quantitative and Qualitative Disclosures About Market Risk*, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among other things, (1) general economic and business conditions; (2) interest rate changes and the availability of mortgage financing; (3) the relative stability of debt and equity markets; (4) competition; (5) the availability and cost of land and other raw materials used in our homebuilding operations; (6) the availability and cost of insurance covering risks associated with our business; (7) shortages and the cost of labor; (8) weather related slowdowns; (9) slow growth initiatives and/or local building moratoria; (10) governmental regulation, including the interpretation of tax, labor and environmental laws; (11) changes in consumer confidence and preferences; (12) required accounting changes; (13) terrorist acts and other acts of war; and (14) other factors over which we have little or no control. See our Annual Report on Form 10-K for the year ended December 31, 2006 and our other public filings with the Securities and Exchange Commission for a further discussion of these and other risks and uncertainties applicable to our business. We undertake no duty to update any forward-looking statement whether as a result of new information, future events or changes in our expectations.

**Item 4. Controls and Procedures**

Management, including our President & Chief Executive Officer and Executive Vice President & Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2007. Based upon, and as of the date of that evaluation, our President & Chief Executive Officer and

Executive Vice President & Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2007.

There was no change in our internal control over financial reporting during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities (1)**

	(a) Total Number  of shares purchased (2)	(b) Average  price paid per share (2)	(c) Total number of shares purchased as part of publicly announced plans  or programs	(d) Approximate dollar value of shares  that may yet be purchased under  the plans or  programs  (\$000 s omitted)
July 1, 2007 through July 31, 2007	5,067	\$ 21.93		\$ 102,342(1)
August 1, 2007 through August 31, 2007				\$ 102,342(1)
September 1, 2007 through September 30, 2007				\$ 102,342(1)
Total	5,067	\$ 21.93		

(1) Pursuant to the two \$100 million stock repurchase programs authorized and announced by our Board of Directors in October 2002 and 2005 and the \$200 million stock repurchase authorized and announced 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.  
There are no  
expiration dates  
for the  
programs.

- (2) During  
July 2007, 5,067  
shares were  
surrendered by  
employees for  
payment of  
minimum tax  
obligations upon  
the vesting of  
restricted stock,  
and were not  
repurchased as  
part of our  
publicly  
announced stock  
repurchase  
programs.



**Item 6. Exhibits**

**Exhibit Number and Description**

- 3(a) Articles of Incorporation, as amended, of Pulte Homes, Inc. (Incorporated by reference to Exhibit 3.1 of our Registration Statement on Form S-4, Registration No. 333-62518)
- 3(b) Certificate of Amendment to the Articles of Incorporation of Pulte Homes, Inc. (Dated May 16, 2005) (Incorporated by reference to Exhibit 3(a) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006)
- 3(c) By-laws, as amended, of Pulte Homes, Inc. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K dated September 15, 2004)
- 4(a) Any instrument with respect to long-term debt, where the securities authorized thereunder do not exceed 10% of the total assets of Pulte Homes, Inc. and its subsidiaries, has not been filed; these instruments relate to (a) long-term senior and subordinated debt of the Company issued pursuant to supplements to the indenture filed as Exhibit 4(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, which supplements have also been filed with the SEC as exhibits to various Company registration statements or to reports incorporated by reference in such registration statements and (b) other long-term debt of the Company. The Company agrees to furnish a copy of such instruments to the SEC upon request.
- 10(a) Fourth Omnibus Amendment, dated as of August 13, 2007, by and among Pulte Funding, Inc. as the borrower and as the buyer, Pulte Mortgage LLC, as a seller and the servicer, Atlantic Asset Securitization LLC, as an issuer, La Fayette Asset Securitization LLC, as an issuer, Calyon New York Branch, as a bank, as a managing agent and as the administrative agent, Lloyds TSB Bank PLC, as a bank, JPMorgan Chase Bank, National Association, as a bank and as a managing agent, JS Siloed Trust, successor in interest to Jupiter Securitization Company LLC, as an issuer, and LaSalle Bank National Association, as the collateral agent.
- 10(b) Fifth Omnibus Amendment, dated as of September 12, 2007, by and among Pulte Funding, Inc. as the borrower and as the buyer, Pulte Mortgage LLC, as a seller and the servicer, Atlantic Asset Securitization LLC, as an issuer, La Fayette Asset Securitization LLC, as an issuer, Calyon New York Branch, as a bank, as a managing agent and as the administrative agent, Lloyds TSB Bank PLC, as a bank, JPMorgan Chase Bank, National Association, as a bank and as a managing agent, JS Siloed Trust, successor in interest to Jupiter Securitization Company LLC, as an issuer, and LaSalle Bank National Association, as the collateral agent.
- 10(c) Sixth Omnibus Amendment, dated as of September 21, 2007, by and among Pulte Funding, Inc. as the borrower and as the buyer, Pulte Mortgage LLC, as a seller and the servicer, Atlantic Asset Securitization LLC, as an issuer, La Fayette Asset Securitization LLC, as an issuer, Calyon New York Branch, as a bank, as a managing agent and as the administrative agent, Lloyds TSB Bank PLC, as a bank, JPMorgan Chase Bank, National Association, as a bank and as a managing agent, JS Siloed Trust, successor in interest to Jupiter Securitization Company LLC, as an issuer, and LaSalle Bank National Association, as the collateral agent.
- 10(d) Seventh Omnibus Amendment, dated as of September 28, 2007, by and among Pulte Funding, Inc. as the borrower and as the buyer, Pulte Mortgage LLC, as a seller and the servicer, Atlantic Asset Securitization LLC, as an issuer, La Fayette Asset Securitization LLC, as an issuer, Calyon New York Branch, as a bank, as a managing agent and as the administrative agent, Lloyds TSB Bank PLC, as a bank, JPMorgan Chase Bank, National Association, as a bank and as a managing agent, JS Siloed Trust, successor in interest to Jupiter Securitization Company LLC, as an issuer, and LaSalle Bank National Association, as the collateral agent.

- 31(a) Rule 13a-14(a) Certification by Richard J. Dugas, Jr., President and Chief Executive Officer
- 31(b) Rule 13a-14(a) Certification by Roger A. Cregg, Executive Vice President and Chief Financial Officer
- 32 Certification Pursuant to 18 United States Code § 1350 and Rule 13a-14(b) under the Securities Exchange Act of 1934

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PULTE HOMES, INC.**

/s/ Roger A. Cregg  
Roger A. Cregg  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer and duly authorized  
officer)  
Date: November 7, 2007